106th Congress
1st Session } JOINT COMMITTEE PRINT

COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON
INTERNATIONAL RELATIONS,
COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

AND THE

COMMITTEE ON FOREIGN RELATIONS,
COMMITTEE ON FINANCE

OF THE

U.S. SENATE

BY THE

DEPARTMENT OF STATE

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

MARCH 1999

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

U.S. GOVERNMENT PRINTING OFFICE
54–067cc WASHINGTON : 1999

For sale by the U.S. Government Printing Office
Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328
ISBN 0-16-058179-6

COMMITTEE ON INTERNATIONAL RELATIONS

BENJAMIN A. GILMAN, New York, *Chairman*

WILLIAM GOODLING, Pennsylvania
JAMES A. LEACH, Iowa
HENRY J. HYDE, Illinois
DOUG BEREUTER, Nebraska
CHRISTOPHER SMITH, New Jersey
DAN BURTON, Indiana
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
STEVEN J. CHABOT, Ohio
MARSHALL "MARK" SANFORD, South Carolina
MATT SALMON, Arizona
AMO HOUGHTON, New York
TOM CAMPBELL, California
JON FOX, Pennsylvania
JOHN McHUGH, New York
LINDSEY GRAHAM, South Carolina
ROY BLUNT, Missouri
JERRY MORAN, Kansas
KEVIN BRADY, Texas
RICHARD BURR, North Carolina

LEE HAMILTON, Indiana
SAM GEJDENSON, Connecticut
TOM LANTOS, California
HOWARD BERMAN, California
GARY ACKERMAN, New York
ENI F.H. FALEOMAVAEGA, American Samoa
MATTHEW G. MARTINEZ, California
DONALD M. PAYNE, New Jersey
ROBERT ANDREWS, New Jersey
ROBERT MENENDEZ, New Jersey
SHERROD BROWN, Ohio
CYNTHIA A. McKINNEY, Georgia
ALCEE L. HASTINGS, Florida
PAT DANNER, Missouri
EARL HILLIARD, Alabama
BRAD SHERMAN, California
ROBERT WEXLER, Florida
STEVE ROTHMAN, New Jersey
BOB CLEMENT, Tennessee
BILL LUTHER, Minnesota
JIM DAVIS, Florida
LOIS CAPPS, California

RICHARD J. GARON, *Chief of Staff*
MICHAEL H. VAN DUSEN, *Democratic Chief of Staff*

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
DAVE CAMP, Michigan
JIM RAMSTAD, Minnesota
JIM NUSSLE, Iowa
SAM JOHNSON, Texas
JENNIFER DUNN, Washington
MAC COLLINS, Georgia
ROB PORTMAN, Ohio
PHILIP S. ENGLISH, Pennsylvania
JOHN ENSIGN, Nevada
JON CHRISTENSEN, Nebraska
WES WATKINS, Oklahoma
J.D. HAYWORTH, Arizona
JERRY WELLER, Illinois
KENNY HULSHOF, Missouri

CHARLES B. RANGEL, New York
FORTNEY PETE STARK, California
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
RICHARD E. NEAL, Massachusetts
MICHAEL R. McNULTY, New York
WILLIAM J. JEFFERSON, Louisiana
JOHN S. TANNER, Tennessee
XAVIER BECERRA, California
KAREN L. THURMAN, Florida

A.L. SINGLETON, *Chief of Staff*
JANICE MAYS, *Minority Chief Counsel*

COMMITTEE ON FOREIGN RELATIONS

JESSE HELMS, North Carolina, *Chairman*

RICHARD G. LUGAR, Indiana
PAUL COVERDELL, Georgia
CHUCK HAGEL, Nebraska
GORDON H. SMITH, Oregon
CRAIG THOMAS, Wyoming
ROD GRAMS, Minnesota
JOHN ASHCROFT, Missouri
BILL FRIST, Tennessee
SAM BROWNBACK, Kansas

JOSEPH P. 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
PAUL D. WELLSTONE, Minnesota

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

COMMITTEE ON FINANCE

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

JOHN H. CHAFEE, Rhode Island
CHARLES E. GRASSLEY, Iowa
ORRIN G. HATCH, Utah
FRANK H. MURKOWSKI, Alaska
DON NICKLES, Oklahoma
PHIL GRAMM, Texas
TRENT LOTT, Mississippi
JAMES M. JEFFORDS, Vermont
CONNIE MACK, Florida
FRED THOMPSON, Tennessee

DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
JOHN D. ROCKEFELLER IV, West Virginia
JOHN BREAUX, Louisiana
KENT CONRAD, North Dakota
BOB GRAHAM, Florida
RICHARD H. BRYAN, Nevada
J. ROBERT KERREY, Nebraska
CHARLES S. ROBB, Virginia

FRANKLIN G. POLK, *Staff Director and Chief Counsel*
MARK A. PATTERSON, *Minority Staff Director and Chief Counsel*

CONTENTS

* 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, comparative analysis of the economic policies and trade practices of countries with which the United States has significant economic or trade relationships. Because of the increasing importance of, and interest in, trade and economic issues, these reports are prepared to assist members in considering legislation in the areas of trade and economic policy.

BENJAMIN A GILMAN,
Chairman, Committee on International Relations.

BILL ARCHER,
Chairman, Committee on Ways and Means.

JESSE HELMS,
Chairman, Committee on Foreign Relations.

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

LETTER OF SUBMITTAL

DEPARTMENT OF STATE,
Washington, DC, January 31, 1999.

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

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

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

Hon. DENNIS HASTERT,
Speaker, House of Representatives.

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

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

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

Sincerely,

BARBARA LARKIN,
Assistant Secretary,
Legislative Affairs.

INTRODUCTION

Country Reports on Economic Policy and Trade Practices

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. As the legislation requires, we have prepared detailed reports on the economic policy and trade practices of countries with which the United States has significant economic or trade relationships. This is the Department of State's 10th annual report. It now includes reports on 77 countries, customs territories and customs unions.

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 U.S.
- *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 cases, access to reliable data is limited, particularly in countries making transitions to market economies. Nonetheless, each report incorporates the best information currently available.

ALAN P. LARSON,
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][1] and the Committee on Ways and Means of the House of Representatives, to the Committee on Foreign Relations and the Committee on Finance of the Senate, and to other appropriate committees of the Congress, a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. The Secretary may direct the appropriate officers of the Department of State who are serving overseas, in consultation with appropriate officers or employees of other departments and agencies of the United States, including the Department of Agriculture and the Department of Commerce, to coordinate the preparation of such information in a country as is necessary to prepare the report under this section. The report shall identify and describe, with respect to each country:

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

[1] In 1995, the Committee on Foreign Affairs changed its name to the Committee on International Relations.

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 1999, submitted to the Committees on International Relations of the House of Representatives and on Foreign Relations of the U.S. Senate in January 1999. For a comprehensive and authoritative discussion of worker rights in each country, please refer to that report.

Subsection "f" 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 1997 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
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)
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
FY—fiscal year
GATS—General Agreement on Trade in Services
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)
IFIs—international financial institutions (IMF, World Bank and regional development banks)
ILO—International Labor Organization (of the United Nations)
IMF—International Monetary Fund
IDB—Inter-American Development Bank
IPR—intellectual property rights
LIBOR—London Interbank Offer Rate
MFN—most favored nation
NAFTA—North American Free Trade Agreement
NGOs—non-government organizations
NIS—Newly Independent States (of the former Soviet Union)
OECD—Organization for Economic Cooperation and Development
OPIC—U.S. Overseas Private Investment Corporation
PTT—Post, 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
US$—U.S. Dollar
VAT—value-added tax

WIPO—World Intellectual Property Organization
WTO—World Trade Organization

AFRICA

GHANA

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	6,342	6,884	7,659
Real GDP Growth (pct)[3]	4.6	4.2	5.6
GDP by Sector:			
Agriculture	2,574	2,676	3,133
Manufacturing	539	534	637
Services	3,070	3,190	3,615
Government	882	848	1,003
Per Capita GDP (US$)	375	365	407
Labor Force (000s)	7,990	8,240	8,480
Unemployment Rate (pct)	N/A	20	20
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	32.5	45.5	5.3
Consumer Price Inflation (period average)	46.6	29.9	N/A
Exchange Rate (Cedis/US$ annual average)	1,637	2,050	2,305
Balance of Payments and Trade:			
Total Exports FOB[4]	1,571	1,490	1,625
Exports to United States[4]	171	154	161
Total Imports CIF[4]	1,937	2,128	1,979
Imports from United States[4]	295	314	336
Trade Balance[4]	−366	−638	−354
Balance with United States	−124	−160	−175
External Public Debt	5,347	5,400	5,556
Fiscal Deficit/GDP (pct) 2.6	2.3	N/A	N/A
Current Account Deficit/GDP (pct)	5.1	8.1	N/A
Debt Service Payments/GDP (pct)	8.0	8.7	N/A
Gold and Foreign Exchange Reserves	905.9	615.4	N/A
Aid from United States	44	52	58
Aid from All Other Sources	696	N/A	N/A

[1] 1998 figureas are all estimates based on most recent data available.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. *General Policy Framework*

Ghana operates in a free market environment under a popularly elected civilian government. In December 1996, Ghana had its second experience in multiparty elections since the inauguration of the 4th Republic in January, 1993. President Jerry John Rawlings was reelected for a second 4-year term which will expire in December of 2000.

Rawlings headed a "provisional" regime from the end of 1981 until January, 1993, when democratic government under a written constitution was restored. Unlike the first parliament, the present one has an opposition presence with 67 seats out of 200. An independent judiciary acts as the final arbiter of Ghanaian laws. The next Presidential and parliamentary elections are scheduled for the year 2000.

Since 1983, Ghana has pursued an economic reform agenda aimed generally at reducing government involvement in the economy and encouraging private sector development. Inflationary pressures as a result of government expenditure overruns prior to 1992 and 1996 Presidential and parliamentary elections continue to be felt. Recent fiscal performance shows government's seriousness to cut spending, which raises the hope that inflation can fall further if the spending restraint is sustained.

The Bank of Ghana is currently pursuing a tight monetary policy in an attempt to absorb excess liquidity in order to sustain the downward trend in inflation and to stabilize the exchange rate. Responding to market forces, the bank cautiously made reductions in the bank rate or rediscount rate from 45 to 42 percent in September, 1998, and then to 37 percent in November, 1998. Short-term interest rates have fallen from the range of 45–50 percent to about 32 percent. Inflation measured at about 71 percent at the end of 1995 has consistently declined to about 17 percent at the end of September 1998. Erratic rains and poor harvests this year may create upward pressure on food prices. In addition, the introduction of the Value-Added Tax (VAT) in December, 1998, should exert some inflationary pressure. However, the relatively slow growth in the money supply, which was 5 percent at the end of June 1998, will aid in easing the implications for inflation and inflationary expectations in 1999.

The government's economic program has focused on the development of Ghana's private sector, which historically has been weak. Privatization of state-owned enterprises continues, with about two-thirds of 300 enterprises sold to private owners. Ghana achieved real economic growth of 4.2 percent in 1997, slightly down from 4.6 percent recorded in 1996. Growth in 1998 is expected to be lower than the government projection of 5.6 percent due to the effect of the electricity crisis that hit the country for the first 8 months of the year. Growth in the mining sector has been particularly brisk in recent years despite falling world prices of metals. Agriculture (which still accounts for about 39 percent of GDP and employs about 60 percent of the work force) and manufacturing have recorded much slower growth. Other reforms adopted under the government's structural adjustment program 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 ofvirtually all local production subsidies is further indication of the government's intention to move toward a market orientation for the economy.

2. Exchange Rate Policy

The foreign exchange value of the Ghanaian Cedi is established independently through the use of an Interbank Market and Foreign Exchange Bureaus, and currency conversion is easily obtained. The foreign exchange auction procedure was abandoned in 1992. Ghana fully accedes to Article IV of the IMF convention on free current account convertibility and transfer. As the demand for imports has risen, the government has allowed the cedi to depreciate. Since 1992, the cedi has depreciated annually by about 30 percent. The cedi has, however, been relatively stable since January 1998, depreciating by about 5 percent. 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 are now 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 principle of free trade. However, it is 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 will reintroduce VAT from December 30, 1998, at a 10-percent rate. The VAT will replace the existing sales and services tax, which together levy a tax of 15 percent. A 17.5 percent VAT was first introduced in Ghana in March 1995, but was repealed shortly after it was introduced. The implementation of the tax was handled badly and resulted in widespread public protests and some street violence. The government has set in motion an extensive education campaign for the reintroduction. The tax is likely to gain acceptance this time.

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 1997, gold accounted for about 39 percent of total export receipts, while cocoa accounted for 32 percent and timber for 12 percent. On the import side, capital goods are the largest category, followed by intermediate goods, fuel, and consumer goods.

Ghana's total outstanding external debt, including obligations to the IMF, totaled approximately $5.6 billion at the end of the second quarter of 1998. Outstanding obligations to the IMF under medium-term facilities stood at $323 million at the end of the same period. At that time, outstanding long-term debt was about $4.7 billion (about 85 percent of total debt), of which $1.4 billion and $3.3 billion were owed to bilateral and multilateral institutions, respectively. The size of external debt in 1997 was about 92 percent of GDP as against 84 percent in 1996. Ghana's debt service ratio in 1997 was 35 percent. In 1991 Ghana cleared all external debt arrears. In June 1995, Ghana negotiated a new $245 million ESAF arrangement with the IMF. Ghana has not been the beneficiary of debt relief or rescheduling in recent times. To better manage its debt portfolio, since August 1997 the government has applied a moratorium on public guaranteed non-concessional borrowing.

During the last decade, the stocks of both domestic and external debt have risen sharply. High domestic interest rates and the depreciation of the cedi on foreign exchange markets have caused the debt service burden in cedi terms to grow steadily. Nearly one-quarter of total government expenditures during the first half of 1998 were for the payment of interest on the public debt.

5. Significant Barriers to U.S. Exports

Import Licenses: Ghana eliminated its import licensing system in 1989 but retains a banon the importation of a narrow range of products that do not affect U.S. exports. Ghana is a member of the WTO.

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. Current insurance law requires at least 20 percent Government of Ghana and 40 percent Ghanaian ownership of insurance firms.

Standards, Testing, Labeling, and Certification: Ghana has promulgated its own standards for food and drugs. The Ghana Standards Board, the national testing authority, subscribes to accepted international practices for the testing of imports for purity and efficacy. Under Ghanaian law, imports must bear markings identifying in English the type of product being imported, the country of origin, the ingredients or components, and the expiration date, if any. Non-complying goods are subject to government seizure. Several highly publicized seizures of goods (pharmaceuticals and food items) with expired shelf-life dates were carried out in 1998. 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. Four pre-shipment inspection agencies contracted by the government also perform testing and price verification for some selected imports that are above $5,000.

Investment Barriers: The Investment Code guarantees free transferability of dividends, loan repayments, licensing fees and repatriation of capital; provides guarantees against expropriation or forced sale; and delineates dispute arbitration processes. Foreign investors are not subject to differential treatment on taxes, access to foreign exchange, and credit, or importation of goods and equipment. Separate legislation covers 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 does not directly subsidize exports. Exporters are entitled to a 100 percent refund for 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. Firms involved in exports enjoy some fiscal incentives such as tax holidays and preferential tax/duty treatment on imported capital equipment. Firms under the export processing zones all benefit from the same incentives.

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. Subsequently, the government passed modified 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. IPR 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 (Product and Process): Patent registration in Ghana presents no serious problems for foreign rights holders. Fees for registration vary according to the nature of the patent, but local and foreign applicants pay the same rate.

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: Enforcement of foreign copyrights may be pursued in the Ghanaian courts, but few such cases have actually been filed in recent years. The bootlegging of computer software is an example of copyright infringement taking place locally. There is no data available to quantify the commercial impact of this practice. Pirating of videotapes is another local practice that affects U.S. exports, but the evidence suggests that this is not being done on a large scale. There is no evidence of a significant export market for Ghanaian-pirated books, cassettes, or videotapes.

In summary, infringement of intellectual property rights has not had a significant impact on U.S. exports to Ghana. Pirated computer software may become a more significant problem in the future, however, as computer use grows.

8. Worker Rights

a. *The Right of Association:* Trade unions are governed by the Industrial Relations Act (IRA) of 1958, as amended in 1965 and 1972. Organized labor is represented by the Trades Union Congress (TUC), which was established in 1958. The IRA confers power on government to refuse to register a trade union, but this right has not been exercised by the current government or the previous military regime. 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. Civil servants are prohibited by law from joining or organizing a trade union. However, in December, 1992, the government enacted legislation which allows each branch of the civil service to establish a negotiating committee to engage in collective bargaining for wages and benefits in the same fashion as trade unions in the private sector. While the right to strike is recognized in law and in practice, the government has on occasion taken strong action to end strikes, especially in cases involving vital government interests or public order. The IRA provides a mechanism for conciliation and arbitration before unions can resort to industrial actions or strikes. Over the past three years there have been several industrial actions involving salary increase demands, conditions of service, and severance awards. 1998 saw a number of short-lived "wildcat" strikes by doctors, teachers, and industrial workers.

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 compel children to become wage earners at an early age. Inspectors from the Ministry of Labor and Social Welfare are responsible for enforcement of child labor laws. Employers who violate laws prohibiting heavy labor and night work by children are occasionally prosecuted.

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 ustomary benefits such as a transportation allowance. The current daily minimum wage is Cedis 2,000, about 85 cents at the present rate of exchange. 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. A much-vaunted, government-commissioned study on reform of the civil service (including a serious revision of grades and salary levels) will be released in 1999 and will likely have an impact on income policy in the private sector as well. 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 sectors (gold mining and aluminum smelting), food and related products (tuna canning and beverage bottling), 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 sectors 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1
Total Manufacturing		(1)
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and 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.

NIGERIA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	34.6	38.4	N/A
Real GDP Growth (pct) [3]	4.3	3.7	N/A
GDP by Sector (pct):			
Oil	36.2	36.5	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Agriculture	31.5	31.7	N/A
Manufacturing	6.5	6.3	N/A
Industry	6.4	6.3	N/A
Services	25.9	25.6	N/A
Government	9.9	10.8	N/A
Per Capita GDP (US$)	250	260	N/A
Labor Force (millions)	43.8	43.0	N/A
Unemployment Rate (pct)	27.0	27.0	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.8	16.9	N/A
Consumer Price Inflation	14.3	10.2	N/A
Exchange Rate (Naira/US$ annual average)			
Official	22	22	22
Parallel	84	84	86
Weighted Average	82	82	82
Balance of Payments and Trade:			
Total Exports FOB [4]	16.1	15.2	N/A
Exports to United States [5]	5.8	6.3	4.5
Total Imports FOB	6.4	9.5	N/A
Imports from United States [5]	0.8	0.8	0.8
Trade Balance	9.7	5.7	N/A
Trade Balance with United States [5]	5.3	6.2	2.4
Current Account Deficit/GDP (pct)	8.5	1.2	N/A
External Public Debt	28.1	28.6	N/A
Debt Service Payments/GDP (pct)	30	31	N/A
Deficit/GDP (pct)	−1.3	−1.1	N/A
Gold and Foreign Exchange Reserves	4.1	7.6	N/A
Aid from United States (US$ millions)	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures, except exchange rates, are all estimates based on available monthly data in October.
[2] Converted using annual average market exchange rates of 81.883 and 81.456 respectively.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October 1998.

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 at least 60 percent of budgetary revenue. Agriculture, which accounts for about 32 percent of GDP and employs about two-thirds of the labor force, is dominated by small-scale subsistence farming. Nigeria is a member of the World Trade Organization (WTO).

After a period of relative fiscal austerity in the late 1980s, the Nigerian Government ran budget deficits of up to 12 percent of GDP beginning in 1990. By postponing government spending (including for debt service), the government shrank the deficit to seven percent in 1994 and by 1996 reported a surplus of 1.6 percent of GDP; for the majority of 1997, the budget continued to run a surplus. However, the deficit reduction and ensuing surplus came about primarily through austerity—e.g., foregoing government projects and infrastructure maintenance—aided by stronger-than-expected oil revenue in 1997. In the long run, this failure to maintain critical infrastructure, especially oil refineries, has further disrupted the economy and slowed Nigeria's growth. At the same time, the cap on debt service payments has lead to a dramatic increase in arrears and severely strained Nigeria's relations with its bilateral creditors.

In previous 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 85.1 percent of the government's domestic debt at the end of 1997. Since the CBN monetizes much of the deficit, budgetary shortfalls have a direct impact on the money supply and on price levels, which had risen rapidly for several years but have since slowed. In 1996, the government also began releasing money from an extra-budgetary account called the Petroleum Trust Fund (PTF) for infrastructure and other projects.

In 1998, Nigeria continued the policy of "guided deregulation" instituted in the 1995 budget. In conjunction with his 1994 budget announcement, former 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, Abacha's 1995 budget abandoned the tightly regulated economic policies enacted in 1994. Under the new policy, the government reopened the Autonomous Foreign Exchange Market (AFEM), loosened controls on foreign investment and reduced tariffs and bans on some imports. The 1998 budget continued the trend of fiscal austerity and the slow deregulation of the economy. Although former Minister of Finance Anthony Ani said that privatization of the telecommunications and electrical generating parastatals would commence in 1997, by October 1998 little progress had been made.

The new head of state, General Abdulsalam Abubakar, has also reiterated the government's intention to privatize parastatals such as the Nigeria Telecommunications PLC (NITEL) and the National Electric Power Authority (NEPA). In this privatization plan, 40 percent of NITEL's shares will be reserved for foreign businesses, 20 percent for Nigerian private investors, and 40 percent for the government. There is no word yet on NEPA's privatization plans. In 1998, the realization of the budgeted revenue is untenable because it was predicated on oil prices remaining at or above $17 per barrel, $5 above current world oil prices. The price of Nigeria's Bonny Light Crude fell below $10 per barrel by early December, and will likely average under $13 for the year. The Nigerian Government, in a budget review, cut capital expenditure to reduce the deficit resulting from lower oil prices. Notable areas earmarked for budget cuts are power, steel, and communications. In addition, the government in October announced a drawdown of $1.8 billion from external reserves to meet its expenditure needs.

2. Exchange Rate Policy

In 1997, Nigeria continued the liberalizing of the foreign exchange mechanism instituted in 1995. Under the foreign exchange decree of 1995, the AFEM was reestablished, allowing private companies to source foreign exchange at the parallel market rate (about 86 naira to the dollar in October 1998). The official exchange rate of 22 naira to the dollar has been retained for an estimated 15 percent of government transactions. Companies can now hold domiciliary accounts in private banks, with "unfettered" use of the funds. Foreign investors may bring capital into the country without Finance Ministry approval, and may service foreign loans and remit dividends. Currency exchange offices are functioning, albeit with a limitation of $2,500 per transaction. The CBN has continued to intervene in the AFEM at regular intervals, going from monthly interventions in 1995 to weekly interventions in 1996.

The Nigerian head of state has pledged to merge the exchange rates by the end of 1998; however, as of mid-December, no action has been taken. Ending the dual exchange rate would both enhance the country's financial transparency and accountability, and lay the groundwork for an IMF staff-monitored program and the rescheduling of Paris Club debt. The unification would also please the business community. The rate at which a unified naira would be pegged is being debated, with most favoring a rate close to the present market rate.

3. Structural Policies

As stated in the December 1986 circular "Industrial Policy of Nigeria," the 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 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 Decree to replace the Enterprises Promotion Act. This decree liberalized the foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to existing joint venture agreements in which the Nigerian Government retains a majority share, though there has been discussion of the government selling off some or all of its portions of the joint ventures. 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 apparel. The Investment Promotion Decree provides for the creation of an Investment Promotion Commission that 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 any nationalization or expropriation of a foreign enterprise by the Nigerian Government except for such cases determined to be in the national interest.

Nigeria has gradually begun to implement the 1995 Money Laundering Decree, which introduced bank reporting procedures designed to inhibit this practice. There is also a decree against advance-fee fraud (called 419 fraud after the relevant section of the Nigerian Criminal Code.) However, as of 1998, there has been only limited success in reducing financial fraud. The broad scope of business fraud has brought international notoriety to Nigeria and constitutes a serious disincentive to exporters, since any international transaction must be thoroughly vetted.

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 escalated balance of payments deficits. Debt service obligations including payment of arrearages, are projected to be over $8 billion annually for the next several years. However, according to the 1997 Central Bank of Nigeria's annual report, Nigeria's total debt stock at the end of 1997 fell to $27.09 billion, compared to $28.06 billion in 1996. The reduction was attributable to principal repayments, debt reconciliation, particularly the Paris Club debts, and conversion of some debts under the Debt Conversion Program. The exact debt figure is still in dispute with multilateral financial institutions. The 1998 budget allowed only $2 billion for foreign debt payments, thus ensuring continued build-up of arrears.

In January 1992, in an effort to reduce its external debt, the government concluded an agreement with the London Club that 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 48 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), which currently represent 70 percent of total debt stock, has kept external debt levels high.

From 1986 to early 1992, on the basis of a comprehensive structural adjustment program, Nigeria reached three standby agreements with the IMF. The last one lapsed in 1992. Discussions with the IMF since then have shown some progress, as evidenced by the 1996 decapping of interest rates and removal of the mandatory sectoral credit allocations for banks, but 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 on Paris Club debt have continued to grow. (Nigeria has kept up to date on its multilateral and London Club debt.) In 1992 Nigeria made payments of $2.7 billion against interest and principal payment obligations of $5 billion. However, faced with similar obligations in the following years, external debt service payments were only budgeted at $1.6 billion for 1993, $1.8 billion for 1994, and $2 billion yearly from 1995 to 1998. In 1997, actual debt service payments were $503.5 million or 25.2 percent of the $2 billion budgeted. No new rescheduling agreement will be reached with Nigeria until a medium-term IMF program is in place, though Nigeria has yet to implement the reforms required for the preliminary, short-term staff-monitored Fund program.

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 1998, the importation of approximately 13 items is still banned. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although the bans are compromised by widespread smuggling, the reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. The government discontinued fertilizer subsidies for farmers in 1997, but widespread fertilizer shortages persist.

In 1995, Nigeria announced a new tariff structure for the next five years. Revisions aimed to narrow the range of custom duties, increase rate coverage in line with WTO provisions, and decrease import prohibitions. The following previously banned commodities are now subject to duty rates: rice, 50 percent; day-old chicks and parent stock, 5 percent; sparkling wines and champagne, 100 percent plus 40 percent excise; fruits and fruit juices, 75 percent; jute bags, 45 percent; cigarettes, 200 percent; cotton, 60 percent; wheat, 10 percent; and passenger vehicles, 30 to 100 percent. However, a 25-percent-across-the-board reduction in tariffs became effective in January 1997, thus reducing the above rates. The reductions followed complaints of importers that duty was calculated on the basis of 80 naira to the dollar, rather than the official rate of 22 naira to the dollar used in 1994. Also, in 1995 the Nigerian Ports Authority reduced port charges by 60 percent in Lagos and 70 percent at the other delta ports. In 1998, the government removed additional items from the import prohibition list, but subjected them to heavy duty rates: live, chilled or frozen poultry and eggs (excluding day-old chicks), 150 percent; beer and stout, 100 percent; barley and malt, 20 percent; and mineral and similar waters, 100 percent.

Other import restrictions apply to aircraft and oceangoing vessels. All imported aircraft and ocean-going vessels must be inspected by a government authorized inspection agent. In addition, performance bonds and off-shore guarantees must be arranged before either down payments or subsequent payments are authorized by the Ministry of Finance.

In 1996, to reduce congestion and corruption in Nigerian ports and following a reported shortfall in customs receipts, the government changed the procedures by which goods enter or leave the country. All unaccompanied imports and exports regardless of value require preshipment inspection. Imports must be accompanied by an Import Duty Report (IDR). Goods arriving without an IDR will be confiscated by the government. In addition, all goods are assessed a one-percent surcharge to cover the cost of inspection. Nigeria generally uses at best a modified 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 promote non-oil exports. The Council administers 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 that provides grants to exporters of manufactured and semi-manufactured products. Grants are awarded on the basis of the value of goods exported, and the only requirement for participation is that the export proceeds be repatriated to Nigeria. Though the grant amounts are small, ranging from two to five percent of total export value, they may constitute subsidies as defined by the WTO and raise questions about compliance with WTO obligations.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Berne Convention. In 1993, it became a member of the World Intellectual Property Organization (WIPO), thereby becoming party to most of the major international agreements on intellectual property rights. Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Recently, Nigeria's active participation in international conventions has yielded positive results. Law enforcement agents occasionally carry out raids on suspected sites for production and sale of pirated tapes, videos, computer software and books. Piracy is widespread, but prosecution under the copyright law is slow. However, since the TRIPS (Trade Related Intellectual Property Rights) agreement was signed under the Uruguay Round in 1993, the Nigerian Copyright Council has intensified efforts to combat piracy by organizing workshops for law enforcement agents on copyright issues.

The Patents and Design Decree of 1970 governs the registration of patents, and the Standards Organization of Nigeria is responsible for issuing patents, trademarks, and copyrights. Once conferred, a patent conveys an exclusive right to make, import, sell, or use the products or apply the process. The Trademarks Act of 1965 governs the registration of trademarks. A trademark conveys 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, criminalizes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner. Progress on enforcing the 1988 law is slow. The expense and time necessary to pursue a copyright infringement case discourage prosecution of such cases.

Few companies have sought trademark or patent protection in Nigeria because it is generally perceived as ineffective. Losses from piracy are substantial, although the exact cost is difficult to estimate. Most recordings sold in Nigeria are pirated, and the 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.

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 Labor Congress (NLC), and deregistered other unions. Under Nigerian law, any non-agricultural enterprise that employs more than 50 persons must recognize trade unions and pay or deduct a dues checkoff for union members. In the past, the government has threatened to withdraw the dues checkoff provision and make union dues voluntary if unions pursue strikes. The Abacha regime's failure to abide by ILO conventions to which Nigeria has subscribed was the subject of an ILO "special paragraph" censuring the Nigerian Government. The Abubakar administration accepted an ILO fact-finding mission and took other steps to correct the abuses that led to the ILO censure.

b. *The Right to Organize and Bargain Collectively:* Nigerian labor laws permit the right to organize and bargain collectively. Collective bargaining is common in many sectors of the economy. Nigerian law protects workers from retaliation by employers for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court. Trade unionists have complained, however, that the judicial system's slow handling of labor cases constitutes a denial of redress. The government retains broad authority over labor matters, and can intervene forcefully in disputes it feels challenge its key political or economic objectives. In 1996, for example, the Abacha regime banned the University Lecturers' Union to force an end to their strike, and in 1994 it dismissed the executive councils of the NLC and the two leading petroleum sector unions. The government replaced the leadership of these unions with government-appointed "sole administrators." The Abubakar administration returned these bodies to direct union control in 1998.

c. *Prohibition of Forced or Compulsory Labor:* The 1974 Labor Decree and the 1979 Constitution prohibit forced or compulsory labor. While this prohibition is generally observed, forced labor has been "employed" in some community clean-up projects. The ILO has noted that with the 1979 constitution suspended, Nigeria may not be able to enforce the ILO convention against forced labor.

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 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 under specific conditions. Primary education is compulsory in Nigeria, though rarely enforced. Actual enrollment is declining due to the continuing deterioration of public schools. Increasing poverty and the need to supplement meager family incomes have also forced more children into the employment market.

e. *Acceptable Conditions of Work:* Nigeria's 1974 Labor Decree established a 40-hour workweek, 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 states that workers who work on Sundays and legal holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. In 1998, the federal government raised for all federal employees the minimum monthly wage (salary and allowances) to N5,280.00 ($60) from N450 ($5.00). The new minimum wage does not apply to state workers or those in the private sector. The last minimum wage review took place in 1991. 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 is 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,373
Total Manufacturing		54
Food and Kindred Products	(1)	
Chemicals and Allied Products	20	
Primary and Fabricated Metals	−1	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		15
Banking		43
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,465

[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]

	1996	1997	1998
Income, Production and Employment: [1]			
Nominal GDP (at nominal prices)	126.2	129.0	110.0 [2]
Real GDP Growth (pct)	3.2	1.7	0.5 (est)
GDP by Sector:			
Agriculture	5.4	5.2	4.3 [2]
Mining and Quarrying	9.1	8.9	7.7 [2]
Manufacturing	26.7	27.5	23.0 [2]
Wholesale/Retail Trade	18.1	18.5	15.7 [2]
Financial Services	19.6	20.6	18.5 [2]
Government	17.1	17.6	15.0 [2]
Per Capita GDP (US$)	2,983	2,987	N/A
Labor Force (millions)	13.8	14.0	N/A
Unemployment Rate (pct)	21.0	22.9	25.0 (est)
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	15.7	18.7	20.0 (est)
Consumer Price Index	7.4	8.6	9.0 (est)
Exchange Rate (Rand/US$ annual average) [2]			
Unified	4.3	4.6	5.8 (est)
Balance of Payments and Trade:			
Total Exports FOB [3]	16.9	28.3	16.15

Key Economic Indicators—Continued

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

	1996	1997	1998
Exports to United States[4]	1.6	1.7	N/A
Total Imports CIF[3]	17.0	27.6	16.19
Imports from United States	3.4	3.5	N/A
Trade Balance[3]	−0.1	0.7	0.45
Trade Balance with United States[4]	−1.8	−1.8	N/A
External Public Debt[5]	6.0	5.4	N/A
Fiscal Deficit/GDP (pct)	−6.1	−5.6	N/A
Current Account Deficit/GDP (pct)	1.3	1.5	N/A
Debt Service Payments/GDP (pct)	6.1	6.1	6.7
Gold and Foreign Exchange Reserves	1.7	3.7	N/A
Aid from United States (US$ millions)[6]	163.5	110.5	71.3
Aid from Other Countries[7]	N/A	N/A	N/A

[1] The following exchange rates were used in the calculations: $1:R4.3 for 1996, $1:R4.61 for 1997, and an estimated $1:R5.80 for 1998.

[2] Based on second quarter data, seasonally adjusted at annual rates. Declines are due to the rapid depreciation of the rand. See note 1.

[3] All South African trade statistics include export and import data for the five members of the Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland) up to December 1997.

[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October 1998.

[5] The figures used are for total foreign debt.

[6] The figures represent aid from USAID only.

[7] SA has received substantial aid from all over the world. However, there is no comprehensive audit of the total aid given to SA to date.

1. General Policy Framework

South Africa is a middle-income developing country with well-developed financial, legal, communications, energy, and transport sectors, a stock exchange which ranks among the 20 largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. Nearly four years 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.

Decades of apartheid-era policies resulted in the inefficient use of human resources, under-investment in human capital, labor rigidities, large budgetary outlays for duplicative layers of government and facilities, extensive governmental interference in the economy, and a lack of foreign investment and imported goods resulting from international sanctions. In the lead up to the 1994 elections, the South African economy started enjoying a period of recovery after more than four years of negative real GDP growth from 1988-1992. The economy has posted real growth rates of 2.5 percent in 1994, 2.8 percent in 1995, 3.2 percent in 1996 and 1.7 percent in 1997. The 1998 growth rate is likely to come in well below 1 percent mainly due to the financial turmoil which hit almost all emerging markets.

South Africa faces daunting developmental problems resulting from decades of apartheid-era policies. The government's highest objectives are black economic empowerment, promotion of small, medium, and micro enterprises, the extension of telecommunications, transportation, and other infrastructure links to unserved rural areas, and extensive job creation to offset rapid population growth estimated at 2.4 percent.

The government demonstrated its commitment to open markets, privatization, and a favorable investment climate with the release of its macroeconomic strategy, GEAR, in June 1996. This strategy includes tax incentives to stimulate new investment in labor-intensive projects, expansion of infrastructural services, restructuring of state assets, and continued reduction of tariffs to promote greater competition and industrial revitalization. These efforts, together with South Africa's commitment to its World Trade Organization (WTO) obligations, show that South Africa is moving slowly but steadily towards free market principles.

Over the last decade, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African Reserve Bank (SARB) 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 lending rates, has curbed domestic spending on imports and reduced inflation to its lowest rates in twenty years.

The government primarily finances its sizable debt through the issuance of government bonds. To a lesser extent, the government has opted to finance some short-term debt obligations through the sale of foreign exchange and gold reserves. As a corollary to its restrictive financial policies, the government has not opted to finance deficit spending through loans from commercial banks.

2. Exchange Rate Policy

Under South African exchange regulations, the SARB has substantial control over 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 a marketing agent for gold, which accounts for roughly 18 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 in an attempt to stabilize external accounts.

While the SARB recognized that the low level of hard currency reserves necessitated continued inflow of long-term capital, the government of national unity eliminated the previous dual exchange rate and established a unified exchange rate on 20 March 1995. Nonetheless, South Africa still maintains several capital controls to prevent large capital outflows. The 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. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the government will do so until foreign reserve levels approach the three-month coverage level. While foreign reserves are currently at about $5.5 billion, the SARB maintains a large Net Open Forward Position of 22.6 billion as of the end of November 1998.

3. Structural Policies

Prices are generally market-determined with the exception of petroleum products, electricity, transport services and certain agricultural goods. Purchases by government agencies and major private buyers are by competitive tender for projects or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content.

The main sources of government revenue in South Africa are income taxes and the Value-Added Tax (VAT). Both personal and corporate income tax rates are among the highest in the world. Although the government planned to phase down both individual and corporate tax rates through year-end 1999, fiscal constraints have slowed plans to do so. In April 1993, the government increased the VAT rate from its previous level of 10 percent to 14 percent in an effort to cover the shortfall in government revenues and meet increasing expenditures.

The government has undertaken some measures in the past two years to ease the tax burden on foreign and domestic investors. It reduced the corporate primary income tax rate to 35 percent from its previous rate of 40 percent in 1994. The Non-Resident Shareholders Tax on foreign investors was scrapped effective October 1, 1995. In addition, the Secondary Tax on Corporate Dividends was halved to 12.5 percent in March 1996.

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 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 finalized a debt agreement with major western banks on $5 billion worth of mostly private debt caught inside the "standstill net."

At the end of 1997, the SARB reported that total foreign (public and private) debt amounted to approximately $39 billion. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have remained at levels ranging from 9.2 percent in 1995 to 10.6 percent in 1997.

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 obtaining a modest World Bank loan, and is in discussions regarding other small grants or loans as well as greater utilization of World Bank advisory and training assistance to help with its ambitious development objectives.

There is no comprehensive audit of the total aid given to SA to date. The Department of Finance in conjunction with the United Nations Development Program (UNDP) is compiling a Development Report to be published in March 1999 detailing the total aid to SA and the breakdown of sources by agencies and countries.

Besides the aid from USAID noted in the front table, the U.S. also provides military aid estimated at $1.25 million for FY 1997/98.

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 certain foodstuffs, clothing, fabrics, wood and paper products, refined petroleum products and chemicals.

Although the government eliminated the import surcharge on all goods effective October 1 1995, in conformance with its WTO commitments, it still maintains a complex tariff structure. Nonetheless, the government remains committed to the simplification and eventual reduction of tariffs within the WTO framework, and maintains active discussions with that body and its major trading partners.

The government is attempting to centralize and standardize the buying procedures of national, provincial, local, and state-owned corporate entities. Purchases are by competitive tender for project, supply and other contracts. As part of the government's policy to encourage local industry, a price preference schedule, based on the percent of local content in relation to the tendered price is employed to compare tenders. To claim preference for local content, tenders must enclose with their bid a certificate showing classification of supplies offered in terms of local content.

An additional preference may be claimed if a product bears the mark of the South African Bureau of Standards. On tenders of less than R2 million ($350,000), the government awards preference points to enterprises and companies operating in South Africa that demonstrate significant ownership or employment of previously disadvantaged individuals.

In late 1996, the government approved the Industrial Participation Program (IPP) which mandates a countertrade/offset package for all state and parastatal purchases of goods, services, and lease contracts in excess of $10 million. Under the program, all bidders on government and parastatal contracts who exceed the imported content threshold must also submit an industrial participation package worth 30 percent of the imported content value. The bidder then has 7 years to discharge the industrial participation obligation. Non-performance of the contract is subject to a penalty of 5 percent of the outstanding industrial participation obligation.

6. Export Subsidies Policies

The primary subsidy regime of the government was the General Export Incentive Scheme (GEIS) through which South African exporting companies received 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 government has shown steadfast commitment to the elimination of export subsidies despite considerable opposition from local manufacturers. The Department of Trade and Industry "revised" the GEIS in early 1995, "downsized" it in early 1996, and officially eliminated the program in July 1998.

Instead, the government has focused on other, more WTO-friendly means of promoting South African exports. The Export Marketing Assistance Scheme (EMA) offers financial assistance for the development of new export markets, through financing for trade missions and market research. The new Export Finance Guarantee Scheme for small exporters promotes small and medium exporters through credit guarantees with participating financial organizations. 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

Patents may be registered under the Patents Act of 1978 and are granted for 20 years. Trademarks can be registered under the Trademarks Act of 1973, and are granted for ten years with a possible renewal of an additional ten years. New designs may be registered under the Designs Act of 1967 which grants copyrights for five years. Literary, musical and artistic works, cinematographic films and sound recordings are eligible for copyrights under the Copyright Act of 1978. This act is based on the provisions of the Berne Convention as modified in Paris in 1971 and was amended in 1992 to include computer software. The Patents, Trademarks, Designs, and Copyrights Registrar of the Department of Trade and Industry administers these acts.

South Africa is a member of the Paris Union and acceded to the Stockholm Text of the Paris Convention for the Protection of Industrial Property. South Africa is also a member of the World Intellectual Property Organization. The government passed two IPR-related bills in parliament at the end of 1997: the Counterfeit Goods Bill and the Intellectual Property Laws Amendment Bill, bringing South Africa's laws largely into conformity with its international trade obligations under the Trade Related Intellectual Property Agreement of the WTO.

Although South Africa's intellectual property laws and practices are generally in conformity with those of the industrialized nations, firms do experience some problems. The trademarks of a number of U.S. companies were misappropriated under the former government, when local firms took advantage of inadequate protection for famous marks. In April 1995, the U.S. Trade Representative placed South Africa on the "Special 301" Watch List in an attempt to resolve these cases. South Africa was removed from the list in 1996 due to progress on several fronts. In May 1998, however, South Africa was placed back on the Watch List, in part because of a lack of adequate protection of undisclosed data and a law, passed in December 1997, which appears to empower the Minister of Health to abrogate patent rights for pharmaceuticals and permit parallel imports. Implementation of the law has been suspended pending the resolution of a constitutional challenge in the South African courts.

Software piracy occurs frequently in South Africa. The Business Software Alliance (BSA) estimates that as much as 48 percent of South Africa's software is pirated, resulting in a loss of over $54.8 million to computer companies. However, the current 48 percent figure stands as the lowest piracy rate in Africa, and is comparable to BSA's estimates of software piracy in the European Union (46 percent).

Piracy in the video industry is also an issue of concern. Video piracy remains the major audiovisual piracy problem in South Africa. The video piracy rate is relatively low, however, at ten percent. Total annual losses to the U.S. motion picture industry due to audiovisual piracy in South Africa during 1997 are estimated to be $12.0 million.

8. Worker Rights

a. *The Right of Association:* Freedom of association is guaranteed by the constitution and given statutory effect by the Labor Relations Act (LRA). All workers in the private sector and most in the public are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. Unions in South Africa have an approximate membership of 2.9 million or 30 percent of the employed population. The right to strike is guaranteed in the constitution, and is given statutory effect by the LRA. The International Labor Organization (ILO) readmitted South Africa in 1994. There is no 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 work sites, deductions for trade union subscriptions, and leave for trade union officials.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is illegal under the 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. Child labor is also used in the informal economy.

54-067 99 - 2

e. *Acceptable Conditions of Work:* There is no legally mandated national minimum wage in South Africa. Instead, the LRA provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. 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 authority to set minimum wages and conditions. While the Wage Act does not apply to farm or domestic workers, these wages are regulated by the government. Occupational health and safety issues remain a top priority of trade unions, especially in the mining and heavy manufacturing industries which are still considered hazardous by international standards.

f. *Worker Rights in Sectors with U.S. Investment:* The worker rights conditions described above do not differ from those 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,013
Food and Kindred Products	148	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	90	
Electric and Electronic Equipment	154	
Transportation Equipment	29	
Other Manufacturing	319	
Wholesale Trade		136
Banking		(1)
Finance/Insurance/Real Estate		27
Services		82
Other Industries		747
TOTAL ALL INDUSTRIES		2,347

[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]

	1996	1997	1998 [2]
Income, Production and Employment:			
Nominal GDP [3]	396.0	354.9	350.6
Real GDP Growth (pct)	2.8	4.0	3.0
GDP by Sector: [4]			
Agriculture	13.2	11.7	10.9
Manufacturing	96.0	84.1	82.0
Services	192.6	173.9	168.7
Government	12.2	10.5	9.9
Per Capita GDP (US$)	22,000	19,700	19,500
Labor Force (000s)	9,127	9,220	9,349
Unemployment Rate (pct)	8.6	8.6	8.1
Money and Prices (annual percentage growth):			
Money Supply (M3)	9.4	6.3	9.6
Consumer Price Inflation	1.5	-0.2	2.0
Exchange Rate (AustD/US$ annual average)			
Official	N/A	N/A	N/A
Parallel	1.27	1.35	1.28
Balance of Payments and Trade:			
Total Exports FOB	60.4	56.7	55.8
Exports to United States	3.9	4.2	5.5
Total Imports CIF	61.5	55.8	58.8
Imports from United States	14.1	12.2	13.2
Trade Balance	−1.1	0.9	−2.9
Balance with United States	−10.2	−7.9	−7.6
External Public Debt	56.0	37.6	33.8
Fiscal Deficit/GDP (pct)	−0.9	−0.2	0.5
Current Account Deficit/GDP (pct)	4.1	3.8	5.0
Debt Service Payments/GDP	2.3	2.2	2.2
Gold and Foreign Exchange Reserves	15.8	15.6	15.5
Aid from United States	0	0	0
Aid from Other Countries	0	0	0

[1] Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian Dollars.
[2] 1998 figures are estimates based on available monthly data in October.
[3] Income measure of GDP.
[4] Production measure of GDP. "Manufacturing" includes manufacturing, mining, utilities, and construction.

1. General Policy Framework

Australia's developed market economy is dominated by its services sector (65 percent of GDP), yet it is the agricultural and mining sectors (9 percent of GDP combined) that account for the bulk (57 percent) of Australia's goods and services exports. Australia's comparative advantage in primary products is a reflection of the natural wealth of the Australian continent and its small domestic market: 19 million people occupy a continent the size of the contiguous United States. The relative size of the manufacturing sector has been declining for several decades, and now accounts for just over 14 percent of GDP.

The Australian economy is enjoying its sixth year of consistently strong growth, accompanied by low inflation and low interest rates (the official cash rate is currently at 4.75 percent). The Asian economic downturn has yet to have a significant impact on economic growth, despite forcing many exporters to target alternative markets. With inflation well under control (Australia recorded annual price deflation for the first time in 35 years in 1997), the task for economic policymakers is to lower the unemployment rate, which remains stubbornly mired in the 8.0 percent range.

The Liberal/National coalition government continued its program of fiscal consolidation in its budget for the 1998–99 fiscal year, announcing an underlying budget surplus (which removes debt repayments and assets from the headline balance) of $1.5 billion.

2. Exchange Rate Policies

Australian Dollar exchange rates are determined by international currency markets. There is no official policy to defend any particular exchange rate level, although the RBA does operate in currency markets. The RBA is active in what it describes as "smoothing and testing" foreign exchange rates, in order to provide a generally stable environment for fundamental economic adjustment policies.

Australia does not have any major foreign exchange controls beyond requiring RBA approval if more than A$5,000 in cash is to be taken out of Australia at any one time, or A$50,000 in any form in 1 year. The purpose of this regulation is to prevent tax evasion and money laundering; authorization is usually automatic.

3. Structural Policies

The government is continuing a program of economic reform, begun in the 1980's, that includes the reduction of import protection and microeconomic reform. Initially broad in scope, the program now focuses on industry-by-industry changes and reform of the labor market. The government is also continuing with the privatization of government assets. One-third of the government telecommunications carrier Telstra was floated in November 1997.

The General Tariff Reduction Program, begun in March 1991, has reached its conclusion, with most existing tariffs now at 5 percent. However, the passenger motor vehicles and textiles, clothing and footwear industries are still protected by high tariffs (20 and 31 percent respectively). These tariffs are scheduled to decline to 15 and 25 percent respectively by 2000 (where they will remain, pending further review, until 2005).

The Liberal/National coalition government intends to restructure (subject to parliamentary approval) Australia's taxation system by 2000, by introducing a consumption tax and lowering income taxes.

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 45 percent of GDP for the past decade, and in mid-1998 totaled $133 billion (41.2 percent of GDP). Australia's net external public debt is $40 billion, or 13 percent of GDP. The public sector accounts for 40 percent of Australia's external debt; the remainder is the responsibility of the private sector. The net debt-service ratio (the ratio of net income payable to export earnings) has remained steady between 11 and 12 percent since 1994, down from 21 percent in 1990.

5. Significant Barriers to U.S. Exports

Australia is a signatory to the WTO, but is not a member of the WTO Agreement on Government Procurement.

Services Barriers: The Australian services market is generally open, and many U.S. financial services, legal and travel firms are established there. The banking sector was liberalized in 1992, allowing foreign banks to be licensed as either branches or subsidiaries. Broadcast licensing rules were also liberalized in 1992, allowing up to 20 percent of the time used for paid advertisements to be filled with foreign-sourced material (far greater than the percentage of non-Australian messages actually broadcast).

Local content regulations also require that 55 percent of a commercial television station's weekly broadcasts between the hours of 6 a.m. and midnight must be dedicated to Australian-produced programs (The U.S. regrets that this requirement was recently increased from 50 percent). Regulations governing Australia's pay-TV industry require that channels carrying drama programs devote at least 10 percent of broadcast time to new, locally produced programs.

Standards: Australia became a signatory to the GATT Standards Code in 1992. However, Australia 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.

Labeling: Federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other Federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade.

Commodity Boards: Several national and state commodity boards control the marketing and export of certain Australian agricultural products. Activities for these marketing authorities are financed by the producers, but some boards enjoy export monopoly powers conferred by the Federal or state government. While some of the boards' domestic activities have been deregulated, the export of wheat and rice remains under the exclusive control of commodity boards. The government has indicated that the Australian wheat board (which strictly regulates wheat marketing abroad) will retain its export monopoly until at least 1999. The export of barley from certain states likewise remains strictly regulated.

Sanitary and Phytosanitary Restrictions: Australia's geographic isolation has allowed it to remain relatively free of exotic diseases. Australia imposes extremely stringent animal and plant quarantine restrictions, which at times are not based on sound evidence, or consistent with the risk involved. Concerns remain with cooked chicken, salmon, pork, grapes, citrus, stone fruit and apples.

Investment: The government requires notification of (but normally raises no objections to) investment proposals by foreign interests above certain notification thresholds, including: acquisitions of substantial interests in existing Australian businesses with assets of A$5 million or more (A$3 million for rural properties); new businesses involving an investment of A$10 million or more; portfolio investments in the media sector of 5 percent or more; all non-portfolio investments irrespective of size; takeovers of Australian companies valued at either A$20 million or more, or for more than 50 percent of the target company's total assets; and direct investment of foreign governments irrespective of size. Investment proposals for entities involving more than A$50 million in total assets are approved unless found contrary to the national interest. Special regulations apply to investments in the banking sector, the media sector, urban real estate and civil aviation.

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

Government Procurement: Since 1991, foreign information technology companies with annual sales to the Australian Government of A$10–40 million (US$6–24 million) have been required to enter into Fixed Term Arrangements (FTAs), and those with sales greater than A$40 million into Partnerships for Development (PFDs). Under an FTA, a foreign company commits to undertake local industrial development activities worth 15 percent of its projected amount of government sales over a 4-year period. Under a PFD, a foreign firm agrees to invest 5 percent of its annual local turnover on research and development 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 7 year life of the PFD.

The Information Technology Services Common Use Contract Panel (ITSCUCP), established in 1995, is used by government agencies in planning and implementing information technology (IT) purchases. Any information technology company may join upon demonstrating acceptable levels of Australian product development, investment in capital equipment, skills development and/or services support, local sourcing, and Australian R&D activities.

After a recent review of its purchasing practices, the government announced its commitment to source at least 10 percent of its purchases from Australian small to medium size enterprises. The government will continue to require tenderers to include industry development objectives in tender documents, with model guidelines to be developed in consultation with industry. The two envelope tendering system and the requirement for industry impact statements to accompany all procurements of more than A$10 million were abolished in 1997.

Motor Vehicles: 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 3 months. Commercial importers must apply for a "compliance plate" costing A$20,000 for each make of car imported. Left hand drive cars must be converted to right hand drive (only by licensed garages) before they may be driven in Australia.

6. Export Subsidies Policies

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

The coalition government has severely curtailed assistance schemes to Australian industry as part of its fiscal consolidation program. Under the Export Market Development Grants Scheme, the government gives grants to qualifying firms of up to A$200,000 to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs and sales and excise taxes paid on the imported components of exported products. Such schemes are available in the passenger motor vehicle and the textiles, clothing and footwear industries. Grants schemes and tariff concessions have also been subject to expenditure reductions. The Research and Development Tax Concession (available to firms undertaking eligible R&D) was reduced from 150 percent to 125 percent. The only remaining bounty (production subsidy) assists producers of computer components, and is due to expire on July 1, 1999.

The "Factor (f)" scheme is designed to compensate manufacturers of pharmaceutical products for the effects of the Federal Government's intervention (through the national health system) in the market for consumer pharmaceuticals. Under the scheme, approved producers receive payments (to raise returns received for selected pharmaceuticals) to assist domestic drug research and development.

7. Protection of U.S. Intellectual Property

Australia is a member of the World Intellectual Property Organization (WIPO), and most multilateral IPR agreements, including: 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 Phonogram Convention; the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations; and the Patent Cooperation Treaty. Australia has yet to take action on the new WIPO Copyright treaties. USTR has placed Australia on the Special 301 Watch List because of limitations in its protection of test data and parallel imports, among other concerns.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes relating to artificial human reproduction). They are protected by the Patents Act (1990), which offers coverage for 20 years subject to renewal. Trade secrets are protected by common law, such as by contract. Design features can be protected from imitation by registration under the Designs Act for up to 16 years (upon application).

Test Data: In 1997, the government passed legislation providing 5 years of protection for test data of new chemical entities. No protection is provided for data submitted in regard to new uses and new formulations. The government is currently reviewing a proposal to introduce new legislation to protect test data for agricultural and veterinary chemicals.

Trademarks and Copyrights: Australia provides TRIPs compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is 10 years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer programs can receive copyright protection. The government continues to consider broadening the copyright fair use exemption to include the decompilation of computer software. The Australian Copyright Act provides protection regarding public performances in hotels and clubs. Australia has effective protection against copyright piracy. The government passed legislation in 1998 removing parallel import protection for sound recordings and for goods whose protection was based on the copyright of packaging and labeling.

New Technologies: Infringement of new technologies does not appear to be a significant problem.

8. Worker Rights

a. The Right of Association: Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively. 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. Australia has ratified most major international labor organization conventions regarding worker rights.

b. The Right to Organize and Bargain Collectively: Approximately 35 percent of the Australian workforce belongs to unions. The industrial relations system operates through independent Federal and state tribunals; unions are currently fully integrated into that process. Legislation reducing the powers of unions to represent employees was passed by Federal Parliament in November 1996.

c. Prohibition of Forced or Compulsory Labor: Compulsory and forced labor are prohibited by 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 or 16 maintains an effective floor on the age at which children may be employed full time.

e. Acceptable Conditions of Work: There is no legislatively determined minimum wage. An administratively determined minimum wage exists, but is now largely outmoded, although some minimum wage clauses still remain in several Federal awards and some state awards. Instead, various minimum wages in individual industries are specified in industry "awards" approved by state or Federal tribunals. Workers in Australian industries generally enjoy hours, conditions, wages and health and safety standards 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,206
Total Manufacturing		7,506
Food and Kindred Products	1,271	
Chemicals and Allied Products	2,394	
Primary and Fabricated metals	298	
Industrial Machinery and Equipment	684	
Electric and Electronic Equipment	206	
Transportation Equipment	1,014	
Other Manufacturing	1,639	
Wholesale Trade		2,569
Banking		2,181
Finance/Insurance/Real Estate		4,779
Services		1,805
Other Industries		6,080
TOTAL ALL INDUSTRIES		26,125

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]

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP	816.9	903.1	965.0
Real GDP Growth (pct) [2]	9.6	8.8	7.8
GDP by Sector: [3]			
Agriculture	167.3	168.7	169.0
Manufacturing	350.4	444.1	486.0
Services	299.2	290.3	311.0
Government	19.5	N/A	N/A
Per Capita GDP (US$)	678.8	734.2	779
Labor Force (millions)	697	706	715

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Unemployment Rate (pct)[4]	3.0	3.1	3.4
Money and Prices (annual percentage growth):			
Money Supply (M2)	25.2	19.6	17.0
Consumer Price Inflation	7.0	2.8	−0.7
Exchange Rate (RMB/US$ annual average)	8.3	8.3	8.3
Balance of Payments and Trade:			
Total Exports FOB[5]	151.1	182.7	190.0
Exports to United States	51.5	62.5	72.3
Total Imports CIF[5]	138.8	142.4	143.0
Imports from United States FAS	11.9	12.8	13.8
Trade Balance	12.2	40.3	47.0
Balance with United States	39.5	49.7	58.5
External Public Debt	116.3	131.0	142.0
Fiscal Deficit/GDP (pct)	1.5	1.5	2.2
Current Account Surplus/GDP (pct)	0.9	4.5	4.9
Debt Service Payments/Exports (pct)	6.7	7.3	7.6
Payments/GDP (pct)	1.2	1.5	1.5
Gold and Foreign Exchange Reserves	105	142	146
Aid from United States	0	0	0
Aid from All Other Sources	0.3	0.4	0.6

[1] Estimated from third quarter and end September 1998 data.
[2] Official growth rate published by State Statistical Bureau based on constant renminbi (RMB) prices using 1978 weights. All other income and production figures are converted into dollars at the exchange rate. Economic experts continue to debate the accuracy of these figures, with some arguing that real growth may be half or less the official rate.
[3] Production and net exports are calculated using different accounting methods and do not tally to total GDP. Agriculture includes forestry and fishing; manufacturing includes mining.
[4] "Official" urban unemployment rate; agricultural laborers are assumed to be totally employed in China's official labor data.
[5] U.S. Department of Commerce (U.S.-China bilateral trade data) for U.S. trade; PRC Customs (Chinese global trade data and 1997 estimates).
Sources: State Statistical Bureau Yearbook, People's Bank of China Quarterly Statistical Bulletin, U.S. Department of Commerce Trade Data, embassy estimates.

1. General Policy Framework

China's economy, which was cooling prior to the Asian economic crisis of 1997–1998, showed additional signs of a slowdown this past year due to declines in consumer demand and exports, the effects of state-owned enterprise downsizing, industrial inefficiency and excess capacity. The official 1998 real growth rate estimate of 7.8 percent came close to meeting the leadership's target of 8 percent. Official GDP figures for the first three quarters of 1998 showed growth of 7.6 percent for the third quarter, up from 6.8 percent in the second quarter and 7.2 percent in the first quarter. Most of this growth was due to the central government's early 1998 fiscal and monetary stimulus package, which was designed to offset weakening domestic demand and exports. It is not clear how much the summer's devastating floods affected economic performance, though some estimates suggest the net damage knocked half a percentage point off the GDP growth rate.

The Five-Year Plan for 1996–2000—which noted the growing importance of the non-state and corporate sectors—also reconfirmed the role of state-owned enterprises (SOE). SOEs still directly account for 27 percent of total industrial output and indirectly for a much larger proportion of GDP—even though one-half of all SOEs reported losses in 1997. "Triangular debt"—the settling or "neglect" of outstanding obligations among SOEs, their banks, and their suppliers—inhibits reform, as many debts are unlikely to be paid with cash or goods. Economic dislocation and layoffs resulting from the closure or restructuring of noncompetitive SOEs have exacerbated central government concern about social stability and unemployment. Laid-off state sector employees are not considered unemployed as technically they can be recalled to work and are eligible to keep their state-subsidized housing and eventually draw pensions. Hence only three percent of the state workforce is registered as "unemployed" in official statistics. Even so, SOEs laid off about 4–5 million workers annually in 1996–1998, bringing the SOE workforce down to about 72 million, with far fewer layoffs projected for 1999.

A key national priority of the reform movement, as enshrined in the 1996–2000 Five-Year Plan, is to narrow growing regional income disparities and to provide a push toward doubling GDP between 2000 and 2010. This growth requires new legal and political structures to meet the needs of foreign and domestic investment; it also requires strengthening the government's fiscal capacity. A simplified tax code has led to the reduction in the gap in tax rates between state-owned and other enterprises. Tax reforms and the new tax system began to reverse the declining share of revenues as a percent of GDP in mid-1996.

China made significant and numerous adjustments to its import tariff schedule in October 1997. However, nominal tariff rates on items (like automobiles, wine, liquor, and cigarettes) which are frequently smuggled into China—with attendant revenue losses and rule of law problems—remain very high. Import tariffs on some items of great export interest to the United States and China's other trading partners also remain high. Import growth overall continued to slow through late 1997 and into 1998.

China is committed to reforming its capital markets and financial institutions in order to allocate large amounts of savings in the economy more efficiently. In recent months, China has made some efforts to rein in expenditures by financial entities, like the numerous international trust and investment companies, which have been approving projects that are not necessarily supported or sanctioned by the central government. In 1995, new banking laws were adopted to facilitate the entry of foreign banks to China, although the operation of these laws is still not fully tested. China now has 135 foreign bank branches, including 11 U.S. bank branches, concentrated in coastal areas and large inland cities, including Beijing and Chengdu. Their activities are severely circumscribed; however, their presence in the market is an important channel for technology and know-how to drive further financial sector liberalization and reform. Despite attempts to commercialize the banking sector, 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. Total bank lending to the state sector was $36 billion last year, or 63 percent of total domestic lending, unchanged from 1996. China's large state banks are grappling with this problem, but liquidating or restructuring state enterprise assets would further raise unemployment in the near term.

Although foreign direct investment levels from western industrial nations like the United States and the European Union have remained strong, the regional economic slowdown has resulted in a slight decline in total investment, especially from key countries like Korea and Japan. China's realized foreign investment inflows should amount to over $42 billion in 1998, close to the peak of $45.3 billion in 1997. China is preparing to allow foreign joint ventures to take advantage of export rebates as of January 1, 1999 in order to attract new inflows of foreign direct investment. Concern about decreasing foreign investment in China has prompted the government to consider several proposals to improve the investment climate, including one in which the central government would relinquish approval authority for foreign investments under $100 million in early 1999.

2. Exchange Rate Policies

Foreign-Invested Enterprises (FIEs) and authorized Chinese firms have generally enjoyed liberal access to foreign exchange in China for trade-related transactions. China has maintained favorable rules for FIEs, which can maintain foreign currency deposits and keep their foreign exchange earnings and repatriate after-tax profits. In 1997, the People's Bank of China (China's central bank) began to allow Chinese firms earning more than 10 million dollars a year in foreign exchange to retain up to 15 percent of their receipts. However, the Asia-wide economic slowdown and the growing evidence of unauthorized capital outflows prompted the government to tighten documentation requirements in mid-1998, causing payment delays and increased costs for many traders.

The People's Bank of China introduced currency convertibility for current account (trade) transactions in December 1996 (in accord with the IMF charter's Article VIII provisions). The move was an important step, even though China still maintained significant restrictions on capital account transactions. Current account liberalization ended the requirement for companies to balance their import and export receipts in order to receive approval to do business in China. Although the balancing requirement remains on the books for older contracts, it has not been enforced.

Chinese authorities describe the current exchange rate as a "managed float." However, it has behaved more like a fixed exchange rate trading at about $1/8.3 RMB over the last several years, with the rate set by the PBOC, not market supply and demand. China uses the RMB/dollar exchange rate as the basic rate and sets cross rates against other currencies by referring to the international market rates for the previous day. The central bank also sets interest rates on all deposits, with RMB yield rates now closely tracking those of the U.S. dollar. As a result, "black market" trading is a small but regular component of the Chinese system. There is also a limited undeliverable forward market for Chinese RMB in Hong Kong and Singapore. These markets exist because of Chinese limits on foreign exchange for Chinese traveling overseas and restrictions on hedging forward transactions. These unofficial markets are thought to be relatively shallow, perhaps less than several billion U.S. dollars.

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 government regulates the prices of daily necessities, basic urban services, and key commodities. China maintains discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. At the same time, FIEs often use tax holidays, grace periods and other incentives to lower their 33 percent corporate income tax liability. Chinese firms also pay a corporate income tax of 33 percent.

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 of July 1994 contains import controls, local content and other performance requirements for foreign investors, as well as "temporary" price controls for sedans. Industrial policies for the chemical, petrochemical, and machinery industries reportedly have been issued but not published.

In 1998, the State Tax Administration increased the value-added tax rebate on some categories of exports. (The normal rebate remained at 9 percent of the total 17-percent tax for most goods.) Progress in paying off past-due rebates contributed to export growth in 1997.

4. Debt Management Policies

In mid-1998, China's external debt stood at about $138 billion, or 73 percent of exports, according to official Chinese data. In the context of China's export performance, investment inflows and high foreign exchange reserve levels (a projected $146 billion by year's end), the current external debt burden—concentrated largely in medium-term and long-term borrowing—should remain within acceptable limits. China's 1997 debt service ratio was 7.3 percent (ratio of repayment of principal and interest on foreign debt to foreign exchange receipts of exports plus services), about the same as in 1995, and rising only slowly. 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 currently deemed too narrow-gauged and not sufficiently international in scope. Upgrade of the bond market, however, has been slow, with most of the emphasis on developing the interbank market, which is dominated by state-owned banks.

China's government bond market is still in its infancy, with virtually no secondary market. This prevents the central bank from effectively regulating money supply through indirect means. China established a system of primary dealers in 1994 and there are officially about 50 dealers. China does not license foreign firms to engage in bond trading, with the exception of one experimental investment bank, the China International Capital Corporation, a joint venture between the China Construction Bank (60 percent) and Morgan Stanley-Dean Witter (40 percent). The Ministry of Finance authorizes them to underwrite bonds on a contract basis for domestic customers. Since 1995, China has experimented with auctioning bonds on a small scale, but financial experts do not regard these transactions as standard competitive bidding because priority was assigned to those dealers who most quickly turned in their funds rather than based on interest rates. 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 renminbi debt, but the trend is generally towards more short- and medium-term maturities (6 months and 1–5 years). The continued sharp rise in government borrowing may reflect a decision to reign in "policy loans" by commercial banks.

5. Aid

The United States has provided occasional disaster-relief assistance to the People's Republic of China to help flood relief and other humanitarian efforts in recent years. This year, due to an earthquake and severe flooding, the U.S. Government donated approximately $33 million in cash, supplies and wheat. In addition, the United States operates a modest Peace Corps-affiliated English-language training program in southwestern China's Sichuan province. In June, the Peace Corps concluded a country agreement with China which will allow it to expand both its geographic reach and program depth beyond its current level of 37 volunteers. China is a major recipient of other nations' assistance programs and multilateral assistance. China's largest bilateral aid donor is Japan. Multilateral assistance includes but is not limited to programs operated by the World Bank; the World Food Program; United Nations Development Program and other United Nations-affiliated agencies and programs; the Asian Development Bank; and other international financial institutions.

6. Significant Barriers to U.S. Exports

China continues to impose barriers to the entry of U.S. goods and services. Although some aspects of China's trade regime are undergoing reform—abolishing some nontariff measures, rescinding some import quotas, lowering some prohibitively high tariffs—liberalization of China's import regime has not kept pace with China's export-oriented push. China's restrictive system of trading rights raises the cost of imported goods by funneling foreign imports through fee-collecting Chinese foreign trade companies. High tariffs and other restrictions have given rise to widespread smuggling. Chinese authorities have begun a crackdown on smuggled goods by tightening customs procedures and requiring more detailed documents to support trade-related foreign exchange transactions. These is serious concern among foreign businesses that new restrictions are impinging on legitimate imports.

In the context of China's World Trade Organization (WTO) accession negotiations, China has committed to expand trading rights significantly within three years of its accession. In 1996, China declared that it would not announce any new policies which are not consistent with WTO standards. But U.S. and other foreign businesses have continuing concerns about their ability in China to amend business licenses to broaden their scope of permitted businesses and allow them to engage in distribution and after-sales services. These activities are necessary to make China's promised trading rights liberalization commercially meaningful. In addition, in most transactions, U.S. suppliers are unable to sell directly to their ultimate customer. Special Economic Zones, open cities and foreign trade zones in some cases, however, do offer some preferential duty reductions or exemptions from the foregoing restrictions.

On October 10, 1992, the United States and China signed a Memorandum of Understanding (MOU) on market access that commits China to dismantle most of these barriers and gradually open its markets to U.S. exports. The actions China has committed to take under this MOU are consistent with obligations it would have to take in the WTO. In implementing the MOU, China published numerous previously "confidential" trade laws and regulations at the central and sub-national level—on unfair competition, foreign trade, labor, protection of intellectual property rights, import quotas, commodities subject to inspection, and other trade-related issues, both at the central and sub-national levels. However, lack of regulatory transparency and few implementing regulations continue to inhibit the entry of foreign goods and services. Moreover, publication of trade-related laws and regulations does not always precede implementation. For example, information on China's import quotas, crucial for foreign and domestic traders, has yet to be published on an itemized basis.

As a result of commitments in the MOU, China did lower tariffs on several hundred items of interest to U.S. exporters. But high and unpredictable tariff rates—such as the 100 percent tariff on some goods like automobiles—make importing into the Chinese market difficult. As part of China's effort to accede to the WTO, China has promised to reduce further tariffs of concern to U.S. companies. During recent WTO talks, China promised to reduce its simple average tariff rate from 17 percent to 10 percent by the year 2005. Since tariffs on many items of key interest to U.S. exporters remained prohibitively high, the offer was not acceptable.

China has also removed over 800 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. Despite the removal of these quotas and license requirements, required under the 1992 MOU, there have been indications that China is erecting new barriers to restrict imports. In 1998 alone, China has drafted new pharmaceutical price control regulations, a requirement that new power plants of less than 600MW use no foreign equipment, a directive requiring domestic procurement of telecommunications equipment, a ban on the import of diesel and gasoline, and new tariffs on allegedly "dumped" imports of newsprint. In addition, restrictive trading rights have affected crude oil imports, even though quotas have been removed.

China announced in early 1996 that effective April 1, 1996, Tariff-Rate Quotas (TRQs) would apply to imports of wheat, corn, rice, soybeans, and vegetable oils. By late 1998, China had still not announced TRQ administration rules or quota volumes, perhaps because this issue is being negotiated as part of its WTO accession. Out-of-quota tariff rates are as high as 121.6 percent. A lack of clarity and information complicates trade in these goods.

Under the Market Access MOU, China also 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), grapes, live cattle, bovine embryos, bull semen, ostriches, poultry and birds, swine, rabbits, and horses. However, China continues to use non-scientific sanitary and phytosanitary measures to block U.S. exports of meat, tobacco, citrus fruit, plums, and Pacific Northwest wheat.

For manufactured goods, China requires quality licenses before granting import approval. Testing is often based on standards and specifications unknown or unavailable to foreigners. These standards are 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 non-agricultural products.

China agreed not to subject imported products to import substitution policies and measures in the future. Nor would it deny approval for imports because an equivalent product was produced in China. However, the government has continued to place local content requirements on foreign investment in China, such as in the 1994 automotive industrial policy.

China has only recently begun to reform and open its services sector. In most areas, foreign access to the market is severely restricted or prohibited. China has initiated—and at times drawn back from—limited experiments in such areas as telecommunications, insurance, retailing, legal services, and tourist resorts. In late 1998, China sought to end an "experiment" in telecommunications which allowed Chinese companies to enter into joint ventures with joint venture Chinese-foreign companies.

Export requirements, local content requirements, and foreign exchange balancing requirements detract from China's investment climate. Foreign exchange balancing requirements have become less of a "doing-business" issue as China's foreign exchange reserves grew rapidly in the 1995–97 period, but restrictions on existing investors have not been eliminated. 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 would be encouraged, allowed, restricted, or prohibited. China does not provide national treatment to foreign investors on the 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 (of 50 years or more) 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, and there is a general "Buy China" bias. Projects in certain fields require government approvals, usually from several different organizations and levels. 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 dutied at different rates in different Chinese ports of entry. Some foreign products are also subject to inspection or registration procedures which are different from domestic products. For instance, China's chemical registration regulations are applied only to foreign-made chemicals.

7. 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 which enjoy lengthy or preferential terms. Tax rebates are available for exporters as are duty exemptions on imported inputs for export production.

In its ongoing negotiations to accede to the World Trade Organization (WTO), China announced in 1997 that it would not re-introduce export subsidies for agricultural goods following its accession. The Chinese National People's Congress has released little public information about the central government's 1997 and 1998 budget revenue and expenditures, making it difficult to verify that export subsidies are not still in place. Total subsidies for domestic price support and loss making state-owned enterprises represented about 11 percent of total revenues in 1997 (1.2 percent of GDP).

8. Protection of U.S. Intellectual Property

China is a member of the World Intellectual Property Organization (WIPO) and is a signatory to the Paris Convention for the Protection of Intellectual Property, the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, and the Patent Cooperation Treaty. China has also acceded to the Madrid Protocol, and has applied for membership to the World Trade Organization.

Since the signing of the bilateral agreement on the protection of intellectual property rights in February 1995, and the agreement in June 1996 on procedures for ensuring its implementation, China has made progress in implementing IPR regulations, education, and enforcement. China was taken off all Special 301 lists in 1996. However, its practices continue to be monitored under Section 306 of the Trade Act, which allows the United States to continue monitoring China's compliance with its obligations.

U.S. industry estimates of intellectual property losses in China due to counterfeiting, piracy, and exports to third countries have exceeded $2 billion. Some U.S. companies estimate losses from counterfeiting account for 15 to 20 percent of total sales in China. One U.S. consumer products company estimates that it loses $150 million annually due to counterfeiting. The destructive effect of counterfeiting has discouraged additional direct foreign investment and threatened the long-term viability of some U.S. business operations in China. The inferior quality of counterfeit products also creates serious health and safety risks for consumers.

Industry sources agree that China has significantly reduced the unauthorized production of optical disks in China. However, the closure of illegal production plants in China has been accompanied by an increase in illegal production in neighboring territories and smuggling into China. Although China has revised its laws to provide criminal penalties for IPR violations, the U.S. remains concerned that penalties imposed by Chinese courts do not act as a deterrent. Industry sources point out that unauthorized optical disks are still being produced and sold in China and urge better IPR enforcement at all levels.

End-user piracy of computer software, especially within government ministries, costs U.S. companies millions of dollars each year. The United States has repeatedly asked the Chinese State Council to issue a directive requiring government agencies to use only legitimate software, but the government has not done so. Regulations on the use of copyright agents by foreign companies have not yet been finalized; this effectively prevents foreign companies from using agents to register copyrights.

The lack of agents in China authorized to accept trademark applications from foreign companies makes it difficult for foreigners to register trademarks. The lack of clear procedures to protect unregistered well-known trademarks makes it extremely difficult to oppose or cancel well-known marks registered by an unauthorized party.

The government reorganization in March 1998 abolished the State Science and Technology Commission's IPR Working Group Executive Conference, the U.S. Government's main counterpart in U.S.-China IPR negotiations. The State Intellectual Property Office (SIPO) was established on April 1, 1998 to coordinate IPR protection efforts, but there still appears to be some uncertainty about the exact nature of SIPO's responsibilities.

9. 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. Workers in companies with foreign investors are guaranteed the right to form unions, which then must affiliate with the ACFTU. In 1997, China signed the UN Convention on Economic, Social and Cultural Rights, which calls for the right to form free trade unions. To date, however, Beijing has strongly resisted any attempts to establish trade unions other than 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 both state and private enterprises in China to bargain collectively 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. Through the early autumn of 1998, Chinese union and labor officials reported an increasing number of experiments in collective bargaining, particularly 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. Chinese justice officials have stated that there is a much heavier emphasis on education than on labor in reeducation through labor facilities. 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. 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. Good public awareness, a cheap, abundant supply of young adults of a legal working age, nearly universal primary schooling, and labor law enforcement all serve to reduce opportunities and incentives to hire child workers. Neither the International Labor Organization (ILO) nor UNICEF believes that there is a significant child labor problem in China.

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, working 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 workweek from 44 hours to 40 hours excluding overtime. The National Labor Law mandates a 24-hour rest period per week, does not allow overtime work in excess of three hours a day or 36 hours a month and sets forth a required scale of overtime compensation. In 1998, the government implemented a program to provide funds to 400 of 600 cities to ensure that people were able to maintain a minimum standard of living.

Every work unit must designate a health and safety officer, and the ILO 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. According to Ministry of Labor statistics released in June 1998, in 1997 there were 18,268 work-related accidents which claimed 17,558 lives. The Ministry of Labor and Social Security cites failure to enforce and implement government safety regulations as the primary cause for the high rate of accidents.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		899
Total Manufacturing		2,696
Food and Kindred Products	203	
Chemicals and Allied Products	350	
Primary and Fabricated Metals	153	
Industrial Machinery and Equipment	515	
Electric and Electronic Equipment	1,136	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	55	
Other Manufacturing	284	
Wholesale Trade		363
Banking		107
Finance/Insurance/Real Estate		636
Services		63
Other Industries		250
TOTAL ALL INDUSTRIES		5,013

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

HONG KONG

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	154.2	173.0	169.4
Real GDP Growth (pct)	4.6	5.3	−5.0
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	10.7	N/A	N/A
Services	123.4	N/A	N/A
Government	13.5	15.4	N/A
Per Capita GDP (US$)	24,434	26,601	26,302
Labor Force (000s)	3,094	3,216	3,312
Unemployment Rate (pct)	2.8	2.2	5.2
Money and Prices (annual percentage growth):			
Money Supply (M2) [3]	10.9	8.4	8.0
Consumer Price Inflation (pct)	6.0	5.7	2.2
Exchange Rate (HKD/US$)			
Official	7.73	7.74	7.75
Balance of Payments and Trade:			
Total Exports FOB [4]	180.8	188.1	192.8
Exports to United States [5]	9.9	10.3	11.2
Total Imports CIF	198.9	210.9	214.1
Imports from United States [5]	14.0	15.1	13.2
Trade Balance	−18.1	−22.8	−21.3
Balance with United States [5]	−4.1	−4.8	−1.9
External Public Debt	0	0	0
Fiscal Balance/GDP (pct) [6]	1.8	0.8	−2.3
Current Account Balance/GDP (pct)	−1.4	−3.5	−1.5
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end of period) [7]	63.8	92.8	88.4
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on available monthly data in August 1998.
[2] Expenditure-based GDP estimates.
[3] Money supply of Hong Kong Dollars and foreign currencies.
[4] Of which domestic exports (as opposed to re-exports) constituted 15.2 percent (1996), 14.5 percent (1997) and 14.0 percent (1998 estimate based on data through August).

[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through August 1998. Hong Kong merchandise trade includes substantial re-exports (mainly from China) to the United States, which are not included in these figures.

[6] As of Q2 1998.

[7] As of September 1998; the Land Fund was included in the foreign exchange reserves effective July 1, 1997.

Source: Census and Statistics Department.

1. *General Policy Framework*

Since becoming a Special Administrative Region of the People's Republic of China on July 1, 1997, Hong Kong has continued to manage its financial and economic affairs, to use its own currency, and to participate independently in international economic organizations and agreements.

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. With few exceptions, the government allows market forces to set wages and prices, and does not restrict foreign capital or investment. It does not impose export performance or local content requirements, and allows free repatriation of profits. Hong Kong is a duty-free port, with few barriers to trade in goods and services.

The government regularly runs budget surpluses, and has amassed large fiscal reserves (though it will run a deficit in 1998). 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. Government spending has grown from approximately 14 percent of GDP in the mid 1980s to about 19 percent by the early 1990s.

Because monetary policy is tied to maintaining the nominal exchange rate linked to the U.S. Dollar, Hong Kong's monetary aggregates have effectively been demand determined. The Hong Kong Monetary Authority, responding to market pressures, occasionally adjusts liquidity through interest rate changes and intervention in the foreign exchange and money markets.

Financial contagion spreading through the region reached Hong Kong with major downturns in October 1997 and January 1998. The government's response has varied. For example, the government made wide-ranging but modest accommodations in its February 1998 budget announcement, though the steady decline of property prices (and fears for the banking sector) led the government to take steps in June to slow property's descent. In August, it intervened in the stock, futures, and currency markets (spending about $15 billion) to defend itself from market manipulators, arguing the move was a one-time divergence from Hong Kong's usual adherence to non-interventionist, market-oriented policies.

2. *Exchange Rate Policies*

The Hong Kong Dollar is linked to the U.S. Dollar at an exchange rate of HK$7.8 = US$1.00. The link was established in 1983 to encourage stability and investor confidence in the run-up to Hong Kong's reversion to Chinese sovereignty in 1997. PRC officials have supported Hong Kong's policy of maintaining the link.

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*

There has been no major change in Hong Kong's free market approach to economics. The government does not have pricing policies, except for in a few still-regulated sectors such as telecommunications. Even in those areas it is pursuing sector-by-sector liberalization. Hong Kong's personal and corporate tax rates remain low, and it does not impose import or export taxes. Over the past three years, Hong Kong has completed its deregulation of interest rates covering almost 99 percent of deposits, removing interest rate caps for deposits of seven days or more. Consumption taxes on tobacco, alcoholic beverages, and some fuels probably restrict demand for some U.S. exports. Hong Kong generally adheres to international product standards.

Hong Kong's lack of antitrust laws has allowed monopolies or cartels—some of which are government-regulated—to dominate certain sectors of the economy. These monopolies/cartels do not necessarily discriminate against U.S. goods or services, but they can use their market position to block effective competition.

4. Debt Management Policies

The Hong Kong Government has minuscule public debt. Repeated budget surpluses have meant the government has not had to borrow. To promote the development of Hong Kong's debt market, the government in March 1990 launched an exchange fund bills program with the issuance of 91-day bills. Maturities have gradually been extended. Five-year notes were issued in October 1993, extending maturities beyond Hong Kong's reversion to Chinese sovereignty, followed by 7-year notes in late 1995 and 10-year notes in 1996. Under the Sino-British agreed minute on financing the new airport and related railway, total borrowing for these projects cannot exceed US$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 and the future Airport Authority. In March 1997, the Hong Kong Mortgage Corporation was set up to promote the development of the secondary mortgage market. The Corporation is 100 percent owned by the government through the Exchange Fund. The Corporation purchases residential mortgage loans for its retained portfolio in the first phase, followed by packaging mortgages into mortgage-backed securities for sale in the second phase.

Hong Kong does not receive bilateral or multilateral assistance.

5. Significant Barriers to U.S. Exports

Hong Kong is a member of the World Trade Organization, but does not belong to the WTO's plurilateral agreement on civil aircraft. As noted above, Hong Kong is a duty-free port with no quotas or dumping laws, and few barriers to the import of U.S. goods.

Hong Kong requires import licenses for textiles, rice, meats, plants, and livestock. The stated rationale for most license requirements is to ensure that health standards are met. The requirements do not have a major impact on U.S. exports.

There are several barriers to entry in the services sector:

—In 1998, the Hong Kong Government announced it would open the international voice telecommunications sector to full competition. The government is still considering whether to issue more licenses in the local fixed telecommunications sector, now limited to four companies. Hong Kong eliminated a regulation that required foreign broadcasters to use the Hong Kong Telecom International satellite uplink rather than their own uplink. It also has promised comprehensive liberalization of the broadcasting regime.

—A new bilateral civil aviation agreement gives U.S. air carriers important new rights. However, the agreement does not permit code sharing or allow U.S. carriers new fifth freedom passenger rights to carry passengers beyond Hong Kong. These factors will limit expansion of U.S. passenger carriers in the Hong Kong market.

—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. Foreign law firms can become "local law firms" and hire Hong Kong attorneys, but they must do so on a 1:1 ratio with foreign lawyers.

—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 regional and a branch office at separate sites. Foreign banks can acquire local banks that have unlimited branching rights.

6. Export Subsidies Policies

The Hong Kong Government neither protects nor directly subsidizes manufacturers. It does not offer exporters preferential financing, special tax or duty exemptions on imported inputs, resource discounts, or discounted exchange rates.

The Trade Development Council, a quasi-governmental statutory organization, engages in export promotion activities and promotes Hong Kong as a hub for trade services. The Hong Kong Export Credit and Insurance Corporation provides insurance protection to exporters.

7. Protection of U.S. Intellectual Property

Hong Kong is a member of the WTO. In addition, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention on Industrial Property, and the Universal Copyright Convention (Geneva, Paris) apply to Hong Kong by virtue of China's membership. Hong Kong passed a new Copyright Law in June 1997. Enforcement of copyright and trademarks, however, remains a problem.

Copyrights: Sale of pirated products at retail shopping arcades is widespread. The United States has urged the government at senior levels to crack down on this retail trade, and on the distributors and wholesalers behind them. Hong Kong has responded by increasing enforcement manpower in the customs agency and by conducting more aggressive raids at the retail level. Recent raids, using confiscatory powers in the new Copyright Bill, have largely closed down some of the most notorious retail arcades and dispersed this illicit trade. Pirated goods nevertheless remain available at numerous shops throughout the territory. The judiciary has begun to increase sentences and fines on infringers, but there is still no effective deterrent to piracy. End-user software piracy and unauthorized dealer hard-disk loading remain significant problems for the business software industry. In 1998, Hong Kong approved a new Prevention of Copyright Piracy Ordinance that provides enforcement agencies with new tools with which to control illicit production of optical discs. The copyright industry believes the new law, if aggressively enforced, should enable Hong Kong to reduce illicit production, which exploded in 1997.

Trademarks: Sale of counterfeit items, particularly handbags and apparel, is widespread in Hong Kong's outdoor markets. Customs officials have conducted numerous raids, but these actions have had little impact on the overall availability of counterfeit goods.

New Technologies: Computer chip manufacturers say Hong Kong remains a major center for chip re-marking, but acknowledge that Hong Kong Customs has seized a number of shipments of illicit chips.

There are no reliable figures on the total losses to U.S. firms from piracy in and through Hong Kong. The Business Software Alliance estimated in early 1997 that 62 percent of the business software sold in Hong Kong was pirated; it estimates the level of piracy is higher for non-business software. The U.S. music industry estimates that 20 percent of the recorded music sold in Hong Kong is pirated.

8. Workers Rights

a. *The Right of Association:* Local law provides for right of association and the right of workers to establish and join organizations of their own choosing. Trade unions must be registered under the Trade Unions Ordinance. The basic precondition for registration is a minimum of seven persons who serve in the same occupation. The government does not discourage or impede the formation of unions Workers who allege antiunion discrimination have the right to have their cases heard by the Labor Relations Tribunal. Violation of antiunion discrimination provisions is a criminal offense. Although there is no legislative prohibition of strikes, in practice, most workers must sign employment contracts that state that walking off the job is a breach of contract and can lead to summary dismissal.

b. *The Right to Organize and Bargain Collectively:* In June 1997, the Legislative Council passed three laws that greatly expanded the collective bargaining powers of Hong Kong workers, protected them from summary dismissal for union activity, and permitted union activity on company premises and time. However, the Provisional Legislature repealed these ordinances, removing workers' new statutory protection against summary dismissal for union activity. New legislation passed in October 1997 permits the cross-industry affiliation of labor union federations and confederations, and allows free association with overseas trade unions (although notification of the Labor Department within one month of affiliation is required), but removes the legal stipulation of trade unions' right to engage employers in collective bargaining and bans the use of union funds for political purposes. Collective bargaining is not widely practiced.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is prohibited under the Bill of Rights Ordinance. While this legislation does not specifically prohibit forced or bonded labor by children, there are no reports of such practices in Hong Kong.

d. *Minimum Age for Employment of Children:* The "Employment of Children" Regulations prohibit employment of children under age 15 in any industrial establishment. Children ages 13 and 14 may be employed in certain non-industrial establishments, subject to conditions aimed at ensuring a minimum of 9 years of education and protecting their safety, health, and welfare. In 1997, there were nine convictions for violations of the Employment of Children Regulations.

e. *Acceptable Conditions of Work:* Aside from a small number of trades and industries in which a uniform wage structure exists, wage levels are customarily fixed by individual agreement between employer and employee and are determined by supply and demand. Some employers provide workers with various kinds of allowances, free medical treatment and free subsidized transport. There is no statutory minimum wage except for foreign domestic workers ($500 per month). To comply with the Sex Discrimination Ordinance, provisions in the Women and Young Persons (Industry) Regulations that had prohibited women from joining dangerous industrial trades and limited their working hours were dropped. Work hours for people aged 15 to 17 in the manufacturing sector remain limited to 8 per day and 48 per week between 6 a.m. and 11 p.m. Overtime is prohibited for all persons under the age of 18 in industrial establishments. Employment in dangerous trades is prohibited for youths, except 16 and 17 year old males.

The Labor Inspectorate conducts workplace inspections to enforce compliance with these and health and safety regulations. Worker safety and health has improved, due in part to the transfer of many manufacturing jobs to factories in the mainland, but serious problems remain, particularly in the construction industry. In 1997, a total of 62,800 occupational accidents (43,300 of which are classified as industrial accidents) were reported, of which 58 were fatal. Employers are required under the Employee's Compensation Ordinance to report any injuries sustained by their employees in work-related accidents.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		624
Total Manufacturing		2755
Food and Kindred Products	2	
Chemicals and Allied Products	309	
Primary and Fabricated Metals	353	
Industrial Machinery and Equipment	205	
Electric and Electronic Equipment	1,132	
Transportation Equipment	41	
Other Manufacturing	713	
Wholesale Trade		5237
Banking		1,859
Finance/Insurance/Real Estate		3,049
Services		1,155
Other Industries		4,387
TOTAL ALL INDUSTRIES		19,065

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

INDONESIA

Key Economic Indicators

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

	1996	1997	1998
Income, Production and Employment:			
Nominal GDP	221	211	43[1]
Real GDP Growth (pct)	8.1	7.6	−13.2[1]
GDP by Sector:[1]			
Agriculture	33.5	34.5	8.6
Manufacturing	50.0	54.9	10.6
Services	71.0	67.5	13.5
Government	10.4	11.5	1.6
Per Capita GDP (US$)	1,104	1,116	500[2]
Labor Force (millions)	85.7	87.0	92.6
Unemployment Rate (pct)	4.4	4.6	10
Money and Prices (annual percentage growth):			
Money Supply (M2)	28	31	52[3]
Consumer Price Inflation (pct)[4]	9.0	8.0	75.0[4]

Key Economic Indicators—Continued

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

	1996	1997	1998
Exchange Rate (Rupiah/US$ annual average)	2,335	2,909	10,422 [5]
Balance of Payments and Trade: [6]			
Total Exports FOB	48.2	54.8	29.0
Exports to United States	8.2	9.2	5.2
Total Imports CIF	43.3	50.4	19.5
Imports from United States	4.0	4.5	1.3
Trade Balance	4.9	4.4	9.5
Balance with United States	4.2	4.7	3.9
External Public Debt	59.0	56.4	65.6 [7]
Debt Service Payments/GDP (pct)	5.1	3.8	1.5 [7]
Current Account Deficit/GDP (pct)	3.6	2.3	N/A
Fiscal Deficit/GDP (pct)	−1.0	0.1	8.5
Gold and Foreign Exchange Reserves (end of period)	19.1	19.9	21.8 [8]
Aid from United States (millions of US$)	96	71	250
Aid from All Other Sources	5.3	5.2	N/A

[1] 1998 estimates are for January-June. (Average Rp/US$ exchange rates were 9,433 for January-March and 10,461 for April-June.)

[2] 1998 per capita GDP figure is rough estimate; actual figure depends on Rp/US$ exchange rate, which was volatile throughout 1998.

[3] 1998 figure is for January-August.

[4] 1998 figure is for January-October.

[5] 1998 figure is average of Bank Indonesia monthly exchange rates for January-October.

[6] 1998 figures are January-July.

[7] 1998 figure is as of March 31.

[8] 1998 figure is Gross Foreign Assets as of November 6, 1998.

Sources: Government of Indonesia, US Department of Commerce (for trade with U.S.), and IMF (exchange rates).

1. General Policy Framework

Indonesia was widely hailed as a leading economic success story as recently as mid-1997. Real GDP growth averaged over 7 percent per year for the decade since 1987. GDP per capita surpassed $1,000 by 1996, compared with $70 in 1965. The rupiah was stable, annual inflation was reported in the single digits, and foreign capital was pouring in.

The economic crisis that began in July 1997 changed all that. Indonesia experienced severe drought, low world petroleum prices, regional financial instability, domestic social unrest, and, ultimately, a change of government. By mid-1998, the government estimated that real GDP would contract 13 percent during 1998; private analysts projected a decline of at least 15 percent. GDP per capita had declined to $450. The exchange rate plummeted from 2,450/US$ in June 1997 to 15,000/US$ a year later; as of December 1998, it stood at approximately 7,500/US$. Exchange rate volatility made business planning all but impossible. Annual inflation was running at an estimated 80 percent. Foreign capital had fled, closing off access to new foreign lending, while the business sector struggled to service existing foreign debts at the weaker exchange rate. Most observers agreed that the economy had not yet bottomed out as of late 1998, making it difficult to chart a path toward recovery.

The shock waves from this sudden reversal of fortune reverberated among a generation familiar only with economic growth. The reversal cast into stark relief weaknesses that were downplayed during the preceding high growth period, including presidential succession uncertainty, corruption, collusion, nepotism, a weak banking sector, and the large but then-unknown amount of foreign commercial debt. As employment dropped and prices rose, the loss of purchasing power, particularly among lower income groups, raised concerns about the ability of the population to feed itself and about the potential for social unrest. In May 1998, after fuel prices were increased and demonstrating students were shot, riots and looting swept Jakarta and other cities, leading to the May 21 resignation of President Soeharto, who was replaced by his Vice President, B.J. Habibie. President Habibie announced that legislative elections would be held in May 1999. The government and the IMF reached agreement on a stabilization program that amended the program inaugurated in November 1997. The exchange rate had strengthened from its mid-year low and the rate of inflation exhibited signs of decelerating. The November 1998 special session of the People's Consultative Assembly which, inter alia, agreed to parliamentary elections the following spring, was marred by violence.

The deep financial, economic, and political crisis that developed during 1997–98 obscured underlying strengths of the Indonesian economy. With a population of 201 million, the world's fourth largest country was the anchor of Southeast Asia and a sizable market with an emerging middle class. Its strategic location, large labor force earning relatively low wages, abundant natural resources, financial and trade sector deregulation efforts, and stable political climate had unleashed a domestic and foreign investment boom and fueled the development of a robust manufacturing economy concentrated on the main island of Java. Once dependent on petroleum, natural gas, and commodities including coffee, tea, spices, timber, and shrimp, Indonesia by 1997 exported $45 billion in non-petroleum, labor-intensive products such as garments, footwear, plywood, and basic machinery, on top of its $12 billion in oil and gas exports. It had also become a significant market and imported $5 billion in goods from the United States in 1997.

The Indonesian Government has historically maintained a "balanced" budget: expenditures were covered by the sum of domestic revenues and foreign borrowing, without resort to domestic borrowing. Often the government ended the year with a slight surplus. This fiscal year (April 1998-March 1999), the gap between domestic revenues (shrinking because business was moribund, and because oil prices were low) and expenditures (skyrocketing, because of subsidies for basic goods and IMF-encouraged spending on the social safety net) will be large, perhaps 8.5 percent of GDP or over $8 billion. The challenge for the government was to balance the need for continued subsidies on essential goods against the need for fiscal prudence. Foreign financing was considered key to maintaining that balance. In July 1998, international financial institutions and bilateral donors pledged an extraordinary increase in financial support to Indonesia for social safety net outlays.

In parallel with its fiscal policy, the Indonesian Government earned a reputation for prudent monetary policy in recent years that helped keep consumer price inflation in the single digits. However, the massive depreciation of the rupiah that began in mid-1997 (after the government decided to let the rupiah float freely rather than deplete its reserves in an effort to defend the rate) and huge liquidity injections into the banking system contributed to significant inflation. Indonesian monetary authorities attempted to dampen inflationary pressure and reduce pressure on the exchange rate by controlling the growth of the money supply .

The government has made steady progress in trade and investment deregulation, usually by periodically implementing "deregulation packages" of liberalization measures. Through these packages, the government has lowered investment barriers and instituted a program of comprehensive tariff reduction by staged cuts. Its goal is to reduce all tariffs in the 1–20 percent range to 5 percent or less by 2000, and to reduce all tariffs in the 20 percent and higher range to 10 percent or less by 2003. Although the deregulation packages made comparatively less progress in reducing non-tariff barriers, the government's collaboration with the International Monetary Fund (IMF) since November 1997 prompted much bolder measures, ending most import monopolies and gradually opening Indonesia's closed distribution system.

2. Exchange Rate Policies

In August 1997, the government eliminated the rupiah intervention band in favor of a float.

3. Structural Policies

In October 1997, declining conditions led Indonesia to request support from the International Monetary Fund (IMF). The government signed its first Letter of Intent with the IMF on October 31. The letter called for a three-year economic recovery program, supported by loans from the IMF ($10 billion), the World Bank, the Asian Development Bank, and bilateral donors. Apart from financial support, the international community also offered detailed technical assistance to the government. Foreign governments and private organizations also contributed food and other humanitarian assistance.

Indonesia's agreement with the IMF has been revised repeatedly in response to deteriorating macroeconomic conditions. The result is a complex, multi-faceted program to address macroeconomic imbalances, financial weaknesses, real sector inefficiencies, and the loss of private sector confidence. The latest versions of the program expand the focus of the earlier programs to cover the entire spectrum of economic challenges facing Indonesia, including: fiscal and monetary policy; structural reform and deregulation; corporate debt and bankruptcy; banking sector reform and restructuring; trade financing; food security; and social safety net policies.

4. Debt Management Policies

Indonesia's foreign debt totaled about $138 billion as of September 1998, with about $65 billion owed by the public sector and $73 billion by the private sector. In 1998, Indonesia signed a Memorandum of Understanding with its official creditors to reschedule public sector debts contracted before July 1, 1997.

In late 1998, the government was discussing establishment of a monitoring system to collect information on all foreign exchange transactions, including foreign borrowing. Borrowing in connection with state-owned enterprises has been regulated since 1991. The government continued to assert that it would not impose capital controls.

5. Significant Barriers to U.S. Exports

Indonesia had previously maintained a complex and non-transparent import licensing system which was a significant impediment to trade. Since the advent of the economic crisis in 1997, the government has removed numerous licensing requirements and committed in its IMF agreement to phase out all quantitative import restrictions (other than those justified for health, safety, and environmental reasons) and other nontariff barriers that protect domestic production.

Services Barriers: Despite some loosening of restrictions, services trade entry barriers remain in many sectors. Commercial presence is required to offer insurance in Indonesia and foreign firms must form joint ventures with local companies. As of July 1998, foreign participation in telecommunications services is no longer limited. PT Telkom is the state-owned monopoly provider of fixed line services. Telkom has exclusive rights to provide nationwide fixed line telecommunications until 2011 and to provide domestic long distance services until 2006. The government has allowed five foreign telecommunications companies to partner with local firms and operate joint ventures to build, maintain, and operate local fixed-line networks.

Foreign accounting firms must operate through technical assistance arrangements with local firms, but Indonesian citizenship is no longer a requirement for licensing as an accountant. Foreign agents and auditors may act only as consultants and may not sign audit reports. Foreign law firms are not allowed to establish practices in Indonesia. Attorneys are admitted to the bar only if they have graduated from an Indonesian legal faculty or an institution recognized as the equivalent. Foreign companies incorporated in Indonesia may issue stocks and bonds through the capital market.

Investment Barriers: The government is committed to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. In 1994, the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of 5 percent. In mid-1998, the government opened several previously restricted sectors to foreign investment, reducing the number of sectors restricted for foreign direct investment to 25, 16 of which are completely closed to investment while the remaining 9 allow minority foreign equity participation. The restricted sectors include taxi and bus transportation, local shipping, cinema operation, private broadcasting and newspapers, medical services, and some trade services. The government also removed foreign ownership limitations on banks and on firms publicly traded on Indonesian stock markets.

Most foreign investment proposals must be approved by the Capital Investment Coordinating Board (BKPM). Investments in the oil and gas, mining, forestry, and financial services are covered by specific laws and regulations and handled by the relevant technical ministries.

Government Procurement Practices: In 1994, the government enacted a Procurement Law to regulate government procurement practices and strengthen the procurement oversight process. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. The government seeks concessional financing which includes a 3.5-percent interest rate and a 25-year repayment period, with a 7 year grace period as well. Some projects do proceed 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 Indonesia products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, but this is not mandatory for foreign aid-financed goods and services procurement. State-owned enterprises which have offered shares to the public through the stock exchange are exempted from government procurement regulations.

6. Export Subsidies Policies

Indonesia joined the GATT Subsidies Code and eliminated export loan-interest subsidies as of April 1, 1990. As part of its drive to increase non-oil and gas exports, the government permits restitution of VAT paid by a producing exporter on purchases of materials for use in manufacturing export products. Exemption from or drawbacks of import duties are available for goods incorporated into exports. Free trade zones and industrial estates are combined in several bonded areas. In the past two years, the government has gradually increased the share of production that firms located in bonded zones are able to sell domestically up to 100 percent in 1998.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization (WIPO) and in 1997 became full party to the Paris Convention for the Protection of Intellectual Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, and the Trademark Law Treaty. Indonesia was the first country in the world to ratify the WIPO Copyright Treaty, but has not ratified the companion WIPO Performances and Phonograms Treaty. In April 1998, the U.S. Trade Representative placed Indonesia on the Special 301 Priority Watch List, where it has been since 1996.

Indonesia has serious and continuing deficiencies in its intellectual property regime: rampant piracy (software, books, video), trademark piracy, an inconsistent enforcement and ineffective legal system, and laws that are inconsistent with the WTO's Trade Related Aspects of Intellectual Property (TRIPs).

Indonesia is taking steps towards improving intellectual property protection, but still has far to go. New patent, trademark, and copyright laws were enacted in May 1997 in order to bring Indonesia's laws into compliance with the TRIPs Agreement. The laws addressed many of the remaining inadequate penalties, but lax enforcement and a judicial system unfamiliar with intellectual property law still pose daunting problems for U.S. companies. The government often responds to U.S. companies which put forward specific complaints about pirated goods and trademark abuse, but the court system can be capricious, and punishment of pirates of intellectual property has been rare.

Indonesia's 1997 Patent Law addressed several areas of concern to U.S. companies, including compulsory licensing provisions, a relatively short term of protection, and a provision which allowed importation of 50 pharmaceutical products by non-patent holders.

Biotechnology and integrated circuits are not protected under Indonesia intellectual property laws. The government is in the process of preparing laws on trade secrets, industrial design, and integrated circuits.

8. Worker Rights

a. *The Right of Association:* Private sector workers, including those in export processing zones, are by law free to form worker organizations without prior authorization. In May 1998, the government issued a new regulation on registration of workers' organizations. The new regulation eliminates numerical and other requirements which were previously a barrier to union registration, but prohibits unions based on political orientation, religion, gender, or ethnic groups. The government also ratified International Labor Organization (ILO) Convention 87 on Freedom of Association in June 1998. Since the regulation went into effect, at least 10 new or previously unrecognized unions have begun organizing themselves to register. The government may dissolve a union if it believes the union is acting against the national ideology, Pancasila, although it has never actually done so, and there are no laws or regulations specifying procedures for union dissolution.

The government is considering other legislative and regulatory changes in regard to trade unions, industrial dispute resolution, and labor affairs generally. To allow time for new laws and regulations, the parliament amended a 1997 Basic Law on Manpower Affairs by postponing its implementation until the year 2000.

Civil servants must belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. State enterprise employees, defined to include those working in enterprises in which the state has a 5-percent holding or greater, usually are required to join KORPRI, but a small number of state enterprises have FSPSI units. Teachers must belong to the teachers' association (PGRI). All organized workers except civil servants have the legal right to strike. While state enterprise employees and teachers rarely exercise this right, private sector strikes are frequent.

b. *The Right to Organize and Bargain Collectively:* Registered unions can legally engage in collective bargaining and can collect dues from members through a checkoff system. In companies without unions, the government discourages workers from utilizing outside assistance, preferring that workers seek its assistance. By regulation, negotiations must be concluded within 30 days or be submitted to the Department of Manpower for mediation and conciliation or arbitration. Agreements are for two years and can be extended for one year. According to NGOs involved in labor issues, the provisions of these agreements rarely go beyond the legal minimum standards established by the government, and the agreements are often merely presented to worker representatives for signing rather than being negotiated.

Although government regulations prohibit employers from discriminating or harassing employees because of union membership, there are credible reports from union officials of employer retribution against union organizers, including firing, which is not effectively prevented or remedied in practice. Charges of antiunion discrimination are adjudicated by administrative tribunals. However, because many union members believe the tribunals generally side with employers, many workers reject or avoid the procedure and present their grievances directly to the national human rights commission, parliament and other agencies. Administrative decisions in favor of dismissed workers tend to be monetary awards; workers are rarely reinstated. The provisions of the law make it difficult to fire workers, but the law is often ignored in practice.

The armed forces, which include the police, continue to involve themselves in labor issues, despite the Minister of Manpower's revocation in 1994 of a 1986 regulation allowing the military to intervene in strikes and other labor actions. A 1990 decree gives the Agency for Coordination of National Stability (BAKORSTANAS) authority to intervene in strikes in the interest of political and social stability remains in effect.

c. *Prohibition of Forced or Compulsory Labor:* The law forbids forced labor, and the government generally enforces it. However, according to credible sources, there are several thousand children working on fishing platforms off the East Coast of North Sumatra in conditions of bonded labor. Most are recruited from farming communities, and once they arrive at the work site, are not permitted to leave for at least three months and until a replacement worker can be found. Children receive average monthly wages that are well below the minimum wage. They live in isolation on the sea, working 12 to 20 hours per day in often dangerous conditions, sleeping in the workspace with no access to sanitary facilities. There are reports of physical, verbal and sexual abuse of the children.

d. *Minimum Age for Employment of Children:* Child labor exists in both industrial and rural areas, and in both the formal and informal sectors. According to a 1995 report of the Indonesian Central Bureau of Statistics, four percent of Indonesian children between the ages of 10 and 14 work full-time, and another four percent work in addition to going to school. Many observers believe that number to be significantly understated, because documents verifying age are easily falsified, and because children under 10 were not included. Indonesia was one of the first countries to be selected for participation in the ILO's International Program on the Elimination of Child Labor (IPEC). Although the ILO has sponsored training of labor inspectors on child labor matters under the IPEC program, enforcement remains lax.

e. *Acceptable Conditions of Work:* Indonesia does not have a national minimum wage. Rather, area wage councils working under the supervision of the national wage council establish minimum wages for regions and basic needs figures for each province—a monetary amount considered sufficient to enable a single worker to meet the basic needs of nutrition, clothing, and shelter. In Jakarta, the minimum wage is about $25 (rp 198,500) per month (at an exchange rate of rp 8000 to the dollar). That is 76 percent of the government-determined basic needs figure. There are no reliable statistics on the number of employers paying at least the minimum wage. Independent observers' estimates range between 30 and 60 percent.

Labor law and ministerial regulations provide workers with a variety of other benefits, such as social security, and workers in more modern facilities often receive health benefits, free meals, and transportation. The law establishes 7-hour workdays and 40-hour workweeks, with one 30-minute rest period for each 4 hours of work. The law also requires one day of rest weekly. The daily overtime rate is 1½ times the normal hourly rate for the first hour, and twice the hourly rate for additional overtime. Observance of laws regulating benefits and labor standards varies from sector to sector and by region. Employer violations of legal requirements are fairly common and often result in strikes and employee protests. The Ministry of Manpower continues publicly to urge employers to comply with the law. However, in general, government enforcement and supervision of labor standards is weak.

Both law and regulations provide for minimum standards of industrial health and safety. In the largely western-operated oil sector, safety and health programs function reasonably well. However, in the country's 100,000 larger registered companies in the non-oil sector, the quality of occupational health and safety programs varies greatly. The enforcement of health and safety standards is severely hampered by the limited number of qualified Department of Manpower inspectors as well as by the low level of employee appreciation for sound health and safety practices. Allegations of corruption on the part of inspectors are common. Workers are obligated to report hazardous working conditions. Employers are forbidden by law from retaliating against those who do, but the law is not effectively enforced.

f. *Rights in Sectors with U.S. Investment:* Working conditions in firms with U.S. ownership are widely recognized as better than the norm for Indonesia. Application of legislation and practice governing worker rights is largely dependent upon whether a particular business or investment is characterized as private or public. U.S. investment in Indonesia is concentrated in the petroleum and related industries, primary and fabricated metals (mining), and pharmaceutical 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 controls over all activity. All employees of foreign companies under this arrangement are considered state employees and thus all legislation and practice regarding state employees generally applies to them. Employees of foreign companies operating in the petroleum sector are organized in KORPRI. Employees of these state enterprises enjoy most of the protection of Indonesia 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 contract 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 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		4,768
Total Manufacturing		358
Food and Kindred Products	18	
Chemicals and Allied Products	189	
Primary and Fabricated Metals	13	
Industrial Machinery and Equipment	−9	
Electric and Electronic Equipment	62	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		39
Banking		(1)
Finance/Insurance/Real Estate		42
Services		31
Other Industries		(1)
TOTAL ALL INDUSTRIES		7,395

(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]

	1996	1997	1998
Income, Production and Employment:			
Nominal GDP	4,593.9	4,192.7	3,784.6 [1]
Real GDP Growth (pct)	5.0	1.4	−2.6 [2]
GDP by Sector:			
Agriculture	85.5	N/A	N/A
Manufacturing	1,117.1	N/A	N/A
Services	801.7	N/A	N/A
Government	365.3	N/A	N/A
Per Capita Income (US$)	30,014	N/A	N/A
Labor Force (millions)	67.4	67.9	68.0 [3]
Unemployment Rate (pct)	3.4	3.4	4.0 [4]
Money and Prices (annual percentage growth):			
Money Supply (M2+CD)	3.3	3.1	4.0 [3]
Consumer Price Inflation	0.1	1.8	0.8 [3]
Exchange Rate (Yen/US$)	108.81	120.92	131.90
Balance of Payments and Trade:			
Total Exports FOB	410.9	420.9	380.9 [5]
Exports to United States FOB	111.9	117.1	116.8 [5]
Total Imports CIF	349.1	338.7	278.7 [5]
Imports from United States CIF	79.3	75.6	68.2 [5]
Trade Balance	61.7	82.2	102.2 [5]
Trade Balance with United States	32.6	41.5	48.6 [5]
Current Account Surplus/GDP (pct)	1.4	2.3	N/A
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct)	−4.4	−3.7	−3.4 [6]
Gold and Foreign Exchange Reserves	217.9	220.8	212.1 [7]
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] January-June, seasonally adjusted, annualized.
[2] January-June, year-over-year, non-seasonally adjusted.
[3] January-August, non-seasonally adjusted average.
[4] January-August, seasonally-adjusted average.
[5] January-September, non-seasonally adjusted, annualized.
[6] Embassy projection.
[7] As of end-September 1998.
Sources: Ministry of Finance; exports FOB, imports CIF customs basis; Economic Planning Agency; Bank of Japan, OECD Economic Outlook.

1. General Policy Framework

Japan's economy, the world's second largest at roughly 4.2 trillion dollars, is experiencing a significant recession, with most observers predicting a contraction of greater than two percent in 1998, following growth of only 1.4 percent in 1997.

Japan's current economic slowdown, which began in mid-1991, is the longest in its post-war history. (Until 1992–3, Japan had never experienced two consecutive years of less than 3 percent real growth in the postwar period.) A surge in asset prices to unsustainable levels and high rates of capital investment in the late 1980s gave way by 1991 to sharply slower growth, the need for corporate restructuring and balance sheet adjustment by businesses. A substantial fiscal contraction, which began in 1997, has dried up domestic demand. That, in addition to substantially weakened Asian demand for Japanese exports and banking system concerns, all continue to weigh heavily on the economy.

In recent years, the Japanese Government has used public spending to offset weak or negative private demand growth. Eight fiscal stimulus packages between August 1992 and April 1998 have boosted public investment spending substantially, while temporary tax cuts have supported public demand.

Japan's 1997 external accounts posted global trade and current account surpluses of $102 billion (BOP basis) and $94 billion, respectively. Through the first nine months of 1998, import volume shrank six percent due to negative domestic demand growth, while exports also declined by one percent. The current account surplus through the first nine months of 1998 grew by an annualized level of approximately $114 billion.

In order to ease credit conditions to support the economy, the Bank of Japan lowered the official discount rate nine times between mid-1991 and September 1995, from 6.0 percent per year to 0.5 percent. In September 1998, it guided the overnight call rate down further to 0.25 percent. The Bank of Japan also instituted some temporary programs to make credit more available to corporations.

2. Exchange Rate Policy

The yen has been volatile against the dollar in 1998. The average exchange rate through the first nine months of 1998 was 135 yen per dollar, versus 121 yen per dollar in 1997. A new Foreign Exchange Law in April 1998 significantly decontrolled most remaining barriers to cross-border capital transactions.

3. Structural Policies

Pricing Policy: Japan has a market economy, with prices generally set in accordance with supply and demand. However, with very high gross retail margins (needed to cover high fixed and personnel costs) and a complex distribution system, Japan's retail prices appear to exhibit a greater downward stickiness than in other large market economies. Moreover, some sectors such as construction are susceptible to cartel-like pricing arrangements, and in many key sectors heavily regulated by the government (i.e., transport and warehousing), it can still exert some limited temporary authority over pricing.

Tax Policy: Japanese corporate taxes are generally high by OECD standards. The government is committed to lowering the effective corporate tax rate from 47 percent to 40 percent within two years. Personal income tax levels vary by income bracket; the scale is highly progressive, but actual tax collection is below the OECD average. Temporary income tax cuts instituted for 1998 are expected to be made permanent in 1999, while the consumption tax was increased from three percent to five percent in April 1997.

Regulatory and Deregulation Policy: Japan's economy is highly regulated, but the government and business community recognize that deregulation is needed to spur growth. Still, opposition to change remains strong among vested-interest groups, and the economy remains burdened by numerous national and local government regulations, which have the effect of impeding market access by foreign firms. Official regulations also reinforce traditional Japanese business practices that restrict competition, help block new entrants (domestic or foreign) and raise costs. Examples of regulations that act as impediments include: prolonged approval processes for medical devices and pharmaceuticals; severe restrictions on foreign lawyers; the Japanese Government's tight regulation of all non-government employment services; and exceedingly high telecommunications interconnection rates.

In June 1997, the President and the Japanese Prime Minister agreed on an Enhanced Initiative on Deregulation and Competition Policy under the U.S.-Japan Framework Agreement. During its second year, the Initiative is focusing on achieving concrete deregulation in key sectoral and structural areas in Japan, such as telecommunications, housing, financial services, medical devices and pharmaceuticals, distribution, competition policy, and transparency in government rulemaking. In April 1998, the Japanese Government issued a three year deregulation program which followed on the heels of its 1995 deregulation "Action Plan," which had been revised in 1996 and 1997.

4. Debt Management Policies

Japan is the world's largest net creditor. The Bank of Japan's foreign exchange reserves exceed $200 billion. It is an active participant together with the United States in international discussions of developing-country indebtedness issues in a variety of fora.

5. Significant Barriers to U.S. Exports

Japan is the United States' third largest export market, after Canada and Mexico. The United States is the largest market for Japanese exports. However, in many sectors U.S. exporters continue to enjoy incomplete access to the Japanese market. While Japan has reduced its formal tariff rates on most imports to relatively low levels, it has maintained nontariff barriers, such as non-transparency, discriminatory standards, and exclusionary business practices, and tolerates a business environment that protects established companies and restricts the free flow of competitive foreign goods into the Japanese market.

Transportation: In January 1998, the U.S. and Japan concluded a new agreement to significantly liberalize the trans-Pacific civil aviation market. This eliminated restrictions and resolved a dispute over the rights of longtime carriers to fly through Japan to other international destinations. It opened doors for carriers which recently entered the U.S.-Japan market, nearly tripling their access to Japan. The agreement also allowed code sharing (strategic alliances) between carriers for the first time, thereby greatly increasing their operational flexibility.

American carriers serving Japanese ports have long encountered a restrictive, inefficient and discriminatory system of port transportation services. After the Federal Maritime Commission (FMC) ruled in early 1997 that Japan maintained unfair shipping practices and proposed fines against Japanese ocean freight operators, the Japanese Government pledged to grant foreign carriers port transport licenses, and, at the same time, to reform the prior consultation system which allocates work on the waterfront and requires carriers to obtain approval for any change in their operations. The FMC imposed fines in September 1997 after Japan failed to carry out the reforms. Shortly afterwards, however, the government committed itself to actions that should, if fully implemented, provide a solid foundation for reform of Japanese port practices.

Agricultural and Wood Products: Some progress has been achieved through continued U.S. pressure on Japan to liberalize its markets for imported agricultural and wood products. However, tariffs on some processed food products remain relatively high, and other barriers to a liberalized market remain. For example, Japan continues to restrict, for phytosanitary reasons, the entry of numerous fruits and vegetables, such as pears and potatoes. In some cases, such as cherries, nectarines and apples, phytosanitary protocols may include only specific limited product varieties, excluding other, almost identical varieties. In accordance with its WTO obligations, Japan opened its rice market to imports under a Tariff Rate Quota (TRQ). However, the U.S. continues to press Japan to introduce this rice to consumers, rather than earmarking it for stockpiles or food aid to third countries. Tariffs for wood products are being reduced under Japan's Uruguay Round commitments, but they continue to pose barriers to market access. Moreover, a number of unresolved market access issues are being discussed in the U.S.-Japan deregulation dialogue, such as recognition of foreign testing organizations, approval of Japan Industrial Standards (JIS) grademark equivalency for U.S. manufacturers of nails, and Underwriters Laboratory's (UL) application for accreditation as a testing laboratory for fire materials.

Telecommunications and Broadcast: Japan is one of the 43 signatories of the Information Technology Agreement of 1997, which eliminates tariffs on the overwhelming majority of covered products by 2000. Access to telecommunications and broadcasting services remains constrained by both regulatory and monopolistic practices. In recent years, Japan has adopted a series of significant measures to foster a more pro-competitive regime in the telecommunications sector. However, barriers remain. New entrants face much higher costs and longer waiting period for connecting to the local dominant carrier's network than in other advanced countries, deterring competition.

There are foreign investment limits on cable TV and Direct-To-Home (DTH) satellite broadcasting companies. An unnecessarily burdensome regulatory system exists for DTH and telecommunications, impeding competitors' ability to operate in the most efficient way. Gaining access to utility and telephone poles and other facilities needed to build competing infrastructure is extremely difficult. Equipment testing and certification procedures are expensive and time-consuming. Foreign telecommunications equipment suppliers continue to have difficulty selling to the Japanese public sector, including NTT (Nippon Telegraph and Telephone), the largest purchaser of such equipment.

Standards, Testing, Labeling and Certification: Standards, testing, labeling and certification problems hamper market access in Japan. In some cases, advances in technology, products or processing make Japanese standards outdated and restrictive. Domestic industry often supports standards that are unique and restrict competition, although in some areas external pressure has brought about the simplification or harmonization of standards to comply with international practices. Fresh agricultural products continue to be subject to extensive restrictions, including phytosanitary restraints, required overseas production-site inspections, fumigation requirements and tariff rate or minimum access restrictions.

Japan requires repeated testing of established quarantine treatments each time a new variety of an already approved agricultural commodity is approved for importation into Japan. For example, Japan has approved red and golden delicious apples for importation, but required that the quarantine treatment be retested for other almost identical varieties. The U.S. challenged this redundant testing requirement in the WTO, arguing that it has no scientific basis and serves as a significant trade barrier. Completion of the testing for each variety takes at least two years and is costly to the U.S. Government and U.S. producers. In October 1998, a WTO dispute settlement panel found that Japan's varietal testing requirement for agricultural products violated its WTO obligations. Japan has appealed this decision.

Foreign Direct Investment (FDI): FDI in Japan has remained extremely small in scale relative to the size of the economy. In 1997, FDI totaled $6 billion, or 0.13 percent of GDP, as compared to $93 billion, or 1.5 percent in the United States. The low level of FDI reflects the high costs of doing business, the legacy of former investment restrictions, and a continuing environment of structural impediments to greater foreign investment. The challenges facing foreign investors seeking to establish or enhance a presence in Japan include: laws and regulations that directly or indirectly restrict the establishment of business facilities, close ties between government and industry, informal exclusive buyer-supplier networks and alliances, high taxation and opaque or incomplete accounting practices, and a difficult regulatory and opinion environment for foreign or domestic acquisitions of existing Japanese firms.

Recently, the Japanese Government has implemented potentially useful measures for increasing FDI, including easing restrictions on foreign capital entry. Still, most government investment promotion measures have been dictated by domestic priorities, and do not address the most important concerns of potential foreign investors. In addition, the acquisition of Japanese companies is difficult, due in part to crossholding of shares between allied companies and a resulting small publicly traded percentage of shares. This practice hinders the efforts of foreign firms wishing to acquire distribution or service networks through mergers or acquisitions.

In October 1998, the U.S. Government proposed to the Japanese Government 18 new reforms in the areas of mergers and acquisitions, land, and labor policy to improve Japan's environment for foreign direct investment.

Government Procurement Practices: Japan is a party to the 1996 WTO Government Procurement Agreement. While government procurement in Japan at the national, regional and local levels generally conform to the letter of the WTO agreement, there are reports that at some procuring entities, established domestic competitors continue to enjoy preferential access to tender information. In some sectors, unfair low pricing remains a problem, preventing companies from winning contracts based on open and transparent bidding procedures. Moreover, some entities continue to draw up tender specifications in a way that favors a preferred vendor, using design-based specifications rather than more neutral performance-based specifications.

Customs Procedures: The Japanese Customs Authority has made progress in automating its clearing procedures, and efforts are underway to integrate the procedures of other government agencies over the next several years. However, U.S. exporters still face relatively slow and burdensome processing.

6. *Export Subsidies Policies*

Approximately 16.8 percent of the $9.358 billion Japan allotted for official development in JFY 1997 was earmarked for loan aid (these figures do not include ODA for Eastern Europe or for 9 "graduated" countries). There are three categories of Japanese ODA: loan aid, grant aid, and technical cooperation. Japan has almost entirely eliminated tied aid credit in favor of loan aid (99 percent is untied, and the remainder is partially tied). However, there is suspicion that feasibility studies (funded by grant aid) to assist Asian countries may unfairly use Japanese-only specifications in the bidding process.

7. *Protection of U.S. Intellectual Property Rights*

Japan is a party to the Berne and Universal Copyright Conventions, the Paris Convention on Industrial Property, the Patent Cooperation Treaty, and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Japan is on the Special 301 Watch List because of continuing U.S. concerns about the operation of Japan's patent system and the protection of trade secrets and computer software.

While Japan's IPR regime affords national treatment to U.S. entities, the U.S. has long been concerned by the long processing time for patent examination. Although Japan has recently cut patent pendency from 36 to 28 months, this is still longer than in other industrialized countries. Lengthy patent pendency, coupled with a practice of opening all patent applications to public inspection 18 months after filing, exposes applications to lengthy public scrutiny with the potential of limiting legal protection.

Many Japanese companies use the patent filing system as a tool of corporate strategy, making many applications to cover slight variations in technology. However, a February 1998 decision by Japan's Supreme Court to permit an infringement finding under the "the doctrine of equivalence" may reduce this practice and is a positive step toward broadening Japanese courts' generally narrow interpretation of patent rights. The rights of U.S. subscribers in Japan can be circumscribed by filings of applications for similar inventions or processes.

Japan's protection of trade secrets is inadequate. Because Japan's Constitution prohibits closed trials, the owner of a trade secret seeking redress for misappropriation of the secret is put in the difficult position of not being able to protect a trade secret without disclosing it publicly. While a recent amendment to Japan's Civil Procedures Act excludes Japanese court records containing trade secrets from public access, this legislation does not adequately address the problem. Court proceedings of trade secrets remain open to the public and neither the parties nor their attorneys have confidentiality obligations.

Japan's Trademark Law was revised in 1997 to speed the granting of trademark rights, strengthen protection to well-known trademarks, address problems related to unused trademarks, simplify registration procedures, and increase infringement penalties. The effect of the revisions, however, is not yet clear. Historically, trademark registration in Japan has been slow, requiring approximately 36 months. Since trademarks must be registered in Japan to ensure enforcement, delays make it difficult for foreign parties to enforce their marks.

End-user software piracy remains a major concern of U.S. and some Japanese software developers. An amendment to Japan's Civil Procedures Law to award punitive damages rather than actual damages would help increase the deterrent against software piracy.

8. Worker Rights

a. *The Right of Association:* Japan's Constitution and domestic labor law provide for the right of workers to freely associate in unions. Approximately 23 percent of Japan's labor force is unionized. The Japanese Trade Union Confederation (RENGO), which represents 7.8 million workers, is the largest labor organization. Both public and private sector workers may join a union, although members of the armed forces, police and firefighters may neither form unions nor strike. The right to strike, although implicit in the constitution, is seldom exercised. The law prohibits retribution against strikers and is effectively enforced.

b. *The Right to Organize and Bargain Collectively:* The constitution provides unions with the right to organize, bargain and act collectively. These rights are freely exercised, and collective bargaining is practiced widely, particularly during the annual "Spring Wage Offensive" of nationwide negotiations.

c. *Prohibition of Forced or Compulsory Labor:* Article 18 of the Japanese Constitution states that "No person shall be held in bondage of any kind. Involuntary servitude, except as punishment for crime, is prohibited." This provision applies both to adults and children, and there are no known cases of forced or bonded labor.

d. *Minimum Age for Employment of Children:* By law, children under the age of 15 may not be employed and those under age 18 may not work in dangerous or harmful jobs. Child labor is virtually non-existent in Japan, as societal values and the rigorous enforcement of the Labor Standards Law protect children from exploitation in the workplace.

e. *Acceptable Conditions of Work:* Minimum wages are set on both a sectoral and regional (prefectural) level. Minimum wages in Japanese fiscal year 1997 ranged from 5,368 yen ($44) per day in Tokyo to 4,625 yen ($38) in Okinawa. The Labor Standards Law provides for a 40-hour work week in most industries and mandates premium pay for hours worked beyond 40 hours in a week or eight hours in a day. However, labor unions criticize the Japanese Government for failing to enforce working hour regulations in smaller firms. The government effectively administers laws and regulations affecting workplace safety and health.

f. *Worker Rights in Sectors with U.S. Investment:* Labor regulations, working conditions and worker rights in sectors where U.S. capital is invested do not vary 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—1997

[Millions of U.S. dollars]

Category	Amount
Petroleum	4,686
Total Manufacturing	14,293

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount	
Food and Kindred Products	408	
Chemicals and Allied Products	2732	
Primary and Fabricated Metals	349	
Industrial Machinery and Equipment	3885	
Electric and Electronic Equipment	2309	
Transportation Equipment	1744	
Other Manufacturing	2865	
Wholesale Trade		5628
Banking		565
Finance/Insurance/Real Estate		8839
Services		1177
Other Industries		380
TOTAL ALL INDUSTRIES		35,569

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

REPUBLIC OF KOREA

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
GDP (nominal/factor cost)	483,305	437,480	297,800
Real GDP Growth (pct)[2]	7.1	5.5	−6.6
GDP by Sector:			
Agriculture/Fisheries	N/A	30,330	24,998
Manufacturing	N/A	124,765	112,394
Electricity/Gas/Water	N/A	10,781	10,278
Construction	N/A	70,122	64,046
Financial Services	N/A	83,925	77,030
Government/Health/Education	N/A	38,961	36,386
Other	N/A	124,421	112,348
Government Expenditure (pct/GDP)	22.0	22.5	23.2
Per Capita GDP (US$)	10,548	9,511	6,474
Labor Force (000s)	21,188	21,500	21,800
Unemployment Rate (pct)	2.0	2.5	7.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	16.2	19.2	18.0
Corporate Bonds[3]	12.6	13.4	15.4
Personal Savings Rate	23.7	24.3	27.8
Retail Inflation	4.9	4.5	7.5
Wholesale Inflation	2.8	3.9	12.6
Consumer Price Index (1995 base)	104.9	109.6	117.8
Average Exchange Rate (Won/US$)	806.9	962.3	1,393
Balance of Payments and Trade:			
Total Exports FOB[4]	129,715	136,164	130,800
Exports to United States[4]	21,671	21,625	21,500
Total Imports CIF[4]	−150,339	−144,616	−89,900
Imports from United States[4]	−33,305	−30,122	−19,950
External Debt[5]	104,700	154,400	152,000
Debt Service Programs	−9,600	−15,000	−16,000

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Gold and FOREX Reserves	33,237	20,410	48,000

[1] 1998 figures are estimates based on available monthly data as of October.
[2] Growth based on won, the local currency.
[3] Figures are average annual interest rates.
[4] Merchandise trade, measured on customs clearance basis; Korean Government data.
[5] Gross debt; includes non-guaranteed private debt.

1. General Policy Framework

South Korea registered enviable economic growth rates over the last two decades by pursuing a growth strategy that relied heavily on government-directed industrial policy and a protected domestic market. Korea's dramatic growth propelled it from a position as the third poorest nation in the world in 1953, to the world's eleventh-largest economy in 1996. Korea became a member of the OECD in December 1996. Korea produces and exports automobiles, steel, and a wide variety of mid-level, medium-quality electronic and other consumer goods. Labor activism in the 1980's drove up wages faster than productivity growth. Korea thus lost the advantage of low-wage labor to China and Southeast Asian countries. At the same time, it could not compete with Japan in the fields of cutting-edge, high-tech and top quality products. Nevertheless, its products had numerous markets worldwide, and domestic demand and high consumer confidence sustained continued high growth rates, averaging 7.6 percent from 1990–96. Per capita GDP was $10,500 in 1996.

The bankruptcies of several large Korean companies in 1997 revealed a pattern of misallocation of investment resources, excessive debt and an over-reliance on short-term overseas borrowing by the Korean corporate and banking sectors. Following financial crises in Thailand and Indonesia in the summer of 1997, international investors lost confidence in Korean institutions, and refused to roll over loans to Korean banks and corporations. Because the majority of private sector debt was short-term, Korea suffered a severe foreign exchange liquidity crisis, and came close to defaulting on its international obligations as its foreign exchange reserves dwindled at the end of 1997. The Korean Won lost more than 50 percent of its value against the dollar by the end of 1997, at one point dropping to 1,960 per dollar (versus 900 per dollar the previous summer).

After an initial IMF package failed to stem the outflow of foreign exchange, Korea agreed on an enhanced $58 billion IMF package in mid-December. Under the terms of the IMF program, Korea agreed to accelerate the opening of its financial and equity markets to foreign investment and to reform and restructure its financial and corporate sectors to increase transparency, accountability and efficiency. To stabilize the won, Korea raised interest rates significantly. Korea then succeeded in reaching agreement with foreign bank creditors to restructure $21.8 billion in private bank short-term debt into medium-term obligations. Korea's usable foreign currency reserves subsequently grew to over $47 billion and the won appreciated to about 1,200/dollar as of December 1998.

The crisis called into question the viability of what had come to be known as "Korea Inc.," and set the scene for the upset victory of opposition figure Kim Dae Jung in the December presidential election. This was the first peaceful transfer of power to the opposition in Korean history. Kim, a world-famous democracy and human rights activist who had spent much of the previous 25 years in either prison or exile, recognized and espoused the need for drastic reform in the public, financial, labor and business sectors. Using the impetus of the IMF program, he began the long and difficult process of restructuring and liberalizing the economy.

The impact on the real economy of the financial crisis and economic restructuring led to a recession in 1998 that is expected to continue into 1999. Korea's GDP is expected to decline about 7 percent in 1998. Unless external economic conditions worsen, the resumption of growth in 1999 will depend largely on whether economic reforms are implemented swiftly and thoroughly. Unemployment exceeded 7 percent in 1998, with over 1.4 million people unemployed, and compensation levels dropped significantly for many people who remained employed. Corporate investment in facilities and capital is forecast to drop by over 40 percent in 1998. Expenditures on domestic consumption, which accounted for 61 percent of total GDP in 1997, have fallen 10 to 15 percent.

These internal factors, along with declining demand from Asian markets also suffering from recession, and falling world prices for Korea's exports, caused exports through October to drop 2.9 percent below the 1997 level. 1998 exports are forecast to decline 5–6 percent to about $130 billion. Imports through October were 37.9 percent below the same period in 1997. Although Korea relies on imports for all of its energy and most of its raw materials, this decline was largely caused by a 20 percent average decline in world prices for Korea's imports, and a 49 percent drop in imports for domestic consumption. 1998 imports are forecast to fall about 36 percent to $90 billion, which would give Korea a trade surplus of about $40 billion in 1998. The U.S. is Korea's leading trade partner in 1998, taking 17 percent of Korea's exports and providing 21.5 percent of Korea's imports. The drop in Korea's imports from the U.S. caused Korea to fall from 7th to 9th place among U.S. trade partners. U.S. Commerce Department statistics show that, through August 1998, U.S. exports to Korea fell 43 percent to $11.1 billion, while U.S. imports from Korea rose 2.8 percent to $17.6 billion. These trends are expected to continue to the end of 1998.

The won's 50 percent fall against the dollar in late 1997 pushed the Consumer Price Index (CPI) up nearly 9 percent in the first quarter of 1998. However, the decline in both real and nominal compensation for workers, the weakness in domestic demand, and reduced world commodity prices have all worked to constrain inflation. Analysts forecast that the rise in the CPI will not exceed 8 percent in 1998.

The public sector's role in the economy is relatively small, with taxes and expenditures amounting to only 23 percent of GDP in 1998. Faced with the need to stimulate the economy, improve and expand the nation's transportation infrastructure, and provide a social safety net for the unemployed, the government cut some consumption taxes and proposed to increase its budget expenditures by 6.2 percent in 1999. This is designed to create a budget deficit of about 5 percent, the first fiscal deficit in more than 10 years. The government plans to finance the deficit by selling bonds in Korea. In consultation with the IMF, the government allowed interest rates to fall from a peak of over 20 percent in January 1998 to about 10 percent in November. In addition, the government increased the money supply by about 20 percent for the year to fight potential deflation due to the recession and falling asset values.

2. Exchange Rate Policy

Since the introduction of the IMF program in December 1997, foreign exchange and capital controls have been relaxed or abolished. In conjunction with IMF program requirements that the exchange rate be allowed to float (with intervention limited to smoothing operations only), the previously enforced daily exchange rate fluctuation band of plus/minus 2.25 percent has been repealed. The Bank of Korea announces the weighted average of the prior day's transactions at local banks to set the daily exchange rate.

3. Structural Policies

The Korean economy is notable for the high degree of concentration of capital and industrial output in a small number of conglomerates known locally as "chaebol." The financial crisis exposed the weaknesses of the economic model that Korea previously used to achieve its remarkable growth and made plain the need for the major systemic reforms that newly-elected President Kim Dae Jung had long advocated. The government passed laws requiring greater corporate transparency and strengthened prudential requirements for banks and other financial institutions. These reforms will move Korea's economy towards a more market-based system. In particular, the government is trying to force the chaebol to focus on core businesses and close down or sell off unprofitable and peripheral subsidiaries. Korea's economy is based on private ownership of the means of production and distribution, with basic pricing decisions left to the private sector.

4. Debt Management Policies

Korea's total foreign debt (largely private sector-held) totaled at $151 billion as of the end of August 1998, declining somewhat from $158 billion at the end of 1997. The large proportion of short-term debt at the end of 1997 (64 percent of total debt), has been reduced to 25 percent of total debt at the end of August 1998 as a result of the Korean Government's successful rescheduling efforts. The government has developed an external debt reporting system to enhance debt management and monitoring. Through November 1998, Korea has registered a current account surplus of almost $35 billion.

5. Significant Barriers to U.S. Exports

Historically, Korea maintained a protective market environment in which U.S. exports have faced a variety of market access barriers. More recently, though, the government has taken steps to liberalize Korean markets. It has been revising many policies and regulations which have directly or indirectly inhibited market access for imports as part of its broader economic reform program prompted by the recent fi-

54-067 99 - 3

nancial crisis. The government has moved away from policies which encourage anti-import sentiment among consumers, but some residual anti-import biases remain among both Korean consumers and bureaucrats. Implementation of reforms will take time, though, and depressed economic demand in Korea will likely continue to constrain sales of U.S. products in the short term.

The most typical trade barriers in Korea are nontariff barriers which commonly result from non-transparent regulatory practices. The lack of regulatory transparency and consistency can affect licensing, inspections, type approval, marking/labeling requirements and other standards. Despite the Administrative Procedures Act enacted in 1996, the government is still inconsistent in providing public notice, and announcing minimum comment periods and transitional periods prior to implementation of new regulations. The Korean regulatory system has not offered adequate recourse or compensation to those adversely affected.

The government maintains extensive relationships with Korean trade associations whereby the government delegates to the trade associations, varying by sector, authority to carry out functions normally administered by the government. Such delegation of responsibility may include processing import approval documentation prior to import customs clearance (allowing local trade associations to obtain business confidential information on incoming shipments), advertisement pre-approvals (providing early warning on the introduction of new products and on competitors' marketing efforts), and a decision-making seat on various committees (not available to foreign firms).

Products regulated for health and safety reasons (such as pharmaceuticals, medical devices, and cosmetics) typically require additional testing or certification from the relevant ministries before they can be sold in Korea, resulting in considerable delays and increasing costs. The foreign pharmaceutical industry faces discrimination due to barriers associated with clinical registration and reimbursement pricing issues. Registration requirements for such products as chemicals, processed food, medical devices and cosmetics hamper entry into the market as well. In the course of implementing major reforms of the economy in 1998, the government has initiated efforts to streamline its complex and burdensome import clearance procedures, targeting some 54 laws for revision. It has begun revising legislation to make the necessary corrections in the Food Code. More time will be required to revise the Food Additive Code and labeling requirements. U.S. exporters of food and agricultural products experienced an upsurge in safety and sanitary inspections in October 1997 after Korean inspectors found e-coli and lysteria bacteria in U.S. beef shipments.

In October 1997, the United States designated Korea's auto sector policies and practices as a Priority Foreign Country Practice under Section 301 of the U.S. Trade Act. After several rounds of negotiations, the United States and Korea signed a Memorandum of Understanding (MOU) in October 1998 in which Korea agreed to take measures to further open its auto market and improve market access for U.S. automobiles. These measures include reducing auto taxes, binding auto tariffs at 8 percent, facilitating consumer financing of autos, and reducing nontariff barriers in areas such as standards and certification, and anti-import behavior.

In telecommunications, the government has assured the United States that it will not interfere in the equipment purchasing decisions of private Korean telecommunications service providers. In accordance with its obligations under the Information Technology Agreement, the government will eliminate tariffs on 203 categories of telecommunication and information-related equipment by 1999, and phase out tariffs on remaining categories by 2004.

The government requires theaters to show local movies for a minimum of 146 days each year, with some flexibility so that this total can be reduced to 106 days. U.S. industry states that these constraints on foreign movies and programs are more restrictive than in most other countries. The Korean Government, however, views this as a cultural, rather than a trade issue.

Korea acceded to the WTO Government Procurement Agreement (GPA) on January 1, 1997. Despite the fact that Korea is subject to the obligations of the GPA, U.S. firms continue to raise concerns about transparency in Korean procurement practices. The U.S. Government has expressed concern both multilaterally and bilaterally regarding Korea's refusal to recognize coverage of GPA rules for procurements conducted by the Korea Airport Construction Authority.

In general, Korea's tariffs are modest; Korea's average tariff rate is 7.9 percent. However, Korea maintains a system of quotas and tariff rate quotas, mostly for agricultural and fishery products, and uses adjustment tariffs to respond to import surges which affect domestic producers. Under the IMF program, Korea reduced the number of items subject to adjustment tariffs from 62 to 38. The government is working to phase out its GATT balance of payments restrictions, having committed to phase out all such restrictions by the year 2000.

Korea will expand its Uruguay Round minimum import quota for beef to 225,000 metric tons by the year 2000, as well as to expand the proportion of the quota imported through the "simultaneous buy/sell system." However, in 1998, due to a sharp drop in consumption, Korea will be unable to meet its WTO minimum import commitment. Korea has committed to remove all remaining nontariff barriers to beef imports, including state trading, by January 2001.

Beginning in late 1997, the government has begun implementing broad-based reforms of its financial system in cooperation with the International Monetary Fund, the World Bank and the Asian Development Bank. These reforms include substantial liberalization of the capital markets, including the abolition of restrictions on foreign ownership of domestic shares and bonds, and restrictions on the use of deferred payments to finance imports. Likewise, restrictions on foreign investment have been largely dismantled, including restrictions affecting mergers and acquisitions and land ownership by foreigners. Foreign banks can now establish subsidiaries in Korea and foreign financial firms can participate in mergers and acquisitions of domestic Korean financial institutions. Despite these reforms and improvements, foreign banks operating in Korea continue to face barriers. Korea requires foreign branches to be separately capitalized and other regulations such as prudential lending limits are based on local branch capital as opposed to its total capital, while domestic banks capital base would be assessed as the entire bank's capital. Foreign banks are also disadvantaged in access to local currency funding.

As a result of the economic crisis and in the interest of generating foreign exchange, the government has loosened controls over access to currency, such as swap lines used by banks as a source of local currency, but the government retains controls and has not committed to maintaining these new lines once the crisis is over. The government has revised its Foreign Exchange Transaction Law, scheduled to be implemented in April, 1999, which should significantly liberalize formerly heavily regulated capital transactions.

Another constraint on the growth of U.S. exports to Korea has been the government's restriction on the use of credit to finance imports. Agricultural importers, however, can now use foreign credit facilities without Ministry of Finance and Economy approval. Use of limited deferred payment terms (to a maximum of 180 days) is restricted to items with a tariff of 10 percent or less, which are generally raw materials. These controls will be reduced, but not fully phased out, through 2001. Use of deferred payment terms for other goods requires a license from foreign exchange banks or permission from the Bank of Korea, which is rarely granted.

In conjunction with requirements of the IMF program, recent regulatory changes have streamlined foreign investment application procedures and eased a number of barriers to foreign direct investment across a range of sectors. Restrictions on access to offshore funding (including offshore borrowing, intracompany transfers and intercompany loans), however, continue to be burdensome. Foreign equity participation limits, licensing requirements, and other regulatory restrictions can limit foreign direct investment in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in most of the professional services sectors.

6. Export Subsidies Policies

Since the mid-1980's, Korea has been dismantling the once-prevalent system of export subsidies used to promote industrialization. The real benefit of the few remaining subsidized lines of export credit is insignificant in a macroeconomic sense. The relative size of direct grants is small and declining with regard to both the government budget and growing private investment. The use of tax exemptions, the main vehicle for export promotion, appears to be declining as well. Under the IMF program, the government also has eliminated a number of export-related subsidies. However, in response to the credit crunch experienced by many Korean small-and-medium-sized companies in the export sector in 1998, the government has provided support in the form of: trade financing, export insurance, lower tariff rates for raw materials for re-export and reduction of miscellaneous export-related fees. The government does expend large amounts of money in research and development in key industrial sectors targeted for development, such as telecommunications.

7. Protection of U.S. Intellectual Property

Korea is a participant in the WTO's Agreement on Trade Related Aspects of Intellectual Property (TRIPs). It is also a signatory to the World Intellectual Property Organization (WIPO), the Universal Copyright Convention, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms, the Geneva Phonograms Convention, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Korea joined the Berne Convention in August 1996.

Korean laws protecting IPR are generally adequate in legal terms, but there is a gap between legal and practical protection in terms of enforcement and particularly Korean inter-agency coordination. Korea's Special 301 status was downgraded from Priority Watch List to Watch List in April 1997 in recognition of the commitments made by the government to improve its intellectual property protection regime. Korea maintained its Watch List status in the U.S. Government's 1998 review. Problem areas remain, especially with counterfeit consumer products, software piracy, and pharmaceutical patent protection enforcement.

Korean patent law is fairly comprehensive, offering protection to most products and technologies. A new patent court came into effect March 1, 1998. However, approved patents of foreign patent holders are vulnerable to infringement. In its procurement process, the Korean Government lacks adequate controls to effectively prevent patent infringement, especially in the high technology sector. Korean law provides for compulsory licensing of patents when the invention is deemed necessary for the national defense, for the public interest, or for the protection of a dependent patent.

The government's protection of trademarks has improved since 1991. A revised Trademark Law became effective as of March 1, 1998. The Design Act was also revised on March 1, 1998, enhancing protection of industrial designs. Although the Unfair Competition Prevention Act theoretically protects foreign trademarks and those not otherwise protected, recent narrowly-based court decisions have made the Act less than completely effective. The granting of a trademark under Korean law is based on a "first-to-file" basis. While preemptive and predatory filings are on the decline, "sleeper" preemptive registrations still surface on occasion. A new provision now allows the Korean Industrial Property Office (KIPO) to reject suspected predatory applications based on a "bad faith" clause. There has been less success in stemming the export of Korean counterfeit products globally.

Korea's Copyright Law protects author's rights, but local prosecutors take no action unless the copyright holder files a formal complaint. Korea is not in full compliance with provisions of the TRIPs Agreement which stipulate that preexisting works and sound recordings must enjoy a full term of protection (i.e., life of the author plus 50 years for works; 50 years for sound recordings). Korea now only provides protection back to 1957. Although the government has devoted increased resources and staff for IPR enforcement, software piracy is prevalent and becoming a more significant problem. The government is drafting laws and regulations to afford copyright and trademark protection for transactions conducted on the internet.

8. Worker Rights

a. *The Right of Association:* With the exception of public sector employees and teachers, Korean workers enjoy the right to free association. White collar workers in the government sector cannot join unions, but blue collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. However, starting next year, government employees will be allowed to form workplace consultative councils. The government also agreed in February to allow teachers to form unions, and talks to bring this to fruition are currently underway between labor and government. Unions may be formed with as few as two members and without a vote of the full prospective membership.

Until recently the Trade Union Law specified that only one union was permitted at a workplace, but labor law changes in 1997 authorize the formation of competing labor organizations beginning in the year 2002. Workers in government agencies and defense industries do not have the right to strike. Unions in enterprises determined to be of "essential public interest," including utilities, public health, and telecommunications, may be ordered to submit to government-ordered arbitration in lieu of striking. In fact, work stoppages occur even in these sensitive sectors. The Labor Dispute Adjustment Act requires unions to notify the Labor Ministry of their intention to strike, and normally mandates a 10-day "cooling-off period" before a work stoppage may legally begin.

b. *The Right to Organize and Bargain Collectively:* The constitution and the Trade Union Law provide for the right of workers to bargain collectively and undertake collective action, but does not grant government employees, school teachers or workers in defense industries the right to strike. Collective bargaining is practiced extensively in virtually all sectors of the Korean economy. The central and local labor commissions form a semi-autonomous agency that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. This law empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or practice discrimination against unionists. The government this year established the Tripartite Commission, with representatives from labor, management, and the government to deal with labor issues related to the economic downturn. The work of the Commission both made it legal for companies to lay off workers due to economic hardship and authorized temporary manpower agencies. Labor-management antagonism, however, remains a serious problem, and some major employers remain strongly antiunion.

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 and rarely occurs.

d. *Minimum Age for Employment of Children:* The government prohibits forced and bonded child labor and enforces this prohibition effectively. The Labor Standards Law prohibits the employment of persons under the age of 15 without a special employment certificate from the Labor Ministry. Because education is compulsory through middle school (about age 14), few special employment certificates are issued for full-time employment. Some children are allowed to do part-time jobs such as selling newspapers. In order to obtain employment, children under 18 must have written approval from their parents or guardians. Employers may require minors to work only a limited number of overtime hours and are prohibited from employing them at night without special permission from the Labor Ministry.

e. *Acceptable Conditions of Work:* The government implemented a minimum wage in 1988 that is adjusted annually. The minimum wage in 1998 was set at 90 cents/hour (won 1,525/hour). Companies with fewer than 10 employees are exempt from this law. The maximum regular workweek is 44 hours, with provision for overtime to be compensated at a higher wage, but such rules are sometimes ignored, especially by small companies. The law also provides for a maximum 56-hour work week and a 24-hour rest period each week. Labor laws were revised in 1997 to establish a flexible hours system that allows employers to ask laborers to work up to 48 hours during certain weeks without paying overtime so long as average weekly hours do not exceed 44. The government's health and safety standards are not always effectively enforced, but the accident rate continues to decline. The number of work-related deaths remains high by international standards.

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 either to improve wages and working conditions or to move offshore.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		2,674
Food and Kindred Products	755	
Chemicals and Allied Products	515	
Primary and Fabricated Metals	11	
Industrial Machinery and Equipment	103	
Electric and Electronic Equipment	565	
Transportation Equipment	152	
Other Manufacturing	573	
Wholesale Trade		715
Banking		1,784
Finance/Insurance/Real Estate		−15
Services		294
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,528

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

MALAYSIA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP	99,516	97,995	71,381 [2]
Real GDP Growth (pct)	8.6	7.7	-6.0 [3]
GDP by Sector (1978 prices):			
Agriculture	6,607	5,980	4,034
Manufacturing	17,802	17,890	12,081
Mining and Petroleum	3,737	3,372	2,397
Construction	2,450	2,396	1,387
Services	16,691	15,924	10.964
Government Services	4,753	4,503	3,305
Per Capita GDP (US$)	4,703	4,552	4,283
Labor Force (000s)	9,010	9,038	9,007
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) (pct)	19.8	22.7	5.9 [4]
Consumer Price Inflation (pct)	3.5	2.7	5.2 [4]
Exchange Rate (RM/US$ annual average)	2.51	2.81	3.92
Balance of Payments and Trade:			
Total Exports FOB	76,943	77,829	71,492
Exports to United States	17,025	18,017	13,802 [5]
Total Imports FOB	73,307	73,879	60,593
Imports from United States [5]	8,521	10,828	6,901 [5]
Trade Balance	3,426	3,950	10,899
Balance with United States	9,304	7,189	6,901
External Public Debt	15,820	23,280	17,468 [6]
Fiscal Surplus/GDP (pct)	0.7	2.4	-3.4
Current Account Deficit/GDP (pct)	5.2	4.9	7.2 [7]
Debt Service Payments/GDP (pct)	4.9	5.0	N/A
Gold and Foreign Exchange Reserves	27,894	21,040	23,715 [8]
Aid from United States	0.6	0.6	0.9
Aid from All Other Countries	N/A	N/A	N/A

[1] Malaysian Government estimates.
[2] Converted at annual average exchange rates.
[3] Calculated in ringgit to avoid exchange rate changes.
[4] October data for 1998.
[5] U.S. Commerce Department data, January-September for 1998.
[6] June data for 1998.
[7] Surplus for 1998.
[8] End-November data for 1998.

1. General Policy Framework

Until mid-1997, Malaysia enjoyed three decades of relatively uninterrupted economic growth and increasing diversification from an early reliance on tin, rubber and palm oil into manufacturing and, more recently, information technology. Sound macroeconomic policies and a favorable international environment contributed to overall prosperity. Since July 1997, however, Malaysia has been buffeted by the regional economic and financial downturn that erupted with the Thai financial crisis. By mid-1998 Malaysia was in recession. Real GDP contracted by 2.8 percent in the first quarter, 6.8 percent in the second quarter, and 8.6 percent in the third quarter, year-on-year. From the outset of the crisis in July 1997 to the end of August 1998, the Kuala Lumpur stock exchange lost 73 percent of its capitalization, while the ringgit (Malaysia's currency) depreciated roughly 67 percent against the U.S. Dollar.

Despite entering the crisis with relatively stronger fundamentals than its neighbors, investor concerns have grown over excessive commercial property investment, high levels of domestic corporate debt, government-funded megaprojects, the lack of transparent policies regarding support for troubled firms, and continued trade and investment restrictions.

To deal with increasing stresses on Malaysia's banking sector, the government established DANAHARTA, also known as the Asset Management Corporation, to purchase or manage nonperforming loans, and DANAMODAL, a special purpose vehicle to inject funds into banks in need of recapitalization. Bankruptcies have risen, and several major Malaysian corporations, burdened with heavy debt loads, have recently sought court protection from creditors. The government has also created a Corporate Debt Restructuring Committee to provide a framework for creditors to resolve liquidity problems of viable businesses and reduce the number of companies seeking bankruptcy protection.

The government plays a strong pro-active economic role. This role includes: investor, economic planner, approver of investment projects, approver of public and private procurement decisions, author and implementor of policies and programs to bolster the economic status of the Malay and indigenous communities (commonly referred to as bumiputras), and decisionmaker over privatization contracts. The government holds equity stakes (generally minority shares) in a wide range of domestic companies—usually large players in key sectors—and can exert considerable influence over their operations. The current economic downturn, however, has slowed the push to privatization. The government has said it will consider granting assistance to troubled corporations on the basis of three criteria: national interest, strategic interest, and equity considerations under bumiputra policies.

Tariffs are the main instrument used to regulate the importation of goods in Malaysia. However, 17 percent of Malaysia's tariff lines (principally in the construction equipment, forestry, logging, agricultural mineral, and motor vehicle sectors) are also subject to non-automatic import licensing designed to protect import-sensitive or strategic industries. Although the average applied MFN tariff rate of Malaysia has declined to approximately 8.1 percent, duties for tariff lines where there is significant local production are often higher. For example, 15.8 percent of product tariff lines in Malaysia's tariff schedule have rates over 24 percent, 25.9 percent of tariff lines have rates over 15 percent, and many lines have rates well over 100 percent.

The level of tariff protection is generally lower on raw materials and increases for those goods with value-added content or which undergo further processing. The government urges Malaysians to purchase domestic products, instead of imports, whenever possible. Malaysia has been an active participant in multilateral and regional trade fora such as the World Trade Organization (WTO) and APEC (which it chaired in 1998).

Fiscal Policy: The government is pursuing an expansive fiscal policy in order to stimulate economic growth. The government expects to run a 1998 budget deficit slightly higher than 3.7 percent of GNP. Malaysia's national economic recovery plan calls for RM 53 billion ($14 billion) in new public spending. The 1999 budget deficit is projected to reach 6.6 percent of GDP. The downgrading of Malaysia's sovereign debt by international rating agencies put on hold plans to raise in international capital markets at least part of the funds the government will require.

Monetary Policy: The central bank has been progressively loosening monetary policy to lead the economy out of recession. Statutory reserve requirements have been reduced steadily from 13.5 percent as of year-end 1997 to 4 percent in September 1998. The central bank also lowered the liquid asset requirements for commercial banks, reduced an administrative margin used to calculate the base lending rate, and cut its 3 month intervention rate from 8 percent to 7 percent. The loosening of monetary policy has been accompanied by a significant drop in interest rates. The base lending rate dropped from 12.27 percent at the end of June to 8.05 percent in early November 1998.

2. Exchange Rate Policy

On September 1, 1998, as part of a broader effort to reflate the economy and stabilize the currency, the government took drastic action by fixing the exchange rate of the ringgit to the U.S. Dollar at RM 3.8/US$1 and instituting selective capital controls. Malaysia's principal objectives in instituting the controls are to eliminate offshore trading in the ringgit and insulate the domestic economy from external risks posed by short term capital flows. The exchange controls reduce the ability of nonresidents to engage in ringgit transactions, require settlement of imports and exports in foreign currencies, discourage short-term capital inflows by requiring them to remain in the country for at least one year, restrict Malaysian investment overseas, and limit the amount of foreign currency individuals and corporations can take out of the country. The government has stressed that the measures maintain general convertibility of current account transactions, and do not impair repatriation of interest, profits, dividends and commissions on investments. The government has also stated that the controls are temporary and will be lifted once the international financial infrastructure addresses destabilizing capital flows which the government blames in large part for recent economic difficulties.

3. Structural Policies

Pricing Policies: Most prices are market-determined but controls are maintained on some key goods, such as vegetable oil, fuel, public utilities, cement, motor vehicles, rice, flour, sugar, tobacco, and chicken. (Note: no restrictions are placed on wheat imports.)

Tax Policies: Tax policy is geared toward raising government revenue and discouraging consumption of "luxury" items. Income taxes, both corporate and individual, comprise 40 percent of government revenue with indirect taxes, export and import duties, excise taxes, sales taxes, service taxes and other taxes accounting for another 31 percent. The remainder comes largely from dividends generated by state-owned enterprises and petroleum taxes. To spur economic recovery, the government declared that corporate and individual income earned in 1999 will not be taxed but losses incurred in 1999 can be carried forward.

A change in the tax assessment system effective in the year 2000 to tax collection based on current year income rather than previous year income, will insure that government tax revenues continue without interruption. The 1999 budget provides tax incentives to encourage exports, business loan refinancing, financial institution mergers, and food production. It raises excise duties, however, on alcohol, cigarettes, and gaming. High-technology and information-technology companies which establish in the multimedia super corridor (a government-established zone designed to concentrate and stimulate development of multimedia industries) and export-oriented foreign investments are allowed attractive tax incentives.

Standards: Malaysia has extensive standards and labeling requirements, but these appear to be largely 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 provides quality and other standards approvals.

4. Debt Management Policies

Malaysia's medium and long-term foreign debt (both public and private sector) amounted to $32.5 billion at the end of 1997, about 33 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 5.1 percent in 1997.

5. Significant Barriers to U.S. Exports

Import Restrictions on Motor Vehicles: Malaysia maintains several measures to protect the local automobile industry, including high tariffs and an import quota and licensing system on imported motor vehicles and motor vehicle parts. Malaysia also maintains local content requirements of 45 to 60 percent for passenger and commercial vehicles, and 60 percent for motorcycles. The government has announced that local content restrictions will be phased out by the year 2000 in accordance with its WTO commitments (see investment barriers). These restrictions have hampered the ability of U.S. firms to penetrate the Malaysian market. Customs tariffs and excise duties (up to 50 percent) for motorcycles are also significant barriers for U.S. companies. Malaysia is also considering new emissions standards for motorcycles which could restrict market opportunities for imports.

Products	Tariff (pct)
Automobiles (CB)	140–300
Automobiles (CKD)	80
Vans (CBU)	42–140
Van (CKD)	40
4WD/Multipurpose (CBU)	60–200
4WD/Multipurpose (CKD)	40
Motorcycle (CBU)	80–120
Motorcycle (CKD)	30

Restrictions on Construction Equipment: In October 1997, Malaysia imposed a restrictive licensing regime on imports of heavy construction equipment and raised import duties for the second year in a row, as detailed below. In October 1996, it raised duties on construction equipment from 5 to 20 percent. In addition, the initial capital allowance for imported heavy equipment will be reduced from 20 to 10 percent in the first year, and the annual allowance will be reduced from between 12 percent and 20 percent to 10 percent.

Products	Tariff (pct)
Heavy Machinery and Equipment	5
Multi-Purpose Vehicles	50
Special Purpose Vehicles	50
Construction Materials	10–30

Duties on High Value Food Products: Duties for processed and high value products, such as canned fruit, snack foods, and many other processed foods, range between 20 and 30 percent. The applied tariff on soy protein concentrate is 20 percent.

Duties on Alcoholic Beverages and Tobacco Products: High tariffs (increased 10/23) on tobacco products ($10.5–48/kg) and alcoholic beverages (e.g., vermouth in retail-sized containers is subject to a specific tariff of $31.5/dal) hamper U.S. exports.

Plastic Resins: U.S. exports of some plastic resins are hampered by 20 percent tariffs.

Tariff-Rate Quota for Chicken Parts: Although the government applies a zero import duty on chicken parts, imports are regulated through licensing and sanitary controls, and import levels remain well below the minimum access commitments established during the Uruguay Round.

Float Glass Tariff Differentials: Malaysia levies high duties (65 sen/kilogram or 50–100 percent ad valorem equivalent) on rectangular-shaped float glass. Nearly all float glass that moves in world trade is rectangular. To qualify for the lower ad valorem MFN tariff rate of 30 percent levied on non-rectangular float glass, exporters often must resort to time-consuming, wasteful procedures such as cutting off one or more corners or cutting one edge in a slanted fashion. This is an inefficient and expensive process which requires distributors to recut each piece of glass into a rectangular shape once it has cleared customs.

Rice Import Policy: The sole authorized importer of rice is a government corporation with the responsibility of ensuring purchase of the domestic crop and wide power to regulate imports.

Film and Paper Product Tariff: Malaysia applies a 25 percent tariff on imported instant print film that is estimated to cause an annual trade loss of $10 to $25 million for U.S. industry. In August 1994, the government raised tariffs on several categories of imported kraft linerboard (used in making corrugated cardboard boxes) to between 20 and 30 percent depending on the category. These tariff increases are to be phased out after five years and are subject to review every two years. Malaysia did not change the tariff levels after the 1996 review.

Direct Marketing Companies: Malaysia implemented a policy in March 1998 requiring direct marketing companies, as a condition for annual license renewal, to source 80 percent or more of their products locally. It began to enforce more rigidly a guideline for foreign participation in wholesale and retail trade requiring 30 percent of the equity in direct marketing companies for bumiputras and 70 percent overall domestic ownership. The Ministry of Domestic Trade and Consumer Affairs has indicated that it may grant exceptions to these rules on a case-by-case basis.

Government Procurement: Malaysian Government policy calls for procurement to be used to support national objectives such as encouraging greater participation of ethnic Malays (bumiputra) in the economy, transfer of technology to local industries, reducing the outflow of foreign exchange, creating opportunities for local companies in the services sector, and enhancing Malaysia's export capabilities. As a result, foreign companies do not face a level playing field in competing for contracts and in most cases are required to take on a local partner before their bid will be considered. Some U.S. companies have voiced concerns about the transparency of decisions and decision making processes. Malaysia is not a party to the plurilateral WTO Government Procurement Agreement.

Investment Barriers: Malaysia encourages direct foreign investment particularly in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority over individual investments. Especially in the case of investments aimed at the domestic market, it has used this authority to restrict foreign equity (normally to 30 percent) and to require foreign firms to enter into joint ventures with local partners. To alleviate the current economic downturn, Malaysia announced it will relax—until 12/31/2000—foreign-ownership and export requirements in the manufacturing sector for companies producing goods that do not compete with local producers. Facing a tight labor supply situation, foreign companies have found it hard to operate manufacturing facilities efficiently due to the difficulty associated with obtaining permission from the government to bring in workers from abroad. Most foreign firms also face restrictions in the number of expatriate workers they are allowed to employ.

Trade-Related Investment Measures: Malaysia has notified the WTO of certain measures that are inconsistent with its obligations under the WTO agreement on Trade-Related Investment Measures (TRIMS). The measures deal with local requirements in the automotive sector. New projects or companies granted "pioneer status" are eligible to receive a 70 percent income tax exemption. Proper notification allows developing-county WTO members to maintain such measures for a five-year transitional period after entry into force of the WTO. Malaysia therefore must eliminate these measures before January 1, 2000. The United States is working in the WTO committee on TRIMS to ensure that WTO members meet these obligations.

Services Barriers: Under the WTO basic telecommunications agreement, Malaysia made commitments on most basic telecommunications services and partially adopted the reference paper on regulatory commitments. Malaysia guaranteed market access and national treatment for these services only through acquisition of up to 30 percent of the shares of existing licensed public telecommunications operators, and limits market access commitments to facilities-based providers. At least two U.S. firms have investments in basic and enhanced services sectors.

Professional Services: Foreign professional services providers are generally not allowed to practice in Malaysia. Foreign law firms may not operate in Malaysia except as minority partners with local law firms, and their stake in any partnership is limited to 30 percent. Foreign lawyers may not practice Malaysian law or operate as foreign legal consultants. They cannot affiliate with local firms or use their international firm's name.

Under Malaysia's registration system for architects and engineers, foreign architects and engineers may only seek temporary registration. Foreign architectural firms are eligible only for special projects as agreed between Malaysia and an interested foreign government. Unlike engineers, Malaysian architectural firms may not have foreign architectural firms as registered partners. Foreign architecture firms may only operate as affiliates of Malaysian companies. Foreign engineering companies must establish joint ventures with Malaysian firms and receive "temporary licensing" which is granted only on a project-by-project basis and is subject to an economic needs test and other criteria imposed by the licensing board. Foreign accounting firms can provide accounting or taxation services in Malaysia only through a locally registered partnership with Malaysian accountants or firms, and aggregate foreign interests are not to exceed 30 percent. Auditing and taxation services must be authenticated by a licensed auditor in Malaysia. Residency is required for registration.

Banking: No new licenses are being granted to either local or foreign banks; foreign banks must operate as locally-controlled subsidiaries. Foreign-controlled companies are required to obtain 60 percent of their local credit from Malaysian banks. Insurance branches of foreign insurance companies were required to be locally incorporated by June 30, 1998; however, the government has reportedly offered extensions of up to one year to that requirement. Foreign share holding exceeding 49 percent is not permitted unless the Malaysian Government approves higher shareholding levels. As part of Malaysia's WTO financial services offer, the government committed to allow existing foreign shareholders of locally incorporated insurance companies to increase their shareholding to 51 percent once the WTO Financial Services Agreement goes into effect in 1999. New entry by foreign insurance companies is limited to equity participation in locally incorporated insurance companies and aggregate foreign shareholding in such companies shall not exceed 30 percent.

Securities: 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. Fund management companies may be 100 percent foreign-owned if they provide services only to foreign investors, but they are limited to 70 percent foreign-ownership if they provide services to both foreign and local investors.

Advertising: Foreign film footage is restricted to 20 percent per commercial, and only Malaysian actors may be used. The government has an informal and vague guideline that commercials cannot "promote a foreign lifestyle." Advertising of alcohol products is severely restricted.

Television and Radio Broadcasting: The government maintains broadcast quotas on both radio and television programming. Sixty percent of television programming is required to originate from local production companies owned by ethnic Malays. This share is scheduled to increase to 80 percent by the year 2000. Sixty percent of radio programming must be of local origin. The Ministry of Information announced in January 1998 that it would study the use of the Broadcasting Act of 1988 as the means of imposing further conditions on TV stations to provide additional air time to local programming.

Other Barriers: U.S. companies have indicated that they would welcome improvements in the transparency of government decision-making and procedures, and limits on anti-competitive practices. A considerable proportion of government projects and procurement are awarded without transparent competitive bidding. The government has declared that it is committed to fighting corruption and maintains an anti-corruption agency (a part of the office of the Prime Minister) to promote that objective. The agency has the independent power to conduct investigations and is able to prosecute cases with the approval of the Attorney General.

6. Export Subsidies Policies

Malaysia offers several export allowances. Under the export credit refinancing scheme operated by the central bank, commercial banks and other lenders provide financing to exporters at a preferential interest rate 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. To spur exports, 70 percent of the increased export earnings by international trading companies has been exempted from taxes.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention, and the Paris Convention. Malaysia provides copyright protection to all works published in Berne Convention member countries regardless of when the works were first published in Malaysia. Malaysia is also a member of the World Trade Organization.

As the number of manufacturing licenses for CDs has increased, so have piracy rates for music and video discs. Malaysia's production capacity for CDs far exceeds the size of the domestic market, and so the excess production is smuggled into other Asian countries. The Malaysian Government is aware of the problem and has expressed its determination to move against illegal operations.

In March 1998, the government opened an intellectual property training center to develop and offer programs for government officials, agencies, attorneys, and the judiciary. Police and legal authorities are generally responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases. Joint government and industry anti-piracy campaigns and increased enforcement efforts have reduced packaged computer software piracy to 70 percent in 1997, a 10 percent decline from 1996.

The effect of Malaysian enforcement efforts would be enhanced through the resolution of lengthy litigation, seizure of CD replicating equipment from factories caught producing pirated works, as well as the imposition of more substantial fines against infringers. In that regard, the Attorney General directed deputy public prosecutors in March 1998 to file appeals for all cases under the copyright law if courts impose fines of less than RM 1,000 ($263). Suppressing CD-based digital piracy is consistent with the government's objective to establish the multimedia super corridor as the preeminent locus of high-technology manufacturing and innovation in Asia. Notwithstanding these efforts of the government, illegal production of optical disks remains a significant problem in Malaysia, and its effects have been observed throughout the region.

Trademark infringement and patent protection have not been serious problem areas in Malaysia for U.S. companies.

8. Worker Rights

a. *The Right of Association:* By law most workers have the right to engage in trade union activity, and approximately 10 percent of the work force are members of trade unions. Exceptions are certain categories of workers labeled "confidential" and "managerial and executives," as well as police and defense officials. Government policy places a de facto ban on the formation of national unions in the electronics sector, but allows in-house unions.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is the norm in Malaysian industries where workers are organized. However, collective bargaining rights are effectively restricted by compulsory arbitration requirements. In practice, labor actions such as strikes are extremely rare in Malaysia.

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, except for rare cases which are prosecuted vigorously by the government.

d. *Minimum Age for the Employment of Children:* 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 for the government in a school or training institution, or employment as an approved apprentice. In addition, regulations prohibit children from working more than 6 hours per day, more than 6 days per week, or at night. However, there have been reports of widespread employment of children below the age of 14 working full-time on plantations.

e. *Rights in Sectors with U.S. Investment:* Working conditions are generally on a par with industrialized country standards. The Occupational Safety and Health Act covers all economic sectors except the maritime sector and the military. Other laws provide for retirement programs, 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 whose working conditions and benefits are usually inferior to those of direct hire workers.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,367
Total Manufacturing		3,222
Food and Kindred Products	6	
Chemicals and Allied Products	197	
Primary and Fabricated Metals	23	
Industrial Machinery and Equipment	−136	
Electric and Electronic Equipment	2,784	
Transportation Equipment	0	
Other Manufacturing	348	
Wholesale Trade		235
Banking		(1)
Finance/Insurance/Real Estate		407
Services		90
Other Industries		(1)
TOTAL ALL INDUSTRIES		5,623

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

PHILIPPINES

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	82.8	82.2	64.4
Real GDP Growth (pct)[2]	5.7	5.1	0.3
Nominal GDP by Sector:			
Agriculture	17.1	15.4	11.5
Manufacturing	18.9	18.3	14.1
Services	39.2	40.4	32.7
Government[3]	7.9	10.0	6.5
Per Capita GDP (US$)	1,180	1,145	877
Labor Force (000s)	29,733	30,355	31,055

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Unemployment Rate (pct)	8.6	8.7	10.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[4]	15.8	20.5	10.0
Consumer Price Inflation[5]	8.4	5.9	9.8
Exchange Rate (Peso/US$ annual average) Interbank Rate	26.22	29.47	41.50
Balance of Payments and Trade:			
Total Exports FOB[6]	20.5	25.2	29.5
Exports to United States[7]	8.2	10.4	12.1
Total Imports FOB[6]	31.9	36.4	32.7
Imports from United States[7]	6.1	7.4	7.2
Trade Balance[6]	−11.3	−11.2	−3.2
Balance with United States[7]	2.1	3.0	4.9
Current Account Deficit/GDP (pct)	4.8	5.2	0.2
External Public Sector Debt	27.4	27.0	27.9[9]
Debt Service Payments/GDP (pct)	6.1	6.6	8.5
Fiscal Surplus or Deficit/GDP (pct)	0.3	0.1	−1.5
Gold and Foreign Exchange Reserves	11.7	8.8	10.5
Aid from United States (US$ millions)[8]	164.0	337.0	N/A
Aid from Other Bilateral Sources (US$ millions)[8]	1,630.0	1,473.0	N/A

[1] 1998 figures are full-year estimates based on monthly data available as of October.
[2] Percentage changes based on local currency.
[3] Government construction and services gross value added.
[4] Growth rate of year-end M2 levels.
[5] 1996 data at 1988 base year; 1997 and 1998 based on revised 1994 weights and consumption patterns per 1994 Family Income and Expenditure Survey.
[6] Merchandise trade.
[7] Source: U.S. Department of Commerce; exports FAS, imports customs basis; 1998 figures are estimates based on data available through June 1998.
[8] Inflows per balance of payments, net of inflows from the U.S. Veterans Administration (USVA).
[9] Actual as of July 1998.
Sources: National Economic and Development Authority, Bangko Sentral ng Pilipinas, Department of Finance.

1. General Policy Framework

The Philippines, a founding member of the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO), has a population of 73 million, growing at 2.3 percent yearly. Agriculture accounts for 40 percent of employment but contributes only 20 percent of GDP. Electronics, garments, and auto parts are the leading merchandise exports, but rely heavily on imported inputs. Overseas workers remittances, estimated at $5–6 billion yearly, are a major source of foreign exchange. Although improving, the country has a relatively low domestic savings rate, estimated at 19 percent of GNP in 1997.

President Joseph E. Estrada, who was inaugurated June 30, 1998 for a six-year term, has committed to continue and expand the economic liberalization agenda pursued by his predecessors. The Aquino and Ramos administrations made significant progress in liberalizing the trade, foreign exchange and investment regimes; privatizing state-owned enterprises; lowering entry barriers in such sectors as banking, insurance, aviation, telecommunications, and oil; and addressing infrastructure needs under a Build-Operate-Transfer (BOT) program.

Weak public finances have been a long-standing problem. Economic growth, privatization and spending controls helped the government post fiscal surpluses from 1994 to 1997. The Asian economic crisis upset plans for a fiscal surplus in 1998 despite sharp spending cuts. Nearly three-fourths of the budget is earmarked for nondiscretionary disbursements (such as personnel, debt service payments, and transfers to local governments). Direct taxes constitute less than half of total tax revenues. Problems with tax administration and enforcement represent a threat to fiscal and macroeconomic stability.

2. Exchange Rate Policy

Current account transactions are fully convertible. Except for some restrictions on foreign debt and investments, the Philippines has also lifted most restrictions on capital account transactions. There are no barriers to full and immediate capital repatriation and profit remittances.

Foreign exchange rates generally evolve freely in the interbank market. although the Central Bank (Bangko Sentral ng Pilipinas or BSP) imposes limits on banks' foreign exchange positions. The Bankers Association of the Philippines has occasionally adopted a "volatility band" to temper excessive foreign exchange fluctuations, including from October 1997 to March 1998. In December 1997, the BSP opened a nondeliverable forward hedging facility to try to temper panic-driven demand by firms with unhedged foreign currency obligations.

3. Structural Policies

Prices are generally determined by free market forces, with the exception of basic public services (such as transport, water and electricity) which are subject to government control or regulation. Government regulation of prices of "socially sensitive" petroleum products (i.e., liquefied petroleum gas, regular gasoline, and kerosene) ended in July 1998 with the full deregulation of the oil industry.

Recent changes to investment restrictions include an increase in the limit on foreign equity in securities underwriting firms and financing companies to 60 percent, and the removal of limits on foreign ownership of companies engaged in private domestic construction activities. Legislation signed in February 1998 lets the President waive a requirement granting preferential treatment to Filipino consultants and other professionals for the implementation of projects funded by official development assistance.

The Philippines began implementing an "expanded" Value-Added Tax (EVAT) law in January 1996, extending coverage to additional goods and services. The final phase of the government's "Comprehensive Tax Reform Program" (CTRP), focusing on personal and corporate income taxes (including a minimum corporate tax), was signed into law November 1997. The Philippines' Tariff Reform Program is gradually lowering applied duty rates on nearly all items. Quantitative restrictions (QRs) on "sensitive" agricultural products (except rice) were replaced with tariff rate quotas. Aside from zero-duty commitments under the WTO Information Technology Agreement, the Philippines is moving towards two applied duty rates by the year 2003 for all items except sensitive agricultural products (three percent for raw materials and intermediate goods, and 10 percent for finished products), and a uniform five percent rate by 2004.

4. Debt Management Policies

Regardless of maturity, the source of foreign exchange for debt servicing and/or any other consideration, the BSP requires prior approval of: private sector debt guaranteed by the public sector or covered by FOREX guarantees issued by local banks; loans extended by foreign currency deposit units funded or collateralized by offshore loans and deposits; loans with maturities of over one year obtained by private banks and financial institutions for relending; and public sector foreign loans. Foreign borrowings outside of these categories which will not be serviced using foreign exchange from the banking system generally do not require prior BSP approval. In approving foreign currency borrowings, the BSP gives priority to export-oriented projects and other promoted sectors, such as those listed in the Government's Investment Priorities Plan or Medium-Term Public Investment Program.

The foreign debt level (estimated at $45.8 billion as of June 1998) has been growing, but debt servicing is no longer a severe problem. Although export growth has begun to slow, the ratio of debt service payments to exports of goods and services remains manageable, estimated at 12 percent during the first half of 1998 (down from 40 percent in the early 1980s). Medium and long-term loans comprise over 80 percent of external liabilities. Close to half of the country's external debt represent credits from multilateral and official bilateral lenders.

The Philippines has succeeded in retiring or exchanging some of its earlier debt for instruments carrying longer maturities and more favorable terms. The Philippines has had four debt rescheduling rounds with official bilateral (Paris Club) creditors; the government did not exercise a fifth Paris Club debt rescheduling agreement. The Philippines "graduated" from over three decades of International Monetary Fund (IMF) supervision in March 1998, although the government and the IMF agreed on a two-year standby arrangement to support the Philippines in the event of further external shocks. The government recently began drawing on this facility.

5. Significant Barriers to U.S. Exports

Tariffs: The Philippines' average nominal tariff was 11.24 percent in 1998, compared with 13.43 percent in June 1997 and 27.84 percent in 1990. The average nominal tariff is programmed to fall to 10.21 percent in 1999, in line with the government's tariff reduction program. Imports of finished automotive vehicles (completely built-up units) currently face a 40 percent tariff as an incentive to promote local assembly under the Philippines' Motor Vehicle Development Program. The duty rate on automotive vehicles is not scheduled to be reduced (to 30 percent) until the year 2000.

The Philippines maintains high tariff rates on sensitive agricultural products, including grains, livestock and meat products, sugar, certain vegetables, and coffee. Examples include feed grains, particularly corn (at an in-quota rate of 35 percent, and an 80 percent out-of-quota rate), sorghum (20 percent) and potatoes (in-quota rate of 45 percent, 80 percent out-of-quota). Fourteen tariff lines of agricultural commodities (at the 4-digit HS level) are currently subject to Minimum Access Volume (MAV) Tariff-Rate Quotas (TRQs), established as a result of the Uruguay Round. Products covered by these TRQs include live animals, fresh and chilled beef, pork, poultry meat, goat meat, potatoes, coffee, corn, and sugar. The National Food Authority, a government entity, is the sole importer of rice and continues to be involved in imports of corn.

Import Licenses: Certain items remain subject to import regulation, including: narcotic drugs; firearms and ammunition; used clothing and rags; toy firearms; sodium cyanide; chlorofluorocarbon and other ozone-depleting substances; penicillin/derivatives; coal/derivatives; color reproduction machines; chemicals for the manufacture of explosives; pesticides; used motor vehicles; and used tires. In addition, as noted above, fourteen tariff lines of agricultural commodities (at the 4-digit HS level) are currently subject to minimum access volume tariff-rate quotas.

Excise Taxes: Excise taxes on distilled spirits have the effect of discriminating against imports by imposing a lower tax on products made from indigenously available materials (such as coconut palm, cane, and certain root crops). The excise tax treatment of automotive vehicles, which is based on engine displacement rather than vehicle value, significantly limits sales of vehicles imported from the United States.

Services Barriers: May 1994 banking legislation permitted 10 new foreign banks to open branches in the Philippines. Foreign entry is now limited to 60 percent ownership of either a new local subsidiary or an existing domestic bank. Current regulations provide that majority Filipino-owned domestic banks should, at all times, control at least 70 percent of total banking system assets.

Securities: Membership in the Philippine stock exchange is open to foreign-controlled stock brokerage firms that are incorporated under Philippine laws. Foreign ownership in securities underwriting companies is limited to 60 percent. Companies not established under Philippine law are not allowed to underwrite securities for the Philippine market, but may underwrite Philippine issues for foreign markets.

Insurance: Although foreign entry has been liberalized, capitalization requirements vary according to the extent of foreign equity. As a general rule, only the Philippines' Government Service Insurance System may provide coverage for government-funded projects and BOT-funded projects. Regulations require all insurance/professional reinsurance companies operating in the country to cede to the industry-owned National Reinsurance Corporation of the Philippines at least 10 percent of outward reinsurance placements.

Professional Services: The Philippine Constitution reserves the practice of licensed professions to Philippine citizens. This includes, inter alia, law, engineering, medicine, accountancy, architecture, and customs brokerage.

Telecommunications: The Philippine Constitution limits foreign ownership in public utilities to 40 percent. Telecommunications firms, water and electricity distribution, transport, and sewerage systems are all considered public utilities.

Shipping: The Maritime Industry Authority prohibits foreign-flagged vessels from the carriage of domestic trade.

Express Delivery Services: Foreign air express couriers and airfreight forwarding firms must either contract with a wholly Philippine-owned business to provide delivery services, or establish a domestic company, at least 60 percent of which should be Philippine-owned.

Standards, Testing, Labeling, and Certification: Imports of products covered by mandatory Philippine standards must be cleared by the Bureau of Product Standards (BPS). BPS also subjects import shipments to sampling and testing, including those that have been certified abroad as meeting the requirements of foreign or international standards. Mandatory Philippine national standards cover more than 60 specific products, including lighting fixtures, electrical wires and cables, cement, steel bars, pneumatic tires, fire extinguishers, liquefied petroleum gas, sanitary wares, toys and household appliances. The government, for reasons of public health, safety and national security, also implements regulations that affect U.S. exports of pharmaceuticals, food, textiles and certain industrial goods.

Investment Barriers: The Foreign Investment Act of 1991 contains two "negative lists" that outline areas where foreign investment is restricted. "List A" covers activities in which foreign equity is excluded or limited by the constitution and other laws. No foreign investment is permitted in mass media (including cable television), retail trade, processing of corn and rice, small-scale mining and private security agencies. In addition to land ownership (where a 40 percent foreign-equity ceiling applies), varying foreign ownership limitations cover advertising (30 percent), recruitment (25 percent), financing (60 percent), securities underwriting firms (60 percent), public utilities (40 percent), education (40 percent), and the exploration and development of natural resources (40 percent). "List B" limits foreign ownership (generally to 40 percent) for reasons of public health, and safety and morals. To protect smaller firms, a company must be capitalized at a minimum of $200,000 to be more than 40 percent foreign-owned.

Export Performance Requirements: Regulations governing the provision of tax and other incentives impose a higher export performance for foreign-owned enterprises (70 percent of production should be exported) than for Philippine-controlled companies (50 percent). With the exception of foreign-controlled firms that export 100 percent of their production, foreign firms registered with the Board of Investments (BOI) must also agree to divest to 40 percent ownership within 30 years or such longer period as the BOI may allow. The BOI imposes industry-wide local-content requirements under its motor vehicle development programs and requires participants to generate, via exports, a certain ratio of the foreign exchange needed for import requirements.

Government Procurement Practices: Contracts for government procurement are awarded by competitive bidding. Preferential treatment of local suppliers is practiced in government purchases of pharmaceuticals, rice, corn, and iron/steel materials for use in government projects. The Philippines is not a signatory of the WTO Government Procurement Agreement.

Customs Procedures: Many imports valued at over $500 are permitted entry only when accompanied by a "Clean Report of Findings," issued by Societe Generale de Surveillance (SGS), which has been contracted by the government to perform advance customs clearance procedures. Refrigerated products are exempt. Certain goods require preshipment inspection in the country of export. The preshipment inspection requirement extends to exports to certain operations in free-trade zones. The SGS contract to perform inspection services has been renewed up to December 31, 1999. Customs valuation as a basis for determining dutiable value of imports is based on "export value." Many U.S. exporters assert that the use of the "export value" method of valuation has resulted in unwarranted uplifts in the assessed dutiable value. The government says it will implement the "transaction value" method of valuation by January 1, 2000, in line with WTO obligations.

6. Export Subsidies Policies

Firms engaged in activities under the government's "Investment Priorities Plan" may register with the Board of Investments (BOI) for fiscal incentives, including three to six year income tax holidays and a tax deduction equivalent to 50 percent of the wages of direct-hire workers. BOI-registered firms that locate in less-developed areas may be eligible to claim a tax deduction of up to 100 percent of outlays for infrastructure works and deduct 100 percent of incremental labor expenses. Export-oriented firms located in government-designated export zones and industrial estates registered with the Philippine Economic Zone Authority enjoy basically the same incentives as BOI-registered firms. Firms which earn at least 50 percent of their revenues from exports may register for certain tax credits under the "Export Development Act" (EDA), including a tax credit for imported inputs and raw materials not readily available locally (through December 31, 1999).

7. Protection of U.S. Intellectual Property

The Philippines is a party to the Berne and Paris Conventions, and is a member of the World Intellectual Property Organization. The Philippines is also a party to the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIPs). The Philippines remains on the Special 301 Watch List.

A new Intellectual Property Law (R.A. 8293) took effect January 1, 1998, improving the legal framework for IPR protection in the Philippines. R.A. 8293 provides enhanced copyright and trademark protection, significantly increases penalties for infringement and counterfeiting, and relaxes provisions requiring the registration of licensing agreements. However, the law fails to provide clear provisions for ex-parte relief or exclusive rights for copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works, and contains burdensome requirements concerning licensing contracts. The lack of interpretative implementing regulations on copyright is also a problem. Legislation is pending to provide IPR protection for plant varieties and layout-designs of integrated circuits.

Despite the creation in February 1993 of the Presidential Interagency Committee on Intellectual Property Rights, problems continue to hamper the effective operation of agencies tasked with IPR enforcement. Resource constraints remain a serious problem, although joint efforts between the private sector and the National Bureau of Investigation have resulted in a series of successful enforcement actions. The judicial system also remains a stumbling block to more aggressive use of the courts to deter effectively IPR violations. Because of the lengthy nature of court action, many cases are settled out of court.

Patents: R.A. 8293 mandates a first-to-file system, increases the term of patents from 17 to 20 years from date of filing, provides for the patentability of micro-organisms and non-biological and microbiological processes, and gives patent holders the right of exclusive importation of their inventions.

Trademarks, Service Marks and Trade Names: R.A. 8293 no longer requires prior use of trademarks in the Philippines as a requirement for filing a trademark application. Also eliminated was the requirement that well-known marks be in actual use in Philippine commerce or registered with the government. Trademark infringement remains a problem in the Philippines.

Copyrights: R.A. 8293 expands IPR protection by clarifying protection of computer software as a literary work (although it includes a fair-use provision on decompilation of software), establishing exclusive rental rights, and providing terms of protection for sound recordings, audiovisual works, and newspapers and periodicals that are compatible with the WTO TRIPs Agreement. Software and video piracy remain widespread. The Business Software Alliance estimates the 83 percent of software in use in 1997 was unlicensed; the Motion Picture Association of America estimates that 65 percent of motion pictures on video or optical discs in 1997 were illegal copies. Pirated digital media are largely imported. The National Telecommunications Commission recently launched an initiative to address the illegal retransmission of cable programming and the unlicensed broadcast of motion pictures by cable operators.

The U.S. intellectual property industry estimates 1997 potential trade losses due to piracy of software at $57 million; of motion pictures, $18 million; and of sound recordings, $4 million.

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 government interference. Trade unions are independent of the government and generally free of political party control. Unions have the right to form or join federations or other labor groupings. Subject to certain procedural restrictions, strikes in the private sector are legal. Unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike.

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 and 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. Labor law and practice are uniform throughout the country, although there have been complaints about some local attempts to maintain "union free/strike free" policies in several of the export processing zones. In the garment industry, the widespread use of short-term, contract workers is an obstacle to workers forming unions or obtaining medical and retirement benefits.

c. *Prohibition of Forced or Compulsory Labor:* The Philippine Constitution prohibits forced labor.

d. *Minimum Age for Employment of Children:* Philippine law prohibits the employment of children below age 15, with some exceptions involving situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television in cases where a child's employment is essential. 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. A significant number of children are employed in the informal sector of the urban economy, the fishing industry, port work or as unpaid family workers in rural areas.

e. *Acceptable Conditions of Work:* 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. investors in the Philippines generally apply U.S. standards of worker safety and health, in order to meet the requirements of their home-based insurance carriers. Some U.S. firms have resisted efforts by their employees to form unions, with local government support.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		342
Total Manufacturing		1,616
Food and Kindred Products	365	
Chemicals and Allied Products	433	
Primary and Fabricated Metals	39	
Industrial Machinery and Equipment	582	
Electric and Electronic Equipment	582	
Transportation Equipment	0	
Other Manufacturing	192	
Wholesale Trade		229
Banking		269
Finance/Insurance/Real Estate		956
Services		−93
Other Industries		85
TOTAL ALL INDUSTRIES		3,403

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

SINGAPORE

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP	94063.1	96631.1	87574.1
Real GDP Growth (pct) [2]	6.9	7.8	1.0
GDP by Sector:			
Agriculture	153.0	135.0	87.6
Manufacturing	23520.7	23475.7	21893.5
Services [3]	65586.2	69078.9	62406.1
Government	8759.9	9065.5	9633.1
Per Capita GDP (US$)	30898.1	31136.2	27691.7
Labor Force (000s)	1801.9	1876.0	1932.3
Unemployment Rate (pct)	2.0	1.8	4.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	9.8	10.3	11.1
Consumer Price Inflation (pct)	1.4	2.0	0.1
Exchange Rate (SGD/US$ annual average)	1.41	1.48	1.65
Balance of Payments and Trade:			
Total Exports FOB	125015.6	125414.2	114967.6
Exports to United States CIF [4]	20340.4	20368.1	18881.2
Total Imports CIF	131335.5	132841.2	106166.7
Imports from United States FAS [4]	16685.5	17727.4	15493.7
Trade Balance	−6319.9	−7427.0	8800.9
Balance with United States	3654.9	2640.7	3387.5
External Public Debt	0	0	0

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Fiscal Surplus/GDP (pct)	4.2	3.4	-0.5
Current Account Surplus/GDP (pct)	15.7	15.4	17.3
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	76419.0	80822.2	76119.8
Aid from United States	0	0	0
Aid from Other Sources	0	0	0

[1] 1998 figures are projections based on most recent data available.
[2] Percentage changes calculated in local currency.
[3] Includes transport and communications, financial and business services, commerce, and other services sectors.
[4] Trade data was taken from the U.S. Commerce Department instead of Singaporean government sources.

1. *General Policy Framework*

A city-state with a population of 3.2 million astride one of the world's major shipping lanes, Singapore has long pursued economic policies that promote open trade and investment. (Note: Singapore's trade is about three times the size of its GDP, and transshipments make up over 40 percent of its merchandise exports. Foreign funds made up 70 percent of its total investment in manufacturing in 1997). These policies have allowed Singapore to overcome its land, labor and resource constraints, and develop into one of the world's most successful open trading and investment regimes. According to the World Bank, Singapore's per capita GNP of $29,000 (in purchasing power parity terms) is the second highest, behind Luxembourg, in the world. Singapore actively promotes trade liberalization in the region through APEC and ASEAN; the APEC Secretariat is located in Singapore. It is a founding member of the World Trade Organization (WTO), and hosted the first WTO Ministerial in December of 1996.

Internally, Singapore has a free-market, pro-growth and competitive business environment characterized by transparency and a corruption-free regulatory framework. At the same time, it has a sizable public sector in the form of Government-Linked Companies (GLCs) that account for some 60 percent of GDP and are largely operated on commercial lines. Most have private equity involvement and are listed in the Stock Exchange of Singapore. Financial and business services and manufacturing are the two key sectors of the economy, responsible for 29 percent and 23 percent respectively of GDP. Over the past decade, Singapore's real GDP has grown at an average annual rate of 8.8 percent. Since the Asian economic crisis began in the second half of 1997, however, this growth has slowed significantly (especially in the commercial and manufacturing sectors) as a result of a sharp drop in regional demand. The problem of sluggish electronics demand from the U.S. and Europe has also compounded the effects of the crisis.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment. The government also invests heavily in the country's social and physical infrastructure, including education and transportation, and provides subsidies for public housing and sometimes for the purchase of shares in GLCs when they are initially listed on the stock exchange. For most of the years since the 1970's—and the past 10 consecutive years—the government has had a budget surplus. In 1997, its fiscal surplus amounted to 3.4 percent of the country's GDP. However, the government has forecast a slight deficit of about $1.2 billion in fiscal year 1998 (April 1998 to March 1999) due to pump-priming measures introduced to boost the economy slowed by the economic crisis.

The Central Provident Fund (CPF) compulsory savings program, which requires that 20 percent of an individual's income be placed in a tax-exempt account, with employer matching funds, is the basis for the national savings rate of nearly 50 percent of GDP. Employers' contributions to workers' CPF accounts are expected to drop to 10 percent beginning in early 1999. The move is part of a broad business cost-reduction policy package being implemented by the government. The package is primarily intended to restore Singapore's cost-competitiveness, which has been blunted by the sharp devaluation of other Asian currencies affected by the financial crisis. Individual CPF accounts may be used, in part, to finance housing purchases and investment in stocks and other instruments approved under the CPF investment scheme.

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. The MAS' key objective is to maintain price stability, which it achieves largely through exchange rate policies. (Note: Inflation has averaged 2.1 percent annually over the last five years). There are virtually no controls on capital movements, thus limiting the scope for an independent monetary policy to either stimulate or restrain economic activity. The prime lending rate is currently at 6.0 percent, after peaking at about 7.8 percent at the beginning of 1998 amid the Asian financial crisis.

Singapore has become a major center for electronics, chemicals, oil refining and financial services, acting as a hub for the Southeast Asian market. Its sound economic policies and favorable investment climate have attracted about 1,300 U.S. companies to the city-state, with cumulative investments of $17.5 billion in 1997. The U.S. is Singapore's largest trading partner, accounting for 19.4 percent of Singapore's total trade in 1997. According to U.S. Department of Commerce data, U.S. exports to Singapore amounted to $17.7 billion in 1997. Singapore's exports to the U.S., on the other hand, reached $20.4 billion in 1997.

2. Exchange Rate Policy

Singapore has no exchange rate controls. Exchange rates are determined freely by daily cross rates in the international foreign exchange markets. At the same time, the MAS uses currency swaps and direct open market operations to keep the Singapore Dollar within a desired range relative to a basket of currencies of the country's major trading partners. It seeks to maintain a strong currency to check inflation, given Singapore's extreme exposure to international trade. The government also imposes certain restrictions on Singapore Dollar lending (SGD 5 million) to non-residents, or to local residents for use abroad, as a check against the speculative use of the currency.

The Singapore Dollar appreciated about 54 percent against the U.S. Dollar from 1986 to 1996. It has since depreciated, along with but to a lesser extent than other regional currencies, as a result of the Asian economic crisis. Since the crisis began mid-1997, the Singapore Dollar has depreciated by about 15 percent against the U.S. Dollar, falling back to the 1992 level of 1.63 to the U.S. Dollar by November 1998. This has had a major impact on U.S. exports to Singapore, which are expected to fall by over 13 percent in 1998. Meanwhile, the Singapore Dollar has appreciated sharply against the other regional currencies. This has drastically reduced the number of visitors from the region and dampened local commercial activity, but it has also minimized the inflationary impact of imports on Singapore's economy. Despite the current crisis, the government has announced that it will not seek to devalue the Singapore Dollar to maintain the economy's competitiveness, opting instead for measures to cut local business costs.

3. Structural Policies

Singapore's prudent economic policies have allowed for steady economic growth and the development of a reliable market, to the benefit of U.S. exporters. Singapore was the ninth largest customer for U.S. products in 1997 (eighth in 1996). Prices for products are mostly determined by the market. The government conducts its bids by open tender and encourages price competition throughout the economy.

The government has gradually reduced corporate income tax levels from 40 percent in 1986 to the current 26 percent. It aims to bring the corporate tax rate down further to 25 percent. Foreign firms are taxed at the same rate as local firms. There is no tax on capital gains. The government implemented a three percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate (by one percentage point) and personal (by three percentage points) taxes. It also began providing tax rebates of up to SGD 700 on individual income tax in 1994. With these changes, it is estimated that three out of four Singaporeans end up not having to pay personal income taxes, thus increasing the disposable incomes available to the average Singaporean consumer. In 1996, given continued budget surpluses, the government also decided to make additional contributions to public housing and retirement schemes. At the same time, it raised stamp duties and imposed credit restrictions and a capital gains tax on short-term property sales to curb speculation in the real estate market.

Many of Singapore's public policy measures are tailored to attract foreign investments and ensure an environment conducive to their efficient business operation and profitability. Investment policies are open and transparent. 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 $3.1 million at the end of 1994 and was retired completely in 1995. This was one of the key factors that enabled the country to weather the currency crisis which has engulfed the region since the second half of 1997. Singapore's annual budget surpluses and mandatory savings have also allowed the government wide latitude in devising off-budget measures to increase funds to support infrastructure, education, and other programs during the current economic slowdown.

Singapore does not receive financial assistance from foreign governments.

5. Significant Barriers to U.S. Exports

Singapore has one of the world's most liberal and open trade regimes. Approximately 96 percent of imports are not dutiable. Tariffs are primarily levied on cigarettes and alcohol for social reasons. Excise taxes are levied on petroleum products and motor vehicles primarily to restrict motor vehicle use. There are no intentional nontariff barriers to foreign goods. 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 formally acceded to the WTO Government Procurement Agreement in September 1997.

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 (to either foreign or domestic institutions) because the Monetary Authority considers Singapore over-banked. Foreign banks currently hold 22 of the 34 full (local retail) banking licenses. Full licensed foreign banks, however, are not allowed additional branches or ATM machines while local banks are allowed to expand. At the same time, the MAS continues to encourage the growth of the offshore banking industry in Singapore. It recently raised the Singapore Dollar lending limit for offshore banks (to Singapore-based firms) from SGD 100 to SGD 300 million.

There are also restrictions on the extent to which foreign stockbrokerage firms can trade in the equity securities markets for Singapore resident clients. Current Stock Exchange of Singapore (SES) regulations restrict foreign equity ownership of SES member companies to 49 percent, with the exception of two joint ventures approved prior to 1990 and the special category of "international members" which are permitted only to do wholesale trading for resident clients. 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 59 direct insurance licenses. To achieve its goal of becoming an international financial center, the government has announced its intention to further liberalize the financial services market to permit greater foreign participation in its banking and securities markets.

The telecommunications sector has been steadily liberalized since 1989, although the government still imposes limits on the number of telephone service providers in Singapore. Restrictions on the sale of telecommunication consumer goods and the provision of value-added network services (VANS) have been lifted. Singapore Telecom (SINGTEL) has been privatized and its regulatory functions assumed by the Telecommunications Authority of Singapore (TAS). Private investors now own up to 20 percent of shares in SINGTEL. In April 1996, Mobile One (a Singapore-foreign joint venture) became the second cellular phone service provider in Singapore, thus ending SINGTEL's monopoly in the mobile telephone services market. Three new paging service providers also entered the market at the same time. In April 1998, TAS announced that it has issued a license to a new joint venture basic telephone service provider ("Starhub ") to begin operation in 2000, and will consider additional ones for 2002. At the same time, it issued a third cellular phone service license to a foreign joint venture company.

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 is a member of the World Intellectual Property Organization (WIPO), and has ratified the Uruguay Round Accord including the TRIPs provisions. Singapore acceded to the Berne Convention in September 1998, but is not a party to the Universal Copyright Convention.

The government recognizes the importance of intellectual property rights, especially in connection with further investments—both foreign and domestic—in the technologically-advanced sectors of the economy. It has taken concrete measures to improve the protection of IPR over the years and, as a result, Singapore has one of the lowest rates of IPR piracy in Asia.

Singapore was placed on the Special 301 Watch List in 1997 and 1998 partly because its Copyright Law was not considered fully TRIPs consistent and police enforcement was considered inadequate. (Note: Singapore claimed "developing country" status under TRIPs, thus not binding itself to meet the 1 January 1996 deadline for a "developed" country). Other outstanding issues included the lack of rental rights for sound recordings and software, inadequate protection against making bootleg copies of musical performances, the limited scope of copyright protection for cinematographic works and overly broad exceptions from copyright protection. Since then, Singapore has enacted amendments to its Copyright Law (January 1998) and submitted a new Trade Marks Bill (October 1998) with the intent of making both TRIPs-consistent. It imposed new licensing requirements and import controls in connection with a voluntary "code of conduct" for local optical disc manufacturing industry in April 1998. The government has also increased the number and scope of police-initiated raids, resulting in the arrest of local syndicate leaders and the seizure of nearly 750,000 illegal optical disc items in two major operations in August and October 1998.

Despite government efforts, IP owners associations have expressed dissatisfaction with the current level of IPR protection in Singapore. They cite the continued availability of pirated music CDs and CD ROMs, some of which they believe to have been smuggled into and some manufactured in Singapore. In late 1997, the Chief Justice quashed an 11th hour warrant used by the Business Software Alliance (BSA) and the police in a raid on a local CD manufacturer (which is currently suing BSA for damages). IP associations also complain about the inadequacy of the current "self-policing" system, and are pressing the government to create an independent IPR enforcement police force, apart from the current IPR warrant unit. They have called for the enactment of even stronger laws and regulations to protect IPR, including the mandatory use of Source Identification (SID) codes.

Recent estimates by the Business Software Alliance indicated software piracy losses in Singapore of $56.6 million in 1997, about the same level as in 1996, but up from $40.4 million in 1995 and $37.3 million in 1994. Singapore's piracy rate was estimated to have declined to 56 percent in 1997, from 59 percent in 1996, compared to 53 percent in 1995 and 61 percent in 1994. In the area of music CDs, the International Federation of the Phonographic Industry estimated Singapore's CD piracy level to have risen sharply from 12 percent in 1994 to nearly 30 percent in early 1997.

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. Singapore's labor force numbered 1.88 million in 1997, of which 260,000 or 14 percent of the labor force is organized into 81 trade unions.

b. *The Right to Organize and Bargain Collectively:* Over ninety percent of union members in 72 of the 81 trade unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government. The NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister Without Portfolio in the Prime Minister's office.

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

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. The economic downturn and the concomitant rise in the unemployment rate, from 1.8 percent in 1997 to the projected rates of four and six percent in 1998 and 1999 respectively, has eased the problems of labor shortage and high wage escalation in Singapore. In response, the government has increased funds to retrain workers and reduce structural unemployment. The government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, have reduced the frequency of job-related accidents by one-third over the past decade. The average severity of occupational accidents (defined as the number of industrial man-days lost per million man-hours worked) has, however, risen by 12 percent and 32 percent in 1996 and 1997, to 353 and 466 respectively.

f. *Rights in Sectors with U.S. Investment:* U.S. firms have substantial investments in several industries, notably petroleum, chemicals and related products, electronic and electronics equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors of the economy. Many employers resort to hiring foreign workers to ease shortages in unskilled and highly-skilled jobs. (Note: Since last year, the government has actively promoted policies to attract foreign talent to work in Singapore. For example, companies are now allowed to claim double tax deduction on approved hiring and relocation expanses associated with the hiring of talent from abroad). The government controls the number of foreign workers through immigration regulation and through levies on firms hiring them. Foreign workers, numbering 460,000 or 24 percent of the total work force, generally face no legal discrimination in Singapore.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		3,329
Total Manufacturing		7,851
Food and Kindred Products	(1)	
Chemicals and Allied Products	299	
Primary and Fabricated Metals	149	
Industrial Machinery and Equipment	2,449	
Electric and Electronic Equipment	4,521	
Transportation Equipment	53	
Other Manufacturing	379	
Wholesale Trade		1,874
Banking		694
Finance/Insurance/Real Estate		3,154
Services		528
Other Industries		85
TOTAL ALL INDUSTRIES		17,514

(1) Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TAIWAN

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
GDP (at current prices)	272.3	283.3	260.9
Real GDP Growth (pct)	5.7	6.8	5.3

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
GDP by Sector:			
Agriculture	8.9	7.7	6.7
Manufacturing	76.0	78.4	72.5
Services	144.6	155.8	145.0
Government	28.7	29.5	26.5
Per Capita GDP (US$)	12,732	13,130	11,976
Labor Force (000s)	9,310	9,432	9,555
Unemployment Rate (pct)	2.6	2.7	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.1	8.0	8.3
Consumer Price Inflation	3.1	0.9	1.9
Exchange Rate (NTD/US$):[2]			
Official	27.46	28.95	33.30
Balance of Payments and Trade:[3]			
Total Exports FOB[4]	115.9	122.1	111.5
Exports to United States CV[5]	29.9	32.6	33.5
Total Imports CIF[4]	102.4	114.4	106.7
Imports from United States FAS[5]	18.4	20.4	17.7
Trade Balance[4]	13.5	7.7	4.8
Trade Balance with United States[5]	11.5	12.2	15.8
External Public Debt	0.1	0.1	.05
Fiscal Deficit/GDP (pct)	7.4	6.3	5.0
Current Account Surplus/GDP (pct)	4.0	2.7	2.3
Debt Service Payments/GDP (pct)	0.7	0.7	0.7
Gold and Foreign Exchange Reserves	93.6	88.2	90.0
Aid from United States[6]	C	0	0
Aid from Other Countries	0	0	0

[1] 1998 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1998.
[2] Average of figures at the end of each month.
[3] Merchandise trade.
[4] Taiwan Ministry of Finance (MOF) figures for merchandise trade.
[5] Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through August. Taiwan MOF figures for merchandise exports (FOB) to and imports (CIF) from the U.S. were (US$ billions): (1996) 26.9/20.0, (1997) 29.5/23.2, (1998) 30.0/19.3.
[6] Aid disbursements stopped in 1965.

1. General Policy Framework

For four and a half decades, Taiwan has maintained rapid growth and macroeconomic stability. Annual economic growth during this period averaged 8.5 percent. In 1997, real Gross Domestic Product (GDP) increased 6.8 percent. However, financial turmoil in East Asia slowed the growth rate to about 5 percent in 1998. Per capita GDP was $13,130 in 1997. The per capita GDP estimate for 1998 is $11,976. This decline is due to the depreciation of the New Taiwan Dollar. As of September 1998, Taiwan held $84 billion in foreign exchange reserves, the third largest in the world (after Japan and the PRC). Prices rose one percent in 1997 and are expected to rise two percent in 1998.

Rising labor and land costs have long led many manufacturers in labor intensive industries 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, semiconductors, and electronic components, as well as consumer goods industries. Services account for 55.6 percent of GDP. Merchandise exports accounted for 44 percent of GDP in 1998.

Falling official savings and growing public expenditure have caused domestic public debt to increase steadily. The Taiwan authorities now rely largely on domestic bonds and bank loans to finance major expenditures. Taiwan has adopted austerity measures to control the government budget deficit in recent years. As a result, outstanding public debt, which declined from 21 percent of GNP in 1997 to 19.4 percent in 1998, will drop further to 17 percent in 1999 and 15 percent in 2000 (all data on a fiscal year basis, July 1-June 30). The central government's deficit will fall from four percent of GDP in 1997 to one percent in 2000. Defense spending still accounts for the largest share of public expenditures (about one quarter), but is falling in relative terms. The greatest pressure on the budget now comes from growing demands for improved infrastructure and social welfare spending, including a national health insurance plan initiated in early 1995.

Taiwan wishes to accede to the World Trade Organization (WTO) in the near future. As part of the accession process, Taiwan and the United States signed a landmark bilateral WTO agreement in February, 1998. The agreement includes both immediate market access and phased-in commitments, and will provide substantially increased access for U.S. goods, services, and agricultural exports to Taiwan. Taiwan is also an active member of the Asia Pacific Economic Cooperation (APEC) forum.

2. Exchange Rate Policies

Taiwan has a floating exchange rate system in which banks set rates independently. The Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. 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. The CBC uses direct foreign exchange trading by its surrogate banks and public policy statements as its main tools to influence exchange rates. The CBC still limits the use of derivative products denominated in New Taiwan Dollars (NTD).

Trade-related funds flow freely into and out of Taiwan. Most restrictions on capital account flows have been removed since late 1995. Laws restricting repatriation of principal and earnings from direct investment have been lifted. Despite significant easing of previous restrictions on foreign portfolio investment, some limits remain in place.

3. Structural Policies

Fifteen state-owned enterprises have been either totally or partially privatized in the past three years. Nine more are targeted for privatization in 1999. State-owned enterprises account for 9.5 percent of GDP, a proportion which shrinks annually. Taiwan's Fair Trade Commission (FTC) acts to thwart noncompetitive pricing by state-run monopolies. FTC exemptions granted five years ago to several state-run monopolies were not renewed in 1997, making such firms subject to anti-monopoly laws.

Taiwan has been lowering tariffs significantly in recent years. In May, 1998, Taiwan began implementing tariff cuts on 1,130 items, many of specific interest to U.S. industry. In 1998, authorities also enacted tariff cuts on 245 high-tech products under the Information Technology Agreement. Tariff reductions on 15 agricultural products, negotiated during the U.S.-Taiwan bilateral WTO accession negotiations, took effect in July 1998. An additional 777 items are slated for tariff cuts shortly. Taiwan's current average nominal tariff rate is 8.3 percent; the trade-weighted rate is 3.2 percent.

High tariffs and pricing structures on some goods—in particular on some agricultural products—nevertheless hamper U.S. exports. However, under the bilateral WTO agreement reached in February, Taiwan began to provide quotas for the importation of previously-banned pork, poultry, and variety meat products. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) has a monopoly on domestic production of cigarettes and alcoholic beverages. As part of its bilateral WTO commitments to the United States, however, Taiwan has pledged to convert an existing monopoly tax on these products to a simpler tax and tariff-based system, and also to open these markets following the passage and implementation of new legislation now pending in the Legislative Yuan.

4. Debt Management Policies

Unofficial estimates put Taiwan's outstanding long and short-term external debt at $20 billion as of December 1997, equivalent to seven percent of GDP. Official figures show Taiwan's long term outstanding external public debt totaled $64 million as of June 1998, compared to gold and foreign exchange reserves of about $88 billion. Taiwan's debt service payments in 1997 totaled $2.1 billion, only 1.5 percent of exports of goods and services.

Foreign loans committed by Taiwan authorities exceed $3.6 billion. Taiwan offered low-interest loans to the Philippines, Eastern Europe, Vietnam, South Africa, and Latin America, mostly to build industrial zones and to foster development of small and medium enterprises. Some of the loans were provided to several Southeast Asian nations to address financial crises. Taiwan also contributes to the Asian Development Bank (ADB), one of the two multilateral development banks in which it has membership. Taiwan is also a member of the Central American Bank for Economic Integration (CABEI). The ADB, CABEI, the European Bank for Reconstruction and Development (EBRD) and a number of other international organizations have all floated bonds in Taiwan.

5. Significant Barriers to U.S. Exports

Accession to the WTO agreement by Taiwan will open markets for many U.S. goods and services. Of some 10,200 official import product categories, nearly 86 percent are completely exempt from any controls. 991 categories are still "regulated" and require approval from relevant authorities based on the qualifications of the importer, the origin of the good, or other factors. Another 279 require import permits from the Board of Foreign Trade or pro forma notarization by banks. Imports of 270 categories are "restricted," including ammunition and some agricultural products. These items can only be imported under special circumstances, and are thus effectively banned.

Financial: Taiwan continues to steadily liberalize its financial sector. Taiwan enacted a Futures Exchange Law in March 1997; a futures market was established in July 1998. The Securities and Exchange Law was amended in May 1997 to remove restrictions on employment of foreigners by securities firms, effective upon Taiwan's accession to the WTO. Limits remain on foreign ownership in listed companies. For qualified foreign institutional investors, restrictions on capital flows have been removed, although they are still subject to limits on portfolio investment. Foreign individual investors are subject to some limits on their portfolio investment and restrictions on their capital flows.

Banking: In June 1997, the annual limit on a company's trade-related outward (or inward) remittances was raised from $20 million to $50 million. Inward/outward remittances unrelated to trade by individuals or companies are still subject to annual limits. NTD-related derivative contracts may not exceed one-third of a bank's foreign exchange position. To stabilize the foreign exchange market in the wake of regional financial turmoil, the CBC closed the non-deliverable forward (NDF) market to domestic corporations in May 1998; the NDF market remains open to foreign companies.

Legal: Foreign lawyers may not operate legal practices in Taiwan but may set up consulting firms or work with local law firms. Qualified foreign attorneys may, as consultants to Taiwan law firms, provide legal advice to their employers only. Legislation was passed in May to clarify the status and scope of work for foreign-licensed attorneys, and also to permit the eventual establishment of foreign legal partnerships. However, last minute changes to the law failed to achieve this purpose, and may be inconsistent with Taiwan's WTO commitments. Taiwan authorities have pledged to remedy these inconsistencies and for now the new law is not being implemented.

Insurance: In May 1997, the financial authorities announced that in principle insurance companies would be allowed to set some premium rates and policy clauses without prior approval from regulators. Insurance companies are still required to report such rates and clauses. In July 1995, Taiwan removed a prohibition against mutual insurance companies; as of late 1998, however, authorities had not issued implementing regulations.

Transportation: The United States and Taiwan concluded an Open Skies Agreement in February 1997. An amendment to the Highway Law allowing branches of U.S. ocean and air freight carriers to truck containers and cargo in Taiwan went into effect on November 1, 1997.

Telecommunications: Taiwan opened its mobile phone market to full competition in 1997. Fixed line services remain monopolized by Chunghwa Telecom, a state-owned corporation. Taiwan plans to issue a limited number of new fixed line licenses in 1999 to provide competition for Chunghwa. Under its WTO services schedule, it is committed to full market opening by July, 2001. Under the bilateral WTO agreement signed in February, Chunghwa began in October to lower excessively high interconnection fees previously imposed on mobile service providers. Taiwan also agreed to raise the current 20 percent limit on foreign ownership of a telecom firm to 60 percent through a combination of direct and indirect ownership. This change, however, is unlikely to be enacted until mid-1999 at the earliest.

Pharmaceuticals and Medical Devices: Taiwan's single payer socialized health care system discriminates against imported drugs by setting prices for leading brand-name products at artificially low levels, while providing artificially high reimbursement prices for locally-made generics. The process by which Taiwan registers and prices new drugs is also time-consuming and cumbersome. In 1998, however, Taiwan authorities began a two-year phase-out of a burdensome requirement for clinical trials as part of the registration process for new drugs. High value-added imported medical devices are likewise put at a competitive disadvantage by Taiwan's reimbursement system, which fails to account for significant quality differences between different brands of medical devices.

Movies and Cable TV: Taiwan eased import restrictions on foreign film prints from 38 to 58 per title in late 1997. The number of theaters in any municipality allowed to show the same foreign film simultaneously also increased from 11 to 18. Effective August 1997, multi-screen theaters are allowed to show a film on up to three screens simultaneously, up from the previous limit of one. Taiwan has pledged to abolish these restrictions upon accession to the WTO. In the cable TV market, concerns are growing that the island's two dominant Multi-System Operators (MSOs) are colluding to inhibit fair competition. Control by the two MSOs of upstream program distribution is making it increasingly difficult for U.S. providers of popular channels to negotiate reasonable fees for their programs.

Standards, Testing, Labeling, and Certification: Taiwan will bring its laws and practices into conformity with the WTO Agreement on Technical Barriers to Trade as part of its WTO accession. U.S. agricultural exports in particular suffer under existing requirements. These include a lack of an internationally-accepted set of pesticide tolerance levels for imported fruits and vegetables, stringent 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. Imported autos face stringent noise emissions and fuel efficiency testing requirements. In 1997, Taiwan authorities promulgated new Electromagnetic Compatibility (EMC) standards for computer and other electronic goods. In October, 1998, the U.S. and Taiwan initialed an agreement under which Taiwan will recognize EMC testing performed by accredited U.S. labs. Final implementation awaits approval by Taiwan's Cabinet.

Investment Barriers: Taiwan continues to relax investment restrictions in a host of areas, but foreign investment remains prohibited in key industries such as agriculture, basic wire line telecommunications, broadcasting, and liquor and cigarette production. Wire line telecommunications will be gradually liberalized beginning in 1999, and will be completely liberalized by July, 2001 under Taiwan's WTO commitments. Liquor and cigarette production will be fully liberalized by 2004.

Limits on foreign equity participation in a number of industries were relaxed in 1997; for example, permissible participation in shipping companies was raised from 50 to 100 percent. A 33 percent limit on holdings in air cargo forwarders and air cargo ground-handling was raised to 50 percent in 1998, but remains unchanged for airlines. However, an amendment to the Civil Aviation Law that would raise the holding limit to 50 percent is now pending legislative approval. In August 1997, Taiwan raised the cap on foreign investment in independent power projects from 30 percent to 49 percent. Local content requirements in the automobile and motorcycle industries will be lifted as part of Taiwan's WTO accession. Restrictions on employment of foreign administrative personnel in foreign-invested firms remain in place.

Procurement Practices: Taiwan has committed to adhere to the WTO Agreement on Government Procurement (AGP) as part of its WTO accession. To prepare for this commitment, a new Government Procurement Law was passed and promulgated in mid-1998, marking an important step towards open, fair competition in Taiwan's multi-billion dollar market for public procurement projects. The new law is being implemented and enforced by a reorganized body, the Government Procurement and Public Construction Commission.

6. Export Subsidies Policies

Taiwan provides an array of direct and indirect subsidy programs to farmers, ranging from financial assistance to guaranteed purchase prices higher than world prices. It also provides incentives to industrial firms in export processing zones and to firms in designated "emerging industries." Some of these programs may have the effect of subsidizing exports. Taiwan is currently in the process of notifying the WTO of these programs, and as part of its WTO accession, it may be required to amend or abolish any subsidy programs deemed inconsistent with WTO principles.

7. Protection of U.S. Intellectual Property

Taiwan is not a party to any major multilateral IPR conventions. In line with WTO accession efforts, Taiwan has passed laws to protect integrated circuit layouts, personal data, and trade secrets. Taiwan currently protects copyrights dating from 1965. Revised Copyright, Patent, and Trademark Laws were passed in 1997. However, only the Trademark Law and certain provisions of the Copyright Law have been implemented. The new Copyright Law, which will be fully implemented only upon WTO accession, will extend retroactive copyright protection to 50 years. Taiwan implemented these changes to bring its IPR legal structure into conformity with the WTO TRIPs agreement.

Citing persistent enforcement problems, the United States put Taiwan back on the Special 301 Watch List in August, 1998. The U.S. is particularly concerned about inadequate enforcement efforts in the face of continued production and export of counterfeit U.S. software and video games to the U.S. and third countries. In 1997, Taiwan was the second largest source of counterfeit goods seized by U.S. Customs. Another key enforcement weakness in the existing system is the unwillingness of some judges and prosecutors to accept foreign-issued powers of attorney in IPR prosecutions. Taiwan authorities are presently taking steps to address these and other enforcement issues.

8. Worker Rights

a. *The Right of Association:* Although the right to organize was reaffirmed by Taiwan's Judicial Yuan in 1995 as a constitutional right, the Labor Union Law (LUL) forbids civil servants, teachers, and defense industry workers from organizing trade unions and forbids workers from forming competing trade unions and confederations. However, as democratization has continued, workers have gradually established independent labor organizations, either legally or illegally, and these independent unions are increasingly challenging the leadership of the Chinese Federation of Labor. As of June 1998, 2.9 million workers, or 31 percent of Taiwan's labor force, belonged to its 3,707 labor unions.

b. *The Right to Organize and Bargain Collectively:* With the exception of civil servants, teachers, and defense industry workers, the Law Governing the Handling of Labor Disputes (LUL), and the Collective Agreement Law give workers the right to organize and bargain collectively. However, the laws also restrict workers' exercise of these rights. The LUL, for example, stipulates that workers shall not strike to demand an increase in wages exceeding standard wages. Collective bargaining agreements exist mainly in large-scale enterprises. As of June, 1998, there were 296 such collective agreements.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Standards Law prohibits forced or compulsory labor. The maximum jail sentence for violation of the law is five years. Except for cases involving prostitution, there were no reports of such practices in 1998.

d. *Minimum Age for Employment of Children:* The Labor Standards Law stipulates age 15, after completion of the 9-year compulsory education required by law, as the minimum age for employment. County and city labor bureaus enforce minimum age laws. Child labor is rare in Taiwan.

e. *Acceptable Conditions of Work:* The Labor Standards Law (LSL) mandates basic labor standards. Under a 1996 amendment, the LSL is to extend to all industries by the end of 1998. As a result, it now covers over 5.5 million of Taiwan's 6.6 million salaried workers. The minimum wage remained unchanged in 1998 at NTD15,840 (or about $490) per month. During 1998, the average wage in the manufacturing sector was around NTD39,340 (or about $1,320), more than twice the legal minimum wage. The LSL limits the workweek to 48 hours (8 hours per day, 6 days per week) and requires one day off every 7 days. In December 1996, the LSL was adjusted to give employers more flexibility in adhering to work hour limits and to facilitate the extension of a five-day workweek twice a month to private sector firms. In addition to wages, employers typically provide workers with additional payments and benefits, including a portion of national health insurance and labor insurance premiums, the distribution of labor welfare funds, meals, and transportation allowances.

f. *Rights in Sectors with U.S. Investments:* U.S. firms and joint ventures generally abide by Taiwan's labor law regulations. In terms of wages and other benefits, worker rights do not vary significantly by industrial sector.

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

[Millions of U.S. dollars]

Category	Amount	
Petroleum		40
Total Manufacturing		3,193
Food and Kindred Products	96	
Chemicals and Allied Products	1,350	

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

[Millions of U.S. dollars]

Category	Amount	
Primary and Fabricated Metals	57	
Industrial Machinery and Equipment	164	
Electric and Electronic Equipment	1,023	
Transportation Equipment	42	
Other Manufacturing	462	
Wholesale Trade		526
Banking		615
Finance/Insurance/Real Estate		288
Services		204
Other Industries		77
TOTAL ALL INDUSTRIES		4,944

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

THAILAND

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:[2]			
Nominal GDP	185,893.3	188,880	123,335
Real GDP Growth (pct)	6.5	−0.4	−8.0
GDP by Sector:			
Agriculture	19,628.5	17,310	N/A
Manufacturing	55,023.7	44,370	N/A
Services	22,407.1	20,727	N/A
Government	6,557.3	5,677	N/A
Per Capita GDP (US$)	3,034	2,462	2,008
Labor Force	34.03	34.4	33.13
Unemployment Rate	2.6	1.9	4.4
Money and Prices (annual percentage growth):			
Money Supply Growth	12.0	2.1	9.0
Consumer Price Inflation	6.0	5.6	8.2
Exchange Rate:			
Official	25.34	31.37	40.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	57,312.0	56,200.0	N/A
Exports to United States	11,063.0	11,474.9	N/A
Total Imports CIF	72,391.3	66,500.0	N/A
Imports from United States	6,947.0	7,243.8	N/A
Trade Balance	−15,079.3	−10,000.0	N/A
Balance with United States	4,116.0	4,231.1	N/A
External Public Debt	16.5	24.5	27.8[3]
Fiscal Surplus (pct)	2.2	−2.1	−3.0
Current Account/GDP (pct)	−8.0	−2.0	10.0
Debt Service Payments/GDP (pct)	5.86	7.7	N/A
Gold and Foreign Exchange Reserves	39,500	26,968	26–28,000
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are estimates.

[2] Bank of Thailand.
[3] Figure includes use of monetary authorities, such as central bank IMF obligations.
Sources: Royal Thai Government and U.S. Department of Commerce.

1. General Policy Framework

Since coming to power in November 1997, the government of Prime Minister Chuan Leekpai has had to face Thailand's greatest post-war economic crisis. A regional economic downturn first turned into crisis in Thailand during late 1996, when a property value bubble burst, exposing deep strata of bad debt. An ensuing speculative run on the long-stable Thai Baht was met with an ill-advised and abortive attempt to defend the currency using the country's foreign exchange reserves. Instead of stabilization, Thailand was forced to float the baht, leading immediately to a substantial devaluation. This was followed by a freezing of credit as many of the country's finance companies failed. The credit crunch steadily choked off the import/manufacturing/export cycle. The spread of the "Thai contagion" to the other economies of the region was swift, and in 1998 the regional downturn contributed to similar crises in other parts of the world as well.

The government made promises of structural reform in the financial sector to the IMF in exchange for a rescue package. The reforms, and re-capitalization of the surviving financial institutions, have progressed slowly amid mounting public criticism as unemployment has spread.

Exports (except in textiles and agro-industries) have not reaped the expected gains from a cheaper currency because so many of Thailand's products are assembled with components bought abroad which necessarily come at higher prices. Also, the regional currencies of Thailand's competitors have devalued roughly in tandem, cutting away the opportunity to capture more of the textile markets. Most seriously, the regional (ASEAN) export market collapsed. In 1996, Thailand's Gross Domestic Product (GDP) growth fell from 6.5 percent to an estimated zero percent in 1997. GDP is projected to decline by eight percent in 1998.

The Chuan government has suffered criticism for ignoring the plight of the poor in favor of bankers and industrialists. This has not yet created a political crisis for his government. In mid-1998 a large opposition party was brought into the coalition, thereby gaining election-free time for economic reforms to produce results.

More than 50 percent of the Thai labor force is still engaged in agriculture, at least on a part time basis. Before the economic crisis, the service, manufacturing, and wholesale and retail trades accounted for about two thirds of Thailand's GDP. Due to the return to the land of some unemployed from other sectors, at the end of 1998 that figure will be lower.

There are long term problems that are likely to negatively affect the Thai economy for some time. Thai competitiveness in labor intensive industries (such as textiles) has been falling as its ASEAN neighbors have taken a greater share of those markets. There is a shortage of well-educated management and workers capable of shifting smoothly into higher-tech industries, where Thailand's economic future purportedly lies. Inadequate infrastructure, especially in the overcrowded Bangkok area, is an ongoing problem.

The government depends upon exports to bring the country through the current economic crisis, but they may not be the engine of recovery. Exports are far down in many sectors (though textiles are doing well again, as are some of the products of the agro-industries, primarily because they depend less upon imported inputs). By the end of the eighth month of 1998, exports were valued at nearly $36 billion, a fall-off of 5.2 percent, year-on-year (yoy). Though output volume is up more than 15 percent, sharp drops in prices have led to an overall drop in value. There has also been a sea change in the patterns of Thai exports. The Japanese market has collapsed (-17.2 percent, yoy), while the United States has become the critical buyer (up 10 percent, yoy). The EU is close behind (up 9.8 percent).

2. Exchange Rate Policy

From 1984 to 1997 the baht was pegged to a basket of currencies of Thailand's principal trading partners, with the U.S. Dollar representing the largest share. The exchange rate averaged about 25 baht to the dollar during most of that period. However, under pressure from dwindling foreign exchange reserves, the baht was allowed to float on July 2, 1997. It began to depreciate immediately, falling to 56/dollar by mid-January 1998. As reform measures and IMF support took hold, the baht stabilized and traded around 40/dollar between March and September 1998. In October 1998, the baht appreciated against the dollar in line with other Asian currencies.

In 1990, the Thai Government announced a series of measures to liberalize the exchange control regime and accepted the obligations of the IMF's Article VIII. Commercial banks were given permission to process foreign exchange transactions, and ceilings on money transfers were increased. Since 1991, banks in Thailand have offered Foreign Currency (FCD) accounts for Thai residents, though such accounts are limited to $500,000 for individuals and $5 million for corporations (without conditions.)

After letting the baht float in July 1997, the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations (within three months from date of deposit) to open FCD accounts. Thailand also shortened to 120 days from shipment the period within which exporters must transfer foreign exchange earnings, or deposit them in FCD accounts.

3. Structural Policies

The Thai taxation code has undergone revision since 1992, when a 7 percent Value-Added Tax (VAT) system was introduced. The previous tax regime was clumsy and complicated, with a multi-tiered structure for assessing business taxes. In September 1997, the government announced an increase in the VAT, from 7 to 10 percent (most basic foodstuffs are excepted). This was necessary to raise revenues, and to meet the requirements of the IMF rescue package. An exemption for businesses making less than $24,000 per annum remains in place. Firms grossing between $24,000 and $48,000 per annum pay a rate of 1.5 percent, up .5 percent. Exporters are "zero rated" but must file VAT returns and apply for a rebate. The corporate tax rate is currently 30 percent of net profits for all firms. A proposal pending in parliament would substitute a tax credit for the VAT rebate.

A new tax treaty between the United States and Thailand was signed in November 1996, and ratified by the U.S. Senate in October 1997. The treaty entered into force after the exchange of the instruments of ratification. Smaller U.S. firms, in particular, had been disadvantaged by the lack of a reciprocal tax agreement. The treaty provides for the elimination of double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

4. Debt Management Policies

Thailand's financial crisis resulted in part from significant increases in (private sector) external debt. At the end of 1997, the stock of public sector external debt stood at $17.2 billion, of which only $20 million is short term. Private sector debt stood at $67.3 billion, of which $29.9 billion was short term. Public sector external debt is owed to multilateral and bilateral institutions, as well as to capital markets and is divided relatively evenly between direct government borrowings and loans (to state owned enterprises) guaranteed by the government. Thailand's debt service, as a percentage of exports of goods and services, propelled by stagnating exports, has risen considerably. The debt service ratio rose from 11.4 percent in 1995 to 20.3 percent (3.1 percent for public sector debt service and 17.2 for the private sector) during the first quarter of 1998.

The financial crisis prompted Thailand to seek assistance from the IMF, which arranged a $17.2 billion stabilization program. Restructuring the corporate debt overhang is an important element of the IMF program and the overall effort to stabilize and rejuvenate the Thai economy. The government has conditioned public assistance for recapitalizing banks in part on progress in restructuring. The government has also announced principles for debt restructuring and established the corporate debt restructuring advisory committee to assist targeted debt workouts.

5. Significant Barriers to U.S. Exports

Moving to meet its WTO and ASEAN tariff reduction commitments, Thailand instituted tariff reductions beginning in January 1995. There were further reductions on 4,000 items at the beginning of 1997. However, the decision to accelerate ASEAN's Free Trade Area (AFTA) preferred tariff schedules, taken in Manila in October 1998, did not translate into any impetus toward significant liberalization within APEC. Also, the need for revenue has led to the imposition of higher duties, surcharges, and excise taxes on "sin" items and a range of luxury imports, including U.S. wine and beer exports.

At the beginning of 1997, the total number of tariff rate categories was reduced from 39 to six, with the following spread: zero percent on such goods as medical equipment and fertilizer, one percent for raw materials, electronics components, and vehicles for international transport, five percent for primary and capital goods, 10 percent for intermediate goods, 20 percent for finished products, and 30 percent for goods needing "special protection." This last category includes agricultural products, autos and auto parts, alcoholic beverages, and a few other "sensitive" items. Import tariff quotas are applied to a total of 23 categories of agricultural products.

Thailand is in the process of changing its import license procedures to comply with its WTO obligations. Import licenses are still required for 26 categories of items, down from 42 categories in 1995-1996. Licenses are required for many raw materials, petroleum, industrial, textile, and agricultural items. Import licenses can be used to protect unproductive local industries and to encourage greater domestic production. Some items that do not require licenses must nevertheless comply with applicable regulations of concerned agencies, are subject to extra fees, or must have certificates of origin.

The Thai Food and Drug Administration issues licenses for food and pharmaceutical imports. This process can be a barrier due to the cost, the length of the process, and occasional demands for proprietary information. Licenses cost about $600 and must be renewed every three years. Pharmaceutical import licenses cost about $480 and must be renewed every year. There are also fees for laboratory analysis. Costs of between $40 to $120 per item are usual for sample food products imported in bulk. Sealed, packaged foods can cost about $200 per item. Pharmaceuticals must be registered for a fee of about $80, and inspected and analyzed for another fee of about $40 per item. The process can take more than three months to complete. The fees are currently under review and may be increased during the coming year.

The government is gradually easing import duties in line with WTO commitments, which may improve market access for some American products. Rice will continue to be protected, but within WTO schedules. Corn and fresh potatoes are subject to a Tariff Rate Quota (TRQ) that limits import levels. The restricted entry period for U.S. corn under the TRQ, generally February to June, usually ensures that it is not competitive in the Thai market.

Even though rates are slated to decline between 35 and 50 percent under WTO rules, duties on many high-value fresh and processed foods remain high. For most U.S. high-value fresh and value-added processed foods, entry into Thailand is still expensive. There are no longer specific duties on most imported agricultural and food products, except wine and spirits, which continue to have very high rates.

Arbitrary customs valuation procedures sometimes constitute a serious barrier to U.S. goods. The Customs Department has used the highest previously declared invoice value as a benchmark for assessing subsequent shipments from the same country. That allows customs to disregard the invoice value of a shipment in favor of the benchmark amount. This practice has had a particularly damaging effect upon trade in agricultural products, which often have seasonally fluctuating values. However, the government is instituting a program of customs reform that, if adopted successfully, will remedy some of the problems at the ports of entry. These reforms include adoption of the world customs organization harmonized code and the use of an Electronic Data Interchange (EDI) system. The pilot program for EDI became operational early in 1998, but thus far affects only export procedures and only in the airport, not in the seaports. Expedited procedures for express carriers have been instituted.

Customs duties are sometimes arbitrary in other ways. For example, import duties on unfinished materials are higher than those on finished goods in some categories, such as automobiles. This is a burden to American firms that manufacture or assemble in Thailand.

Restrictions on the activities of foreign banks have eased since 1994, as have limits on foreign ownership of Thai banks. However, foreign banks' deposits in Thailand still comprise only 4.3 percent of total bank deposits, and foreign banks are still disadvantaged in a number of ways. Foreign banks are limited to three branches (of which two must be outside of Bangkok and adjacent provinces) and there are limits on expatriate management personnel, although foreign bankers here say that requests for additional personnel are customarily approved.

To facilitate recapitalization of the financial sector, the government has raised limits on foreign ownership of domestic banks. In June 1997 the Minister of Finance was empowered to raise the old 25 percent ceiling on foreign ownership of domestic banks, and the Bank of Thailand announced in November 1997 that foreign ownership would be allowed to exceed 49 percent for a period of 10 years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares.) The government has also issued additional foreign bank and Bangkok International Banking Facility licenses and authorized foreign bank participation in domestic ATM networks.

Foreign ownership of finance companies and securities companies had been limited to 25 percent, but these limits were also raised in the aftermath of the financial crisis. As of May 1998, foreigners may hold majority stakes in Thai securities houses, although there are minimum investment requirements.

Telecommunications services are a government monopoly in Thailand. Private participation is currently limited to concessions in both wireless and fixed line sectors. In November 1997, the government approved a telecommunications master plan that that provides an outline of a liberalization program. Implementation of this plan, which will involve the reorganization of the existing state enterprises into stock companies, is expected to take up to two years. As a first step, the government plans to corporatize its two telecom operators, TOT and CAT, in preparation for seeking foreign partners during 1999. Full market liberalization will not take place until 2006, as mandated by the WTO.

6. Export Subsidies Policies

Thailand ratified the Uruguay Round agreements in December 1994. Thailand maintains several programs that benefit manufactured products or processed agricultural products and which may constitute export subsidies. These include subsidized credit on some government-to-government sales of Thai rice (agreed on a case-by-case basis), preferential financing for exporters in the form of packing credits, tax certificates for rebates of packing credits, and rebates of taxes and import duties for products intended for re-export. The Thai EX-IM bank currently offers an 11 (plus 1.5) percent rate, about one point below the prime rate offered by the large commercial banks.

7. Protection of U.S. Intellectual Property

Improved protection for U.S. copyright, patent, and trademark holders has been an important bilateral trade issue for several years. After passage of a revised Copyright Law in 1994 the U.S. moved Thailand from Priority Watch List to Watch List status. The government also agreed to provide "pipeline protection" through administrative means for certain pharmaceutical products not entitled to full patent protection under the 1992 Patent Law. In recognition of this progress, the U.S. restored a number of GSP benefits that had been denied to Thailand under Special 301. Several other bills designed to bring Thailand into compliance with its TRIPs requirements, including an amendment to the Patent Act that will abolish the pharmaceutical review board, are currently in the legislative process.

A specialized intellectual property department in the Ministry of Commerce has cooperated with U.S. industry associations to coordinate both legal reforms and enforcement efforts, including raids. In 1997, the parliament established a separate intellectual property court that can result in a more efficient judicial system and tougher sentencing. The court began operation in December 1997. In mid-1998, the government produced a letter of intent which contained the bilaterally agreed text of an IPR action plan for the remainder of the year. The plan is ambitious, and covers most aspects of IPR; however, it has not yet been implemented.

Piracy remains a serious problem, however, and is growing rather than shrinking, as enforcement is too lax to be effective. The U.S. pharmaceutical, film, and software industries estimate lost sales at over $200 million annually. Despite new and improved laws, judicial proceedings remain slow and the fines actually imposed are light. To date, no one has served time in jail for copyright infringement. The police have not always been cooperative, let alone proactive, in combating piracy.

8. Worker Rights

a. *The Right of Association:* The Labor Relations Act of 1975 gives workers in the private sector most internationally recognized labor rights, including the freedom to associate. They may form and join unions and make policy without hindrance from the government and without reprisal or discrimination for union activity. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. In 1991, following a military coup, the Thai Government revoked a number of these rights for state enterprise workers. After a prolonged period of government changes, the Thai Parliament approved a new State Enterprise Labor Relations (SELR) bill on October 8, 1998. On November 12, the Constitutional Court rejected the bill on a technicality. The government has pledged to re-introduce the legislation in parliament.

b. *The Right to Organize and Bargain Collectively:* Thai workers have the right to bargain collectively over wages, working conditions, and benefits. About 900 private sector unions are registered in Thailand. Civil servants cannot form unions. State enterprise employees, essential workers (transportation, education, and health care personnel), and civil servants may not strike. However, they may be members of employee associations. Collective bargaining is unusual in Thailand, and industry-wide collective bargaining is all but unknown. However, representatives of public sector associations and private sector unions do sit on various government committees dealing with labor matters, and are influential in setting national labor policies, such as the minimum wage.

c. *Prohibition of Forced or Compulsory Labor:* The Thai Constitution prohibits forced or compulsory labor except in cases of national emergency, war, or martial law. However, Thailand remains the target of ILO actions under Convention 29 (forced labor) because child prostitution persists despite recent government moves to step up enforcement of laws prohibiting it, and to cooperate with ILO programs.

d. *Minimum Age for Employment of Children:* The new 1998 Labor Protection Act went into effect on August 20, 1998. The act raises the minimum age for employment in Thailand from thirteen to fifteen. Persons between the ages of 15 to 18 are restricted to light work in non-hazardous jobs, and must have the permission of the Department of Labor in order to work. Night-time and holiday employment of non-adults is prohibited. The new national education bill has passed a first reading in the lower house of parliament and is being considered by the House Scrutiny Committee. It is constructed to comply with the new constitution, which gives the right to free primary education for at least 12 years.

e. *Acceptable Conditions of Work:* Working conditions vary widely in Thailand. Large factories generally meet international health and safety standards, though there have been serious lapses involving loss of life. The government has increased the number of inspectors and raised fines for violators, but enforcement is still not rigorous. The usual work-day in industry is eight hours. Wages in profitable export industries often exceed the legal minimum. However, in the large informal industrial sector wage, health, and safety standards are low and regulations are often ignored. Most industries have a legally mandated 48 hour maximum work week. The major exceptions are commercial establishments, where the maximum is 54 hours. Transportation workers are restricted to 48 hours per week.

f. *Rights in Sectors with U.S. Investment:* Labor rights are generally well-respected in industrial sectors with heavy investment from U.S. companies. Most U.S. firms in Thailand work with internal workers' representatives or unions, and relations are constructive. U.S. companies strictly adhere to Thai labor laws and have not experienced serious labor disruptions in the last year.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		930
Total Manufacturing		1,090
Food and Kindred Products	(1)	
Chemicals and Allied Products	271	
Primary and Fabricated Metals	48	
Industrial Machinery and Equipment	314	
Electric and Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	182	
Wholesale Trade		567
Banking		437
Finance/Insurance/Real Estate		84
Services		42
Other Industries		389
TOTAL ALL INDUSTRIES		3,537

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

EUROPE

EUROPEAN UNION

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	8573.6	8093.4	8336.2
Real GDP Growth (pct)	1.8	2.6	3.0
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (Thousands of US$)	20.02	20.52	22.33
Labor Force (Millions)	166.2	166.9	167.7
Unemployment Rate (pct)	10.9	10.7	10.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2/M3)	5.7	N/A	N/A
Consumer Price Inflation	2.6	2.1	1.9
Exchange Rate (ECU/US$ annual average)	0.78	0.88	N/A
Balance of Payments and Trade:			
Total Exports FOB	792.2	813.1	N/A
Exports to United States	145.0	159.3	N/A
Total Imports CIF	737.0	755.8	N/A
Imports from United States	142.9	154.6	N/A
Trade Balance	55.2	57.3	N/A
Balance with United States	2.1	4.7	N/A
External Public Debt (pct of GDP)	73.0	72.1	70.5
Fiscal Deficit/GDP (pct)	4.2	2.7	2.2
Current Balance/GDP (pct)	0.8	1.2	1.1
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	N/A	N/A	N/A
Aid from United States	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

[1] Estimates.

1. General Policy Framework

The European Union (EU), the largest U.S. trade and investment partner, is a supranational organization comprised of fifteen European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. 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, in addition to EU-wide problems.

The EU's authority is clearest in trade-related matters. As a long-standing customs union, the EU now represents collective external trade interests of the member states in the World Trade Organization (WTO). Internally, the free movement of goods, services, capital and people within the EU is guaranteed by the "Single Market" program, an effort to harmonize member state laws in order to eliminate non-tariff barriers to these flows. Externally, with respect to services investment, intellectual property rights and food safety issues among others, competency for policy and negotiations is balanced between member states, the Commission and the Parliament. However, the European Commission enforces treaty provisions against anti-competitive practices throughout the EU. The EU is also gaining greater competence over investment from third countries. More recently, the Maastricht Treaty mandated the creation of an Economic and Monetary Union (EMU) among the member states which went into effect on January 1, 1999.

With the launch of the euro, the 11 participating countries (Denmark, Greece, Sweden and the United Kingdom are excluded) now have a single monetary policy conducted by the Frankfurt-based European Central Bank (ECB). Member states have generally been successful in achieving the "convergence criteria" for EMU: maximum deficits of three percent of GDP, maximum 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.

The Union's budget, consisting mainly of member state contributions because the EU has no independent taxing authority, is limited to 1.27 percent of the combined GDP of the 15 member states. Expenditures of roughly $100 billion 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).

2. Exchange Rate Policy

The third and final stage of EMU began on January 1, 1999 when 11 member states irrevocably fixed their exchange rates to the euro, the single European currency. Financial transactions are now available in euros through commercial banking institutions. Euro notes and coins will be introduced on January 1, 2002, fully replacing national currencies by July 1, 2002. During the transition period, the euro will co-exist with national currencies as legal tender.

While the ECB is responsible for setting monetary policy in the euro area, national central banks will continue to conduct money market operations and foreign exchange intervention. Per requirement of the treaty, the ECB policy will be mainly focused on maintaining price stability. EMU is expected to allow the euro to float initially without formal exchange rate arrangements, with the exception of currencies of other EU member states which participate in the new Exchange Rate Mechanism (ERM-2.) The Maastricht Treaty does have provisions to create additional exchange rate arrangements, if the member states desire to do so. However, there are no current plans to seek such arrangements.

3. Structural Policies

Single Market: The legislative program removing barriers to the free movement of goods, services, capital and people is largely complete, although there are delays in member state implementation of Community rules and national differences in the interpretation of those rules. The net effect of the Single Market Program has been freer movement, fewer member state regulations for products and service providers to meet, and real consolidation of markets. Nonetheless, some aspects of the program have created problems for U.S. exporters (as discussed below). Furthermore, disparate enforcement, inconsistent application and insufficient monitoring of Single Market measures within the EU place U.S. exporters at a disadvantage. EU efforts to remedy these problems are notable in some areas, but resources remain severely limited.

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 has been aimed at eliminating tax-induced distortions of competition within the Union. Legislation focuses on harmonizing value-added and excise taxes, eliminating double taxation of corporate profits, interest, and dividends and facilitating cross-border mergers and asset transfers. The EU countries have stated their commitment to move further toward alignment of their tax policies, in addition to agreeing to a "code of conduct" on business taxation.

4. Debt Management Policies

The EU raises funds in international capital markets, but does so largely for cash management purposes and thus 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 (backed by the EU budget). The bank 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 has consistently taken a hard line on efforts to reschedule their debt.

5. Significant Barriers to U.S. Exports

Import Policies

Import, Sale and Distribution of Bananas: For years, the United States has been engaged in efforts to resolve a long-standing disagreement over the EU banana import regime, which has significantly eroded U.S. companies' share of the EU banana market. The EU is required to implement a new banana import regime on January 1, 1999. However, the United States finds the EU's new regime to be as WTO-inconsistent as the previous regime. The United States has made the early resolution of this issue a very high priority.

EU Implementation of Uruguay Round Grain Tariff Commitments: On July 1, 1995, the EU implemented its Uruguay Round commitment to establish a ceiling on the duty that could be charged on grains by using a reference price system. In adopting such a system, the EU failed to deliver the significant tariff reductions which U.S. grain exporters had expected. In late 1995, the U.S. government requested a dispute settlement body but the EU preferred to settle the issue via the "Grains Agreement," in which the EU agreed to develop a Cumulative Recovery System (CRS), allowing U.S. rice exporters to cumulatively recover duty coverage. The CRS will expire on January 1, 1999, and discussions on measurements to replace it are underway.

Services Barriers

EU Broadcast Directive and Motion Picture Quotas: In late 1993, member states had enacted legislation implementing the 1989 EU Broadcast Directive, which included a provision requiring that a majority of entertainment broadcast transmission time be reserved for European-origin programs "where practicable" and "by appropriate means." In 1993, the Commission began the process of revising the directive, which was eventually concluded in April 1997. Proposed revisions, which included strengthening content quotas and expanding the scope of the directive, fell by the wayside due to divisions between the European Parliament and the Council. The directive will be up for revision again in 2002. Certain measures of the directive appear to violate GATT rules. As a result, the United States has reserved its right to take further action under WTO dispute settlement procedures and will continue to monitor closely the implementation of those measures.

Computer Reservation Services: U.S. Computer Reservation Services (CRS) companies have had difficulties in the EU market because some member state markets tend to be dominated by the CRS owned by that member state's flag air carrier. Most disputes have been resolved to the satisfaction of U.S. CRS vendors via U.S. government intervention or recourse to national administrative and court systems. Yet in 1996, a U.S. CRS firm filed a complaint and the United States Department of Justice (DOJ), under the Positive Comity provision of the 1991 EU-US Antitrust Cooperation Agreement, asked the EU competition authority to investigate possible anticompetitive practices by a European firm for the first time. The EU investigation is in progress and, while the Commission is uncertain of its completion date, the final ruling may address some key concerns.

Airport Ground-Handling: In October 1996, the EU issued a directive to liberalize the market to provide ground-handling services at EU airports above a certain size by January 1, 1998. U.S. airline companies and ground-handling service providers welcome this development. Yet they are concerned with an exemption that allows EU airports to continue having a monopoly service provider until January 1, 2002, and to limit the number of firms which can provide certain services on the airport tarmac (ramp, fuel, baggage and mail/freight handling). These potential barriers are partially offset by more liberal bilateral air services agreements, which the United States concluded with individual member states.

Postal Services: U.S. express package services such as UPS and Federal Express are concerned with market access restriction and unequal competition caused by state-owned postal monopolies. Proposals to liberalize postal services and to constrain the advantages enjoyed by the monopolies have not made sufficient progress to redress these problems.

Standards, Testing, Labeling and Certification

Despite the Single Market Program, the free movement of goods within the EU is still impeded by widely disparate member state standards, testing and certification procedures for some products. The "new approach," which streamlines technical harmonization and the development of standards for certain product groups using minimum health and safety requirements, reflects the trend towards harmonization of laws, regulations, standards, testing, and quality and certification procedures in the EU. U.S. firms cannot directly participate in the European standardization process, but European standards bodies can be sympathetic to U.S. concerns when approached.

The Transatlantic Business Dialogue's (TABD) adopted goal of "approved once, accepted everywhere in the transatlantic marketplace" demonstrates the importance of standardization in U.S.-EU trade relations. The anticipation that EU standardization legislation will eventually cover 50 percent of U.S. exports to Europe demonstrates its significance. Although some progress has been made, U.S. exporters are still concerned with legislative delays, inconsistent member state interpretation and application of legislation, the ill-defined scope of directives and unclear marking and excessive labeling requirements. These problems can complicate and impede U.S. exports to the EU.

Mutual Recognition Agreements: In addition to implementing a harmonized approach to testing and certification, the EU is also providing for the mutual recognition of member state designated national laboratories to test and certify "regulated" products. For the testing and certification of non-regulated products, the EU encourages mutual recognition agreements between private sector parties. U.S. exporters face problems when only "notified bodies" in Europe are empowered to grant final product approvals of regulated products. There are some U.S. laboratories, under subcontract to notified bodies, that can test regulated products. Yet these laboratories must still send test reports to their European affiliates for final product approval. Since this process can cause delays and additional costs for U.S. exporters, sufficient access for U.S. exporters cannot be provided in this fashion.

On May 18, 1998, the United States and the EU signed a package of Mutual Recognition Agreements (MRAs), allowing for conformity assessments to be performed in the United States to EU standards and vice versa. Both governments are committed to advancing joint efforts to promote mutual recognition, equivalency and harmonization of standards. The MRA will enter into force on December 1, 1998. Under the Transatlantic Economic Partnership (TEP), established at the May 1998 U.S.-EU Summit, the U.S. set in motion a process to undertake negotiation of additional MRAs covering other sectors.

Approval of Biotechnology and Novel Food Products Uncertain in EU: Due to an unpredictable and ambiguous EU regulatory environment for agricultural and food products developed with biotechnology and products containing Genetically Modified Organisms (GMOs), U.S. exporters continue to face long product approval delays, periodic changes in administrative and "scientific" steps and significant losses in exports. The long-range EU plan to amend approval procedures will only be lengthened by a highly politicized debate that rages over biotechnology rather than legitimate health and safety concerns. The problem is further exacerbated by the EU's Novel Foods Regulation, which makes clear the required labeling of all new foods and food products, but which leaves unclear the specific implementing rules, particularly with respect to exemptions and determination of acceptable levels of incidental contamination of GMO-free products.

Ban on Growth Promoting Hormones in Meat Production: U.S. beef exports have been severely limited by a ten-year EU ban on the use of growth hormones in livestock production. In May 1996, the United States challenged this ban via a formal WTO dispute settlement procedure. The initial WTO report found in favor of the United States in August 1997. In early 1998 a WTO Appellate Body upheld the ruling against the EU's ban and has given the EU until May 13, 1999 to bring its beef import regime into WTO compliance.

Veterinary Equivalency: The EU tentatively approved the U.S./EU Veterinary Equivalency Agreement in March 1998. The agreement will be implemented when the United States publishes a rule on the regionalization of several animal diseases in the EU, a process that is currently taking place. The agreement will provide a regulatory framework for recognition of sanitary requirements between the United States and the EU in trade of virtually all animals and animal products. Although a scientific EU study recently introduced the possibility of antimicrobial use in poultry production, chlorine was not one of the approved products. Restoring EU market access to U.S. poultry depends on EU adoption of new regulation, which may take another 18 months.

Aflatoxin Limits: In July 1998, the EU adopted a regulation harmonizing maximum levels of aflatoxin in peanuts, tree nuts, dried fruits, cereals and milk, effective January 1, 1999, along with a directive specifying sampling methods to be used after December 31, 2000. The United States believes that the maximum levels and sampling methods will lead to trade disruptions without a corollary increase in consumer protection.

Restrictions Affecting U.S. Wine Exports to the EU: Current EU regulations require imported wines to be produced only by specifically authorized oenological practices. Since the mid-1980's, U.S. wines have entered the EU market under a series of "derogations" granting EU regulatory exemptions. Access to the EU wine market is further impeded by a complicated wine-import certificate documentation process. The United States hopes to negotiate an agreement with the EU to ensure that the EU market remains open to U.S. wine. Discussions designed to frame the issues for such negotiations are underway.

Specified Risk Materials Ban: In response to growing concern over the transmission of "mad cow disease" or Bovine Spongiform Encephalopathy (BSE), the EU, in July 1997, passed a Specified Risk Material (SRM) regulation restricting the use and processing of certain animal products and by-products. Since tallow, tallow derivatives and gelatin are widely used in food manufacturing, pharmaceutical, cosmetic and industrial products, this regulation threatened to significantly restrict U.S. access to EU markets despite the fact that the United States is considered to have a negligible BSE-risk. Implementation of the ban has been delayed until January 1, 2000 as the EU is currently evaluating new guidelines on BSE prior to amending and implementing the existing regulation.

Voluntary Ecolabeling Scheme: In 1992, the EU adopted an EU-wide ecolabeling scheme. This is a voluntary scheme that allows manufacturers to obtain an ecolabel for a product when its production and life cycle meets the established criteria for the product category. Despite ongoing dialogues between the EU, U.S. government and U.S. interest groups, commitments to enhance transparency from previous technical bilateral talks have not been upheld. To address this problem, a formal EU-U.S. technical working group was proposed in October 1998. The United States, due to concern that the EU ecolabeling scheme may become a de facto trade barrier, will continue to monitor closely the development of the ecolabeling scheme.

Packaging Labeling Requirements: In 1996, the Commission proposed a directive establishing marking requirements, indicating recyclability and/or reusability, for packaging. Due to the differences that exist between EU marking requirements and those used by the United States and the International Standards Organization (ISO), the United States is concerned with the additional costs and complications both U.S. and EU firms will face, in the absence of concomitant environmental benefits. The United States is also concerned with Article 4 of the proposed directive, which would prohibit the application of other marks to indicate recyclable or reusable packaging. This may require some companies to create new molds solely for use in the European market. Discussions underway in the ISO may resolve potential problems, especially since the Commission has indicated a willingness to review the proposed directive in light of an eventual ISO agreement.

Metric Labeling: In order to harmonize measurement systems throughout the EU, the EU adopted a directive in 1980, which mandates metric-only labeling on most goods entering the EU from January 1, 2000. Both EU and U.S. exporters have complained about the costs of complying with conflicting EU metric-only and U.S. mandatory dual labeling requirements. In response to strong industry opposition, the Commission has been contemplating a proposal to postpone the implementing date of the directive.

Labeling Requirements for Biotechnology Products: The Novel Foods Regulation, adopted by the EU in May 1997, requires labeling for all new processed foods and food ingredients, including those containing GMOs. The regulation does not provide specifics on tolerances, testing methods or other criteria. In September 1998, another regulation, which included two GMOs that were not covered in the initial regulation, entered into force. Again, this new regulation lacks specific information necessary for firms to comply effectively.

Investment Barriers

Traditionally, member state governments have been responsible for policies governing non-EU investment. However, in the 1993 Maastricht Treaty, partial competence was shifted to the EU, providing it with an expanded role in defining how U.S. investments in member states are treated. Member state policies existing on December 31, 1993 remain effective, but can be superseded by EU law. Direct branches of non-EU financial service institutions remain subject to individual member state authorization and regulation. In general, the EU supports the idea of national treatment for foreign investors, arguing that any company established under the laws of one member state must, as a "Community company," receive national treatment in all member states regardless of ultimate ownership. However, some restrictions on U.S. investment do exist under EU law.

Ownership Restrictions: The benefits of EU law in the aviation and maritime areas are reserved to majority-owned firms controlled by EU nationals.

Reciprocity Provisions: The "reciprocal" national treatment clause found in EU banking, insurance and investment services directives, allows the EU to deny a third-country financial services firm the right to establish a new business in the EU if it determines that the investor's home country denies national treatment to EU firms. This notion of reciprocity may have been taken further in the Hydrocarbons Directive which requires "mirror-image" reciprocal treatment where an investor is denied a license if its home country does not permit EU investors to engage in activities under circumstances "comparable" to those in the EU. It should be noted that, thus far, these reciprocity provisions have not affected U.S. firms.

Access to Government Grant Programs: The EU does not preclude U.S. firms established in Europe from access to EU-funded research and development grant programs, although in practice, association with a "European" firm is helpful in winning grant awards.

Anti-Corruption: In an attempt to coordinate disparate member state legislation on anti-corruption, the Commission, in 1997, adopted a discussion document suggesting guidelines for the development of a coherent EU-level anti-corruption policy. To what extent the Commission's suggestions will be followed by action remains to be seen.

Government Procurement

Discrimination in the Utilities Sector: The Utilities Directive, which took effect in January 1993, is an effort to open government procurement within the EU. It covers purchases in the water, transportation, energy and telecommunications sectors. The directive benefits U.S. firms by requiring open and objective bidding procedures, but still discriminates against non-EU bids unless provided for in an international or bilateral agreement. This discriminatory provision was waived for the heavy electrical sector in a 1993 Memorandum of Understanding (MOU) signed between the EU and the United States. A year later, in a new agreement, the idea of non-discriminatory treatment was extended to over $100 billion of goods procurement on each side. Much of the 1994 agreement is implemented through the 1996 WTO Government Procurement Agreement.

Telecommunications Market Access: The openness of EU market access for U.S. telecommunications firms varies widely from member state to member state. However, there is a trend towards a more open approach to procurement in an effort to lower costs as state-owned telecommunications firms lose monopoly. Nonetheless, discrimination against non-EU bids continues, along with further impediments to market access through standards, standard-setting procedures, testing, certification and attachment policies. The implementation of the WTO Agreement on Basic Telecommunications Services, a commitment to permit competition in this sector which entered into force in early 1998, is proceeding slowly and unevenly among member states. Implementation of this Agreement presents a major challenge to member states, most of whom have had a long history of closed markets and state-owned monopolies in the telecommunications sector. Although the Commission has been aggressively enforcing member state compliance with the agreement, close monitoring by the United States is still necessary to ensure full member state compliance with their WTO commitments. Despite these efforts, discrimination in the telecommunications sector persists.

6. Export Subsidies Policies

Agricultural Product Subsidies: The EU grants direct export subsidies (restitutions) on a wide range of agricultural products. Payments are nominally based on the difference between the EU internal price and the world price, usually calculated as the lowest offered price by competing exporters. In addition, the complexities of EU law, along with the availability of preferential loans and structural funds, may further support EU agricultural exports. Under the Uruguay Round agreement, the EU is required to reduce direct export subsidies by 21 percent in volume and 36 percent in value over six years. Whether or not the EU is abiding by its commitments remains an issue of contention.

Canned Fruit: The U.S. cling peach industry has complained that the EU provides excessive support to their canned fruit industry and that the EU has failed to observe the 1985 U.S.-EU Canned Fruit Agreement. This allows EU fruit processors to unfairly undercut the domestic and export prices for EU trading partners. The U.S. Government has consulted with the EU on this issue several times. Currently, EU data on subsidy levels to its canned fruit processors is being reviewed.

Shipbuilding Subsidies: Responding to pressure from the shipbuilding industry, the United States, in 1994, successfully brokered an OECD agreement to eliminate subsidies that were distorting the world ship market. Following the non-ratification of the agreement by the U.S. Senate, the EU adopted its own shipbuilding directive in May 1998. This directive contains the EU's own timeline for phasing out subsidies, primarily aimed at leveling the playing field within the EU.

7. Protection of U.S. Intellectual Property

The EU and its member states support strong protection for intellectual property rights (IPR). EU member states are participants of all the relevant WIPO conventions. Along with the EU, they regularly join with the United States to encourage other countries to adopt and enforce high IPR standards, including those in the TRIPs Agreement. However, the United States has challenged several member states on their failure to fully implement the TRIPs Agreement.

Designs: U.S. car manufacturing firms, while generally supportive of the Commission's Directive on the Legal Protection of Industrial Designs, were particularly concerned with the "repair clause" it contained. The clause would have made design protection for spare styled car body parts more difficult. However, insurance companies and spare parts manufacturers did not share this objection. As a compromise, the European Parliament and the Council agreed to remove the clause from the directive pending further study, but leave open the possibility of a future amendment on spare parts. The Council will probably adopt the Design Directive in late 1999 with a view toward implementation by 2001. It is unlikely that any amendments would be adopted before 2005.

Patents: Patent filing and maintenance fees in the EU and its member states far exceed those in the United States. However, the European Patent Office (EPO) has reduced fees from previous levels by 20 percent as of July 1997. Currently, national patents co-exist, and at times conflict with, the European patent issued by the EPO in Munich. Discussion of a single European Community patent system is underway and the Commission will propose harmonization legislation in 1999.

Trademarks: A 1993 Regulation creating a centralized marketing authorization procedure for human and veterinary medicinal products requires applicants to use a single trademark. This compromises the ability of pharmaceutical companies to select different trademarks in different member states, which they may prefer to do for linguistic or legal reasons, and sets a precedent that, in the future, may affect other sectors.

Copyrights: Following a directive proposal by the Commission in 1997, there has been an ongoing effort to harmonize member state legislation on copyrights. The controversial directive has sparked a debate, which may postpone Council adoption until late 1999 or beyond. Furthermore, member states were required, by January 1, 1998, to transpose the directive on legal protection of databases, which provides copyright protection to electronic and manual databases, into national law. This protection is available to non-EU creators of databases only on the basis of reciprocity. While supportive of protection for databases, the United States is concerned with the potential expenses that such reciprocity provisions could cause for U.S. database publishers.

Data Privacy: The EU adopted a directive on the protection of personal data in October 1995, attempting to balance the need to protect individual rights to privacy and the need to facilitate the flow of such information within the EU. As of September of 1998, the directive allows for data transfer to third countries only if they provide an "adequate" level of protection for the data under their own laws. Given the differences between the U.S. and EU systems, U.S. companies are concerned with the ambiguity of this language. Intensive bilateral negotiations are underway to address these concerns.

8. Worker Rights

Labor legislation still remains largely in the domain of individual member states. However, the momentum of the Single Market Program has created the need for more comprehensive efforts to harmonize differing member state labor laws. The Maastricht Treaty includes an Agreement on Social Policy adhered to by all member states except for the United Kingdom. The initiatives coming out of this agreement are fairly broad in nature. For more specific information on worker rights, refer to individual member state data.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount
Petroleum	22,701

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount	
Total Manufacturing		134,851
Food and Kindred Products	16,357	
Chemicals and Allied Products	42,778	
Primary and Fabricated Metals	6,510	
Industrial Machinery and Equipment	19,465	
Electric and Electronic Equipment	12,537	
Transportation Equipment	13,477	
Other Manufacturing	23,728	
Wholesale Trade		25,972
Banking		12,168
Finance/Insurance/Real Estate		134,053
Services		22,598
Other Industries		16,654
TOTAL ALL INDUSTRIES		368,997

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

AUSTRIA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	228,668.6	206,303.3	212,395.2
Real GDP Growth (pct)	1.6	2.5	3.3
GDP by Sector:			
Agriculture	3,276.7	2,909.8	N/A
Manufacturing	52,540.1	47,926.2	N/A
Services	126,345.6	101,729.5	N/A
Government	30,028.3	26,377.0	N/A
Per Capita GDP (US$)	28,373	25,547	26,251
Labor Force (1,000s)	3,646	3,657	3,687
Unemployment Rate (pct) [3]	4.3	4.4	4.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	2.8	1.0	N/A
Consumer Price Inflation	1.9	1.3	1.0
Exchange Rate (AS/US$ annual average) [4]	10.59	12.20	12.40
Balance of Payments and Trade:			
Total Exports FOB	57,808.3	58,607.9	63,193.5
Exports to United States	1,840.2	2,148.4	2,430.8
Total Imports CIF	67,305.0	64,774.7	69,016.1
Imports from United States	3,000.9	3,467.9	3,553.4
Trade Balance	−9,496.7	−6,166.8	−5,822.6
Balance with United States	−1,160.7	−1,319.5	−1,122.6
External Public Debt	27,995.7	24,993.9	24,543.4
Fiscal Deficit/GDP (pct)	3.7	2.7	2.6
Current Account Deficit/GDP (pct)	2.2	2.2	1.8
Debt Service Payments/GDP (pct)	1.8	1.5	2.5
Gold and Foreign Exchange Reserves (Year-End)	25,482.2	21,710.5	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 figures are all estimates based on latest available data and economic forecasts in October 1998.
[2] GDP at market prices, converted at average annual exchange rate.
[3] Unemployment rate according to EU method.
[4] There is only an official rate, no parallel rates.
[5] Debt service payments on external public debt.

1. General Policy Framework

Based on per capita GDP, Austria is the fourth richest EU country. Austria has a skilled labor force and a record of excellent industrial relations. Its economy is dominated by services, accounting for two thirds of employment followed by the manufacturing sectors. Small and medium-sized companies are predominant. By 1997, the government completed a 10-year privatization program. Most of the formerly state-owned industries are now in private hands. Further privatizations are underway, including in the telecommunications and energy sectors.

Exports of Austrian goods and services account for over 40 percent of GDP. Austria's major export market is the EU, accounting for 60 percent of Austrian exports (35 percent to Germany, 8 percent to Italy). However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 17 percent of Austrian exports by 1997. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets. This year, Hungary surpassed Switzerland as Austria's third largest export market.

The government sets economic policy in consultation with the so-called "Social Partnership," consisting of the representative bodies of business, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms, particularly in inflexible labor and product markets.

In order to meet the Maastricht criteria for economic and monetary union, in 1996–97, the government introduced an austerity program, under which it reduced its federal budget deficit from 5.1 percent (1995) to 2.6 percent of GDP (1997). This was achieved mainly by reducing civil service and social expenditures, the two major contributors to the government deficit. Some 14 percent of the workforce are federal employees, and social expenditure amounts to approximately 30 percent of GDP. The austerity program also included tax increases, which brought the share of total taxes in GDP to an all-time high of 44.8 percent.

Another focus of economic policy is employment creation. Austria has been one of the foremost supporters of the EU-wide national employment plans. Its plan places strong emphasis on training and education, removal of bureaucratic hurdles, more labor flexibility and a more favorable climate for business start-ups. The 2000–2001 tax reform is expected to reduce wage and non-wage costs.

2. Exchange Rate Policies

Since 1981, the Austrian National Bank (ANB) has formally pursued a "hard schilling" policy, adjusting interest rates to peg the Austrian Schilling (AS) to the German Mark (DM), at an exchange rate of AS 7 to DM 1, in lieu of setting money supply and other monetary targets. This policy has been relatively successful in keeping inflation under control and promoting stable economic growth. Austria's EU accession on January 1, 1995 left this policy unchanged. As one of the eleven EU member states participating in EMU, Austria on January 1, 1999 surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB). The government successfully met all EMU convergence criteria due to austerity measures implemented in 1996–97, and is pursuing a policy of further reducing the fiscal deficit and the public debt.

In 1997, the Austrian Schilling (and the German Mark) lost ground against the dollar and some European currencies. This trend continued in the first half of 1998 as the dollar continued to rise against the schilling and the mark, but reversed sharply in the fall of 1998, when, in response to lower U.S. interest rates, the dollar dropped sharply against major European currencies.

3. Structural Policies

Austria's accession to the EU forced the government to accelerate structural reforms and to liberalize its economy. Most nontariff barriers to merchandise trade have been removed and cross-border capital movements have been fully liberalized.

While the government continues to be a major player in the economy, the scope of government intervention—a traditional feature of the Austrian economy—has been significantly reduced in recent years. The government no longer has majority ownership in formerly state-controlled companies such as OMV (oil and gas), VOEST (steel, plant engineering) or ELIN (electrical machinery and equipment). Subsidy programs have also been scaled back to conform to EU regulations.

After the passage of a more liberal business code in 1997, plans are underway for making Austria more attractive for investors by implementing "one-stop-shopping" for necessary permits and other approvals. Proposals are also under consideration to simplify administrative procedures and limit time for approvals to an average of three months, though approval times for larger projects could take up to nine months.

As a result of EU liberalization directives, the government has also moved ahead with liberalization legislation in the telecom and energy sectors. The opening of the market for conventional telephones on January 1, 1998, represented the final phase of Austria's telecom liberalization. The Austrian telecom services sector now exhibits a high degree of liberalization. For decades, telecom was a monopoly in Austria, with the state-owned Post and Telecom Austria Company (PTA) being the only national supplier of networks and telecom services. The government also moved ahead with the liberalization of the highly centralized and virtually closed electricity market. A relevant Austrian law was adopted in 1998, providing for a progressive opening of the market by the year 2003. Preparations are also under way to liberalize the natural gas market.

The governing parties are now discussing plans for the tax reform they promised to implement in 2000–2001 with the goal of reducing wage and non-wage costs. However, due to the slowdown of the economy in reaction to continuing international financial turmoil, the government has less budgetary latitude to implement such reforms without significant cuts in expenditure.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1997, the Austrian federal government's external debt amounted to $25.0 billion (20 percent of the government's overall debt) and consisted of 93 percent bonds and 7 percent credits and loans. Debt service on the federal government's external debt amounted to $3.0 billion in 1997, or 1.5 percent of GDP and 3.5 percent of total exports of goods and services. In 1997, total public sector external debt amounted to $27.7 billion or 13.4 percent of GDP. Total gross public debt was 66 percent of GDP at the end of 1997. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

With the U.S. being Austria's largest non-European trading partner (3.8 percent of Austria's total 1998 exports), the Austrian government has a clear interest in maintaining close and smooth trade ties. However, a number of obstacles to U.S. exports to Austria exist:

Pharmaceuticals: Access of U.S. pharmaceutical products to the Austrian market has been restricted by the Austrian social insurance holding organization (Hauptverband der Sozialversicherungsträger). The non-transparent procedures by which the Hauptverband approves drugs for reimbursement under Austrian health insurance regulations has, according to critics, perpetuated a closed market system favoring established suppliers. Pharmaceuticals not approved by the Hauptverband have higher out-of-pocket costs for Austrian patients and therefore suffer a competitive disadvantage vis-a-vis approved products. One U.S. firm has raised Austria's practices with the European Commission as a possible violation of the EU Transparency Directive.

Government Procurement: Austria is a party to the WTO Government Procurement Agreement; however, there is evidence of a strong pro-EU bias in awarding government tenders. In the recent past, U.S. firms (the most prominent example being Boeing, which lost the sale of a helicopter to the Austrian Interior Ministry after the purchase had already been approved) have lost out to European competitors due to massive political pressure and biased government middle-management officials. In defense contracts, offset agreements are common practice. This pro-European bias also appears to play a role in privatization decisions, although in some cases the bias is even more narrowly defined with politicians calling for "Austrian solutions."

Beef Hormones: The EU ban on beef imports from cattle treated with hormones severely restricts U.S. exports of beef to Austria. According to a WTO decision, Brussels is to lift the ban in the spring of 1999. However, it is expected that the EU will not be in compliance with the WTO ruling by the WTO's stipulated deadline.

Poultry: The dispute between the U.S. and the EU on sanitary matters concerning poultry and poultry products makes the import of U.S. poultry, or products containing poultry, impossible.

GMOs: As the EU has not approved all genetically modified plants available in the U.S., imports of these plants or products containing these plants are not permitted. Austria has gone even further than its EU partners: Novartis corn, approved by the European Commission, is not permitted in Austria. The ban of this corn type is contrary to EU regulations.

Banking: Austria's 1993 Banking Act presents a number of obstacles to entry by U.S. banks. Branches of non-EU banks must be licensed, while EU banks may operate branches on the basis of their home country licenses. For bank branches or subsidiaries from a non-EU member country, the limits for single large loan exposures and open foreign exchange positions will shrink considerably on December 31, 1998, when the endowment capital from their parent companies may no longer be included in the capital base used for calculating these limits.

Other Financial Services: 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, for which one of the preconditions is legal residence. Under the WTO General Agreement on Trade in Services, 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.

Foreign Direct Investment: The government welcomes foreign investment, particularly in the high technology and automotive sectors, and imposes no formal sectoral or geographic restrictions. In most business activities, 100 percent ownership is permitted. Investment incentives are abundant, including EU structural subsidies in some locations.

A 1997 U.S. Investor Confidence Survey compiled by the American Chamber of Commerce cites high labor, telecommunications and energy costs, the complex Austrian legal situation, and difficulties in obtaining work permits for key personnel as major obstacles. A 1998 follow-up survey noted improvements in the regulatory process, a proposed "one-stop" permit agency and faster permit processing. The reform of the Residence Law and the Foreign Workers Employment Law enacted in mid-1997 exempts skilled U.S. labor (e.g. managers and their dependents) from an increasingly restrictive quota system for residence permits.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. The Austrian Kontrollbank (AKB), Austria's export financing agency, offers export financing programs for small and medium-sized companies with annual export sales of up to $8.2 million. Following Austria's accession to the EU, the AKB 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 untied credits. In 1996, the AKB made its export guarantee system more transparent by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

Austria is a member of all major multilateral intellectual property agreements and organizations, including the World Intellectual Property Organization (WIPO). Austrian laws are largely consistent with international standards. However, Austrian copyright law (as amended in 1996) allows "tourist establishments" (such as hotels, inns, etc.) to show cinematographic works (or other audiovisual works, including videos) for their guests provided they pay a compulsory license fee to the copyright holders, even though the copyright holder may not have authorized showing of the work. The United States has urged the Austrian Government to rescind this provision of the law, which is inconsistent with Austria's international obligations.

A levy on imports of home videocassettes and a compulsory license for cable transmission are required under Austrian Copyright Law. Of total revenues, 51 percent currently goes to a special fund for social and cultural projects, rather than to the copyright holders. It is expected that as of 1998, cable transmission rights will be exclusive to the legal owner. Austrian Copyright Law requires that the owner of intellectual property prove the entire chain of rights up to the producer. In the case of films, this requirement has made prosecution of cases of video piracy difficult. The United States government continues to consult with Austria on this issue.

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 jointly develop draft legislation on social and economic issues, thereby influencing the country's overall economic policy.

b. *The Right to Organize and Bargain Collectively:* Austrian unions enjoy the right to organize and bargain collectively. Some 50 percent of Austria's 3.1 million-strong labor force is unionized. The Austrian Trade Union Federation (OGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the OGB and the Chamber of Labor 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 half of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

f. *Rights in Sectors With U.S. Investment:* Labor laws tend to be consistently enforced in all sectors, including the automotive sector, in which the majority of U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		946
Food and Kindred Products	30	
Chemicals and Allied Products	45	
Primary and Fabricated Metals	1	
Industrial Machinery and Equipment	92	
Electric and Electronic Equipment	(1)	
Transportation Equipment	349	
Other Manufacturing	(1)	
Wholesale Trade		398
Banking		(1)
Finance/Insurance/Real Estate		1,009
Services		144
Other Industries		−14
TOTAL ALL INDUSTRIES		2,621

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

BELGIUM

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
GDP (at current prices) [2]	268.3	242.4	247.6
Real GDP Growth (pct) [3]	1.5	2.8	2.5
GDP by Sector:			
Agriculture	1.2	N/A	N/A
Construction	6.2	N/A	N/A
Energy	4.4	N/A	N/A
Industry	17.8	N/A	N/A
Services	52.6	N/A	N/A
Nontradable Services	17.7	N/A	N/A
Per Capita GDP (US$) [4]	26,381	23,811	24,274
Labor Force (000s)	4,284	4,283	4,282
Unemployment Rate (pct)	9.7	9.2	8.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.9	6.5	5.5
Consumer Price Inflation	2.1	1.6	1.2
Exchange Rate (BF/US$)	30.95	35.78	35.45
Balance of Payments and Trade:			
Total Exports FOB [5]	172.7	168.2	173.3
Exports to United States [6]	7.0	7.7	7.1
Total Imports CIF [5]	161.3	155.8	160.7
Imports from United States [6]	9.4	10.8	11.2
Trade Balance [5]	11.4	12.4	12.6
Balance with United States [6]	−2.4	−3.1	−4.1
Current Account/GDP (pct)	4.1	4.6	5.1
External Public Debt	23.6	21.9	22.3
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	−4.1	−3.2	−2.6
Gold and Foreign Exchange Reserves	19.12	17.66	18.18
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 figures are all estimates based on monthly data available in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] At 1985 prices.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis. 1996 figures include trade with Luxembourg under the customs union. 1997 and 1998 figures are estimates for Belgium only based on data available through October 1998.

1. General Policy Framework

Belgium has 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 tenth-largest trading country in the world in 1997, with exports and imports each equivalent to about 70 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 1970s and the 1980s, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1994, debt was equal to 137 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 10 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 below 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. On May 1, 1998, Belgium became a first-tier member of the European Monetary Union. The country narrowly achieved its status as an EMU member, since its cumulative debt of 122 percent of GDP is more than twice the maximum of 60 percent set forth in the Maastricht criteria established in 1992. However, since Belgium has made consistent progress towards the 60 percent target, and it continues to post an impressive primary surplus (net government revenue minus interest on the debt) of 6 percent of GDP, no additional macroeconomic requirements were imposed by the other Euro Members. The government's 1999 budget, presented in October 1998, projects a 1.2 percent deficit and a reduction in the debt/GDP ratio to 115 percent.

Economic growth, which on an annualized basis dropped from 4.2 percent in the first quarter of 1998 to 3.5 percent in the second quarter, is estimated at around 2.5 percent for the whole of 1998. For 1999, an almost identical figure is expected. Business surveys indicate a slowdown in exports, but domestic consumption and investment are picking up, thus compensating for the reduced growth in exports. At 1.2 percent, inflation seems to be under firm control, and no inflationary pressures are apparent, since weak commodity prices keep imported inflation low. Belgium's current account surplus of 4.7 percent of GDP is one of the highest among OECD countries.

Belgium's unemployment situation improved slowly over the past two years. Standardized EU data put Belgium's unemployment rate at 8.8 percent in September 1998, 1.2 percent below the EU's average. However, strong regional differences in unemployment rates persist, with rates in Wallonia and Brussels being two to three times higher than in Flanders. A further reduction in unemployment will probably be very modest: efforts by business to neutralize high labor costs have resulted in capital-intensive investments and hence increased productivity. Although wage growth has been very modest since 1994, wage levels remain among the highest in Europe.

In 1993, Belgium completed its process of regionalization and became a federal state consisting of three regions: Brussels, Flanders and Wallonia. Each region was given substantial economic powers, including trade promotion, industrial development, research and environmental regulation.

2. Exchange Rate Policy

Since 1989, Belgian monetary policy basically shadows German interest rates closely in order to keep the Belgian Franc (BF) close to its central parity with the German Mark (DM) within the European Monetary System's Exchange Rate Mechanism (ERM). Since 1993, the BF has remained within two percent of its DM parity. The result has been low inflation (even below Germany's level) and a much-reduced interest rate premium over German bonds. It has also meant an appreciation of the BF against the weaker European currencies. Now that Belgium is a member of Euroland, the country will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. Most analysts think that the parities with the other euro members' currencies will henceforth remain unchanged, and one euro will probably be worth BF 40. The definitive exchange rates will be established on January 1, 1999.

3. Structural Policies

Belgium is a very open economy, as witnessed by its high levels of exports and imports relative to GDP. Belgium generally discourages protectionism. The federal and some regional governments actively encourage foreign investment on a national treatment basis.

Tax Policies: Belgium's tax structure was substantially revised in 1989. The top marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 39 percent. Small companies pay a rate ranging from 29 to 37 percent. Branches and foreign offices pay income tax 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 years, the Belgian tax system is still characterized by relatively high rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes as a share of total government revenues are lower than the EU average, personal income taxation and social security contributions are particularly heavy. Total taxes as a percent of GDP are the third highest among OECD countries. Taxes on income from capital are by comparison quite low; since October

1995, the tax rate on interest income is 15 percent, and the tax rate on dividends is 25 percent for residents. There is no tax on capital gains. Pharmaceutical manufacturers face a unique turnover tax of 4 percent, with indications that it may be increased further.

Belgium has instituted special corporate tax regimes for coordination centers, distribution centers and business service centers (including call centers) in recent years in order to attract foreign investment. These tax regimes provide for a "cost-plus" definition of income for intragroup activities and have proven very attractive to U.S. firms, but are now being targeted by the European Commission as constituting unfair competition with other EU member states.

Regulatory Policies: The only areas where price controls are effectively in place are energy, household leases and pharmaceuticals. With the exception of the latter, none of these has any serious 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 of development assistance. It closely follows development and debt issues, particularly in Africa.

Belgium is a net external creditor, thanks to the household sector's foreign assets, which exceed the external debts of the public and corporate sectors. Only about 10 percent of the Belgian Government's overall debt is owed to foreign creditors. Moody's top Aa1 rating for the country's bond issues in foreign currency reflects Belgium's integrated position in the EU, its significant improvements in fiscal and external balances over the past few years, its economic union with the financial powerhouse Luxembourg, and the reduction of its foreign currency debt. The government has no problems 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 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. However, some barriers to services and commodity trade still exist:

Telecommunications: The federal government is gradually opening up the previously monopolistic telecommunications sector. Although Belgium fully liberalized its telecommunications services in accordance with the EU directive on January 1, 1998, some barriers to entry still persist. New entrants to the Belgian market complain that current legislation is not transparent, that the interconnect charges they pay to Belgacom (the former monopolist—51 percent government-owned) remain high and that Belgium will delay implementing number portability until the year 2000, the maximum delay allowed by the European Commission.

Ecotaxes: The government has adopted a series of ecotaxes in order to redirect consumer buying patterns towards materials seen as environmentally less damaging. These taxes may raise costs for some U.S. exporters, since U.S. companies selling into the Belgian market must adapt worldwide products to various EU member states' environmental standards.

Retail Service Sector: Some U.S. retailers have experienced considerable difficulties in obtaining permits for outlets in Belgium. Current legislation is designed to protect small shopkeepers, and its application is not transparent. Belgian retailers suffer from the same restrictions, but their existing sites give them strong market share and power in local markets.

Pharmaceutical Issues: Representatives of the pharmaceutical industry report that regulatory complexity, administrative delays and onerous taxation place significant burdens on the sector. As indicated in section three, pharmaceutical products are under strict price controls in Belgium. Furthermore, since 1993, procedures to approve new life-saving medicines for reimbursement by the national health care system have slowed down steadily, to an average of 410 days, according to the local manufacturers group of pharmaceutical companies. The legal maximum for issuance of such approvals remains 90 days. A four percent turnover tax is charged on all sales of pharmaceutical products. There is a price freeze on reimbursable products and a required price reduction on drugs on the market for 15 years. Future proposals suggest additional targeting of the pharmaceutical sector for taxation and price controls.

Public Procurement: In January 1996, the government implemented a new law on government procurement to bring Belgian legislation into conformity with EU directives. The revision has incorporated some of the onerous provisions of EU legislation, while improving certain aspects of government procurement at the various governmental levels in Belgium. Belgian public procurement still manifests instances of poor public notification and procedural enforcement, requirements for offsets in military procurement and nontransparency in all stages of the procurement process.

Broadcasting and Motion Pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage of European programs "where practical ") because its provisions were not, in the country's view, strong enough to protect the 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 has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, which have a majority interest in the British-based TV 4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the 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, including subsidies for participation in foreign trade fairs and the compilation of market research reports. In addition, exporters are eligible for a reduction in social security contributions by employers and benefit from generous rules for cyclical layoffs. The latter programs—known as Maribel—come close to the definition of an export subsidy, and have already been denounced as such by the European Commission. All of these programs are offered to both domestic and foreign-owned exporters. Also, the United States has raised with the Belgian Government and the EU Commission concerns over subsidies via an exchange rate program to Belgian firms producing components for Airbus.

7. Protection of U.S. Intellectual Property

Belgium is party to the major intellectual property agreements, including the Paris, Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty. Nevertheless, according to industry sources, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products, causing a $200 million loss to the producers. For software, the share of pirated copies has dropped from 48 to 39 percent in one year, still representing a loss of $570 million to the industry.

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. 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. However, if Belgian right holders benefit from less generous protection in a foreign country, the principle of reciprocity applies to the citizens of that country. This is the case for the U.S., which does not grant protection of neighboring rights to Belgian artists and performers, nor to Belgian producers of records and movies. As a consequence, U.S. citizens in Belgium are subject to the same restrictions.

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 workers on early pension. Unions are independent of the government, but have important links with major political parties. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Teachers, nurses, railway workers, air controllers and Sabena personnel have conducted strikes in recent years without government intimidation. Despite government protests over wildcat strikes by air traffic controllers, no strikers were prosecuted. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies.

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. Under legislation in force, wage increases are limited to a nominal 6.1 percent for the 1997–98 period. For the 1999–2000 period, 5.9 percent (nominally) has been proposed. 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 and 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 and may work full-time during school vacations. 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:* The current monthly national minimum wage rate for workers over 21 is BF43,343 ($1,265); 18-year-olds can be paid 82 percent of the minimum, 19-year-olds 88 percent and 20-year-olds 94 percent. 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 include at least one 24-hour rest period. Comprehensive provisions for worker safety are mandated by law. Collective bargaining agreements can supplement these laws.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		237
Total Manufacturing		8,788
Food and Kindred Products	636	
Chemicals and Allied Products	5,857	
Primary and Fabricated Metals	184	
Industrial Machinery and Equipment	485	
Electric and Electronic Equipment	312	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		2,102
Banking		252
Finance/Insurance/Real Estate		4,066
Services		1,364
Other Industries		594
TOTAL ALL INDUSTRIES		17,403

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

BULGARIA

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	9.5	10.2	12.5
Real GDP Growth (pct)	−10.9	−6.9	4.5
GDP by Sector:			
Agriculture	1.1	2.4	N/A
Manufacturing	3.0	2.7	N/A
Services	5.1	4.0	N/A
Per Capita GDP (US$)	1,129	1,230	1,510
Labor Force (000s)	3,570	3,564	3,587
Unemployment Rate (pct)[2]	10.8	14.0	12.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	119.3	362.1	N/A
Consumer Price Inflation	311	578.6	9
Exchange Rate (Leva/US$ annual average):[3]			
Official	175	1,677	1,800
Parallel	200	1,750	N/A
Balance of Payments and Trade:			
Total Exports FOB	4.2	4.91	4.52
Exports to United States (US$ millions)[4]	116	172	N/A
Total Imports CIF	4.0	4.89	5.02
Imports from United States (US$ millions)[4]	138	104	N/A
Trade Balance	0.2	0.02	−0.5
Balance with United States (US$ millions)[4]	−22	68	N/A
Current Account Balance/GDP (pct)	0.2	3.88	−1.09
External Public Debt	9.6	9.7	10.2
Debt Service Payments/GDP (pct)	13.0	10.9	9.0
Fiscal Deficit/GDP (pct)	8.0	2.5	0.0
Foreign Exchange Reserves and Gold	0.8	2.5	2.9
Aid from United States (US$ millions)[5]	27.8	28.1	34.3
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are estimates based on 6 to 9 months of data.
[2] Annual average.
[3] The rate declined to 2920:1 in mid-February 1997, and then was fixed to the DM at 1000:1 on July 1, 1997.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis. For January to April 1998, exports to the U.S. were $94 million; imports from the U.S. amounted to $44 million.
[5] USAID and DOD humanitarian assistance ($635,086 in FY97; $1.1 million FY98). Other DOD FY98 assistance totals $8.1 million.

1. General Policy Framework

Since 1989, Bulgaria has been a parliamentary republic ruled by democratically-elected governments. A reform-minded coalition led by the center-right Union of Democratic Forces (UDF) won an outright majority in April 1997 pre-term parliamentary elections, called after a discredited socialist government voluntarily relinquished power. The current president, elected in November 1996, also came from the ranks of the UDF.

Bulgaria experienced a severe economic crisis in 1996 and early 1997. The crisis was triggered by a banking panic in 1995 and 1996, and culminated in a brief period of hyperinflation early in 1997. The new UDF government reached agreement with the IMF and World Bank on a stabilization program centered on a currency board arrangement linking the Bulgarian Lev to the German Mark.

The program quickly succeeded in stabilizing the economy. The triple digit inflation of 1996 and early 1997 has given way to a consumer price increase of less than 3 percent for January through September 1998. Official reserves rebounded from $400 million in January 1997 to $2.5 billion at the end of August 1998. Moody's Investors Service upgraded Bulgaria's credit rating to B2. Unemployment has trended downward to less than 11 percent of the labor force in September 1998, due in large measure to a growing private sector. Following declines in GDP in both 1996 and

1997, the economy as a whole is expected to grow in 1998. The government has balanced its budget for 1998.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria is actively pursuing its goal of EU membership. A Bilateral Investment Treaty with the United States took effect in July 1994.

2. Exchange Rate Policy

Under the currency board arrangement, the Bulgarian Lev (BGL) is fixed by law at BGL 1000/DM 1. The Bulgarian National Bank (BNB) sets an indicative daily U.S. Dollar rate (based on the dollar/DM exchange rate in Frankfurt) for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates.

Only some of the commercial banks are licensed to conduct 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; however, 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. 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. In September 1998, Bulgaria announced that it would review its foreign exchange system with a view to accepting the IMF's Article VIII obligations. This would raise the ceiling on foreign exchange which can be taken abroad and liberalize other international financial transactions.

3. Structural Policies

Bulgaria's legal structure does not inhibit U.S. exports, which are more affected by the domestic economic situation and Bulgaria's isolation from trade financing. While implementation of certain elements of the reform program, particularly privatization, have been hindered by slow decision-making, the government has generally shown an ability to deliver needed legislative reforms and a willingness to listen to the views of those outside government, including donors and the private sector. The Foreign Investment Law adopted in 1997 and amended in March 1998 was drafted with input from foreign investors. The Collateral Loan Law, implemented in 1997, set out procedures for secured lending. Bulgaria is also making significant strides in regulation of the banking sector and the securities market.

The government has committed to a program of structural reforms, including a far-reaching privatization program. In 1997, the state garnered $572 million in privatization proceeds, triple the level of the previous year. Bulgaria's IMF program calls for 50 percent of state assets to be privatized by the end of March 1999 and for all remaining state banks to be privatized by 2000. The state plans to sell stakes in the monopoly telecommunications company (BTK), a large tobacco producer (Bulgartabak), the national airline (Balkan), and many other firms. The privatization process has involved a number of management-employee buyouts for smaller firms and the use of foreign consultants/intermediaries for medium and large companies. The privatization framework has also included complex criteria for selecting buyers that have generated concerns about the transparency of the process. The government has also committed to gradually phasing out subsidies in agriculture and energy.

Bulgaria taxes value added, profits, income, and maintains excise and customs duties. The draft 1999 budget envisions a 2 percentage point reduction in the Value Added Tax (to 20 percent), and the profits tax will be reduced for large businesses by 3 percentage points (to 27 percent). The government plans to replace existing tax preferences for foreign investors with a new set of incentives which would be available to both domestic and foreign investors.

The government's draft 1999 budget calls for approximately $150 million to be allocated to subsidize prices of electricity, heating, mass transit, rail transport, university cafeterias and housing, and the postal service.

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, then resumed partial servicing of the 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"), reducing its commercial debt by 47 percent. However, without considerable investment flows in the next years, Bulgaria will be challenged to meet its total debt service requirements after 2000. In addition to its external debt (over $10 billion in May 1998), Bulgaria has a considerable domestic debt burden, of which over $920 million is dollar-denominated. Falling domestic interest rates associated with the currency board have considerably eased the debt burden.

In September, the IMF approved a three-year Extended Fund Facility (EFF) which provides credits worth about $864 million in support of the government's economic reform program. About $72 million was released shortly after negotiation of the EFF. Another 11 tranches will be made available quarterly through May 2001, subject to IMF reviews of Bulgarian adherence to the program. The government will seek an equivalent amount of external financing from the World bank, the European Union, and other donors. The World Bank disbursed a Financial and Enterprise Sector Adjustment Loan (FESAL) of $100 million in March 1998. The government is negotiating with the World Bank for a second FESAL of similar value.

5. Significant Barriers to U.S. Exports

Bulgaria acceded to the World Trade Organization in December 1996. Bulgaria also acceded to the WTO Plurilateral Agreement on Civil Aircraft and committed to sign the Agreement on Government Procurement. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional MFN treatment by the United States in October 1996.

Bulgaria's Association Agreement with the European Union phases out tariffs between Bulgaria and the EU while U.S. exporters still face duties. This has created a competitive disadvantage for some U.S. exporters (e.g. soda ash exporters). The agreement improved reciprocal market access to certain farm products. In July 1998, Bulgaria joined the Central European Free Trade Area (CEFTA). Over the next three years, tariffs on 80 percent of industrial goods traded between CEFTA countries will be eliminated. In addition, a free trade agreement with Turkey will also take effect in January 1999.

Average Bulgarian import tariffs are relatively high, on top of which Bulgaria implemented a 5 percent import surcharge in 1996. The surcharge will be eliminated from January 1999. In previous years, some U.S. investors have reported that high import tariffs on products needed for the operation of their establishments in Bulgaria served as a significant barrier to investment. However, the Foreign Investment Law exempts capital contributions in kind valued at over $100,000 from VAT and customs.

Import licenses are required for a specific, limited list of goods including radioactive elements, rare and precious metals and stones, certain pharmaceutical products and pesticides. The government has declared that it grants licenses within three days of application in a nondiscriminatory 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 to trade in arms (see below). Dual-use items are also controlled.

The government states that its system of standardization is in line with internationally accepted principles and practices, but there were two cases in 1997 involving U.S. commodities held at ports of entry for alleged failure to meet Bulgarian standards. In product testing, 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 phytosanitary and veterinary control, and relevant certificates should accompany such goods.

Foreign persons cannot own land in Bulgaria because of a constitutional prohibition, but foreign-owned companies registered in Bulgaria are considered to be Bulgarian persons. Foreign persons may acquire ownership of buildings and limited property rights, and may lease land. Local companies where foreign partners have controlling interests must obtain prior approval (licenses) to engage in certain activities: production and export of arms/ammunition (note that only firms with over 50 percent Bulgarian participation can be licensed for international trade in arms); banking and insurance; exploration, development and exploitation of natural resources; and acquisition of property in certain designated geographic areas/zones.

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. In its Bilateral Investment Treaty with the United States, Bulgaria committed itself to international arbitration in the event of expropriation, disinvestment, or compensation disputes.

Foreign investors 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 enterprises places the foreign investor at a real disadvantage.

The 1997 Law on Assignment of Government and Municipal Contracts is the first clear-cut procedure for government procurement to be introduced in Bulgaria. It is equally applicable to local and foreign potential providers, and, with few exceptions treats them both equally. Government procurement works mostly by competitively bid international tenders. Under the new law, participants in pre-contract procedures (tender, two-phase tender, silent auction, or negotiations with three or more potential contractors) may appeal against violations of the applicable procedures. General government supervision for compliance is exercised by the National Audit Chamber. Each ministry has a government procurement office which is responsible for overseeing the process. There have been problems of lack of clarity in many tendering procedures. U.S. investors have also found 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. However, tenders organized under projects financed by international donors have tended to be open and transparent.

Bulgaria uses the single customs administrative document used by European Community members. A one percent customs clearance fee was abolished in January 1998.

6. Export Subsidies Policies

The government applies no export subsidies as such at the present. 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

Bulgarian intellectual property legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement. However, until recently, Bulgaria was the largest source of CD and CD-ROM piracy in Europe and one of the world's leading exporters of pirated goods. For this reason, Bulgaria was originally placed on the U.S. Trade Representative's "Special 301" Watch List in October 1996, and elevated to the Priority Watch List in January 1998.

In 1998, enforcement improved considerably with the introduction of a CD-production licensing system. All CD production facilities were initially closed down and those which received licenses are subject to 24-hour surveillance. Bulgaria's title verification decree was also amended to require CD manufacturers to present an agreement with the author or collecting society before starting production and to improve coordination between the Ministry of Culture and Bulgarian law enforcement authorities. Nonetheless, gaps in the title verification system and customs enforcement continue to be a cause of concern. In recognition of the significant progress made by the Bulgarian government in improving protection of intellectual property, the U.S. Trade Representative moved Bulgaria from the Special 301 Priority Watch List to the Watch List in November 1998.

Amendments to strengthen the Trademark and Industrial Design Law have been drafted, but not yet reviewed by parliament. U.S. companies cite illegal use of trademarks as a barrier to the Bulgarian market. A Law for the Protection of New Types of Plants and Animal Breeds was adopted in September 1996; a law on the topography of integrated circuits is in preparation.

Bulgaria is a member of the World Intellectual Property Organization (WIPO) and a signatory to the following agreements: the Paris Convention for the Protection of Intellectual Property; the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcast Organizations; the Geneva Phonograms Convention; the Madrid Agreement for the Repression of False or Deceptive Indications of Source of Goods; the Madrid Agreement on the International Classification and Registration of Trademarks; the Patent Cooperation Treaty; the Universal Copyright Convention; the Berne Convention for the Protection of Literary and Artistic Works; the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration; the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Protection; and the Nairobi Treaty on the Protection of the Olympic Symbol. On acceding to the WTO, Bulgaria agreed to implement the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) without a transitional period.

8. Worker Rights

a. *The Right of Association:* The 1991 Constitution provides for the right of all workers to form or join trade unions of their choice. This right has apparently been freely exercised. Estimates of the unionized share of the work force range from 30 to 50 percent. This share continues to shrink as large firms lay off workers, and most new positions appear in small, non-unionized businesses. There are two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria and Podkrepa, as well as two newer unions, the Community of Free Union Organizations in Bulgaria and Promyana.

The 1992 Labor Code recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Workers in essential services (primarily military and police) are also subject to a blanket prohibition from striking. However, Podkrepa has complained that a 1998 law denying workers the right to appeal government decisions on the legality of strikes is unconstitutional and violates an ILO convention. The Labor Code's prohibitions against antiunion discrimination include a 6-month period of protection against dismissal as a form of retribution. While these provisions appear to be within international norms, there is no mechanism other than the courts for resolving complaints, and the burden of proof in such a case rests entirely on the employee. There are no restrictions on affiliation or contact with international labor organizations, and unions actively exercise this right. However, doctors, dentists, and some unions expressed dissatisfaction with a new union structure that that they claim the government imposed upon them in 1998, an action which some claim violates an ILO convention.

b. *The Right to Organize and Bargain Collectively:* The Labor Code institutes collective bargaining on the national and local levels. The legal prohibition against striking by key public sector employees weakens their bargaining position; however, these groups have been able to influence negotiations by staging protests and engaging in other pressure activities without going on strike. Labor unions have complained that while the legal structure for collective bargaining was adequate, many employers failed to bargain in good faith or to adhere to concluded agreements. Labor observers viewed the government's enforcement of labor contracts as inadequate. There were several instances in which an employer was found guilty of antiunion discrimination, but the employers appealed the decisions. The backlog of cases in the legal system delayed redress of workers' grievances. The same obligation of collective bargaining and adherence to labor standards prevails in the export processing zones, and unions may organize workers in these areas.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. Many observers argue that the practice of shunting minority and conscientious-objector military draftees into work units that often carry out commercial construction and maintenance projects is a form of compulsory labor.

d. *Minimum Age of Employment of Children:* The Labor Code sets the minimum age for employment at 16, and 18 for dangerous work. The Ministry of Labor and Social Welfare (MLSW) is responsible for enforcing these provisions. Child labor laws are enforced well in the formal sector, but some observers believe that children are increasingly exploited in certain industries and by organized crime. Observers estimate that between 50,000 and 100,000 children under 16 are illegally employed in Bulgaria. Underage employment in the informal and agricultural sectors is believed to be increasing as collective farms are broken up and the private sector continues to grow.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is approximately $30. Delayed payment of wages continues to be a problem with certain employers in Bulgaria. The constitution stipulates the right to social security and welfare aid assistance for the temporarily unemployed, although in practice such assistance is often late. The Labor Code provides for a standard workweek of 40 hours with at least one 24-hour rest period per week. The MLSW is responsible for enforcing both the minimum wage and the standard workweek. Enforcement has been generally effective in the state sector (although there are reports that state-run enterprises fall into arrears on salary payments to their employees if the firms incur losses), but is weaker in the emerging private sector. The MLSW is responsible for enforcing the national labor safety program, with standards established by the Labor Code. The constitution states that employees are entitled to healthy and nonhazardous working conditions. Under the Labor Code, employees have the right to remove themselves from work situations that present a serious or immediate danger to life or health without jeopardizing their continued employment. In practice, refusal to work in such situations would result in loss of employment for many workers.

f. *Rights in Sectors with U.S. Investment:* Conditions do not significantly differ in the few sectors with a U.S. presence.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1
Total Manufacturing		21
Food and Kindred Products	(1)	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and 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		22

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

CZECH REPUBLIC

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP (US$ billion) [2]	56.5	52.0	53.7
Real GDP Growth (pct) [3]	3.9	1.0	−1.0
GDP by Sector (pct): [4]			
Agriculture	5.0	5.0	N/A
Manufacturing	26.6	26.6	N/A
Services	54.4	55.4	N/A
Government [5]	31.2	29.9	29.8
Per Capita GDP (US$)	5,472	5,285	5,045
Labor Force (000s)	5,107	5,000	5,170
Unemployment (pct)	3.5	5.2	7.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [6]	9.2	10.1	6.3
Consumer Price Inflation	8.8	10.0	8.0
Exchange Rate (CKR/US$):			
Official [7]	27.14	31.71	29.6
Balance of Payments and Trade: [7]			
Total Exports FOB	21.9	22.8	19.4
Exports to United States	468	586	441
Total Imports CIF	27.7	27.2	20.8
Imports from United States	945	1,029	786
Trade Balance	−5.8	−4.4	−1.4
Balance with United States	−477	−442	−345
Current Account Deficit/GDP (pct)	8.5	6.2	−2.0
External Debt [8]	20.8	21.4	23.5
Debt Service Payments/GDP (pct)	6.0	10.0	10.0
Fiscal Deficit (Central)/GDP (pct)	0	0	1.4
Gold and Foreign Exchange Reserves [9]	16.1	15.0	15.9

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Aid from United States[10]	N/A	6.0	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Unless stated otherwise, 1998 figures are based on the latest estimates of the Czech Statistical Office (CSO) dated Nov. 2, 1998, and/or on unofficial estimates from the Czech National Bank.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] 1997 figures are estimates for the first half year.
[5] Central government spending as pct of GDP.
[6] Seven-month data for 1998.
[7] Nine-month data for 1998 trade figures. Official Czech Statistical Office estimate of the trade deficit for 1998, based on data available through September 1998, is 67 billion CZK ($2 billion at 33.14 CZK per US$ rate), less than half of the 1997 deficit. Czech imports do not include re-exports of U.S. goods through other countries.
[8] In absolute numbers, the figure for external debt does not change, the growth reflects shifts in DEM vs. US$ exchange rates.
[9] 1998 figure for the first half year only.
[10] U.S. assistance was phased out by September 30, 1997.

1. General Policy Framework

The Czech Republic is still consolidating its economic transition to a western market economy. It enjoys a smoothly functioning democracy with moderate levels of external debt, a track record of relatively low budget deficits, strong foreign currency reserves, and inflation below 10 percent. However, the country entered a phase of economic and political uncertainty in 1997 that has continued in 1998. The current situation is in sharp contrast to economic conditions in 1995, when it appeared that the Czech Republic had made great progress in reform. Then as now, the necessary reform agenda includes improving transparency of financial markets, privatization of the banking sector, restructuring the corporate sector, and enhancing market-driven corporate governance. In fact, the advancement in these areas came to a virtual halt in late 1996. As President Havel stated late last year, "The transformation stopped halfway, which is possibly the worst thing that could have happened to it." While reform implementation resumed in early 1998, the period of stagnation is the root cause of the economic difficulties that the Czech Republic has experienced since the currency crisis in May 1997.

Since 1989, the Czech Republic has pursued balanced budgets, incurring small deficits in recent years. That policy orientation looks set to change, with the current recession and the new Social Democratic government's pledge to support a wide range of social welfare and investment programs. The debate over the 1999 budget has centered on the size of the future budget deficit rather than the need to approve a balanced budget. The budget deficit under discussion is in the range of 2–3 percent of estimated GDP. The Czech government traditionally finances budget deficits through the issuance of government bonds.

Following sharp and growing current account imbalances in the spring of 1997, the central bank implemented a series of austerity measures designed to dampen inflation and reduce external imbalances. Monetary policy during most of 1998 remained restrictive, with maintenance of relatively high interest rates designed to reduce inflation and dampen domestic demand. The central bank is ahead of its 1998 inflation target, and has recently cut interest rates.

The austerity measures imposed in 1997 also produced a significant improvement in the overall trade balance. The Czech Statistical Office estimates that the 1998 trade deficit will measure 67 billion crowns or 1.4 billion dollars. Despite a currency generally regarded as overvalued, exports have continued to grow due to increases in productivity, the government's ability to contain wage growth, and strong growth in the Czech Republic's principle export markets. This trend is not expected to continue. The economic downturn has also reduced demand for imported consumer products.

The current account was in deficit in the first half of the year but is generally expected to improve markedly in 1998, closing the year with a deficit of approximately one billion dollars. Foreign capital inflows reached $2.4 billion in 1997. The capital account is expected to measure $1.7 billion by the end of 1998.

2. Exchange Rate Policy

The Czech Crown is fully convertible for most business transactions. The Foreign Exchange Act provides a legislative framework for full current account convertibility, including all trade transactions and most investment transactions, pending government action on implementing regulations. A recently approved measure, scheduled to come into force in January 1999, will remove all capital account restrictions except for the ability of Czechs to open bank accounts abroad and the purchase of real estate in the Czech Republic by foreigners.

In the spring of 1997, speculative pressure forced the central bank to float the Czech Crown, which had previously moved freely within an exchange rate band of plus/minus 7.5 percent. Following austerity measures introduced by the central bank, which initially led to further depreciation, the crown remained relatively steady. More recently, the crown has appreciated in value due to high interest rate differentials between the Czech Republic and its major trading partners, as well as its new role as a safe haven for currency speculators in the wake of Russian financial turmoil.

3. Structural Policies

The government sees full membership in the European Union (EU) as one of its highest foreign policy priorities. Relations between the Czech Republic and the EU are currently governed by an EU association agreement which came into effect in 1995. The start of detailed accession negotiations began in November 1998. Most observers do not anticipate that full EU membership will be achieved prior to 2003. As part of the EU accession process, many of the Czech Republic's regulatory policies and practices are slowly evolving toward EU norms. Through membership in the Organization of Economic Cooperation and Development (OECD), the Czech Republic agreed to meet, with relatively few exceptions, OECD standards for equal treatment of foreign and domestic investors and restrictions on special investment incentives. The United States has succeeded in using the OECD membership process to encourage the Czech Republic to make several improvements to the business climate for U.S. firms.

Czech tax codes are generally in line with European Union tax policies. In 1998, the government reduced taxes on corporate profits to 35 percent from 38 percent. The tax rate for the highest tax bracket for personal income tax stands at 40 percent. Employer and employees social insurance contributions are respectively 35 percent and 12.5 percent, though the government recently proposed a controversial increase in social insurance contributions. The government permits tax write-offs of bad debts, although with less generous treatment of pre-1995 debts. Firms are allowed to write-off the first year's share of a bad debt without filing suit against the debtor, though subsequent write-offs must document unsuccessful efforts to collect past due amounts. U.S. firms have complained that Czech tax legislation effectively penalizes use of holding company structures by leveling both corporate tax and dividends withholding tax on profit flows between group companies, thus creating double taxation on such profits. Czech law 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.

Stricter bankruptcy provisions, an important part of the government's structural reforms came into effect in April 1998, but the focus is still on liquidation rather than reorganization. Most observers believe the slow and uneven courts, and close links between banks and firms, will limit the effectiveness of the measure. Members of Parliament and others have called for a bankruptcy law closer to the U.S. Chapter Eleven provision to encourage resuscitation of troubled firms, but this would require wholesale redrafting of the Bankruptcy Law. There is a three to four year backlog in the bankruptcy courts and there is a small secondary market for the liquidation of seized assets. The lack of economic restructuring caused by the lack of adequate bankruptcy laws hampers potential economic growth.

4. Debt Management Policies

The Czech Republic maintains a moderate foreign debt and has received investment grade ratings from the major international credit agencies. In 1997, the gross foreign debt measured 21.4 billion dollars. Debt service as a percentage of GDP and debt service to exports stand at 10 percent and 16 percent, respectively. The Czech Republic repaid its entire debt with the IMF ahead of schedule.

5. Aid

The Czech Republic graduated from U.S. AID assistance on September 30, 1997. It continues to receive assistance from the European Union's PHARE program and individual EU member states to assist its transformation during the accession period for EU membership. According to the Ministry of Foreign Affairs, since 1990, the Czech Republic has received nearly 500 million ECU in PHARE assistance.

6. Significant Barriers to U.S. Exports

The Czech Republic is committed to a free market and maintains a generally open economy with few barriers to trade and investment. It is a member of the World Trade Organization (WTO), and has adopted a 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 of trade negotiations. The Czech Republic is not a signatory to the GATT civil aircraft code.

The government is in the process of drafting legislation in line with EU directives to regulate Genetically Modified Organisms (GMOs). However, an official scientific committee is currently reviewing applications for field trials. It appears that during the window of opportunity before the Czech Republic becomes a full member of the EU, Czech scientists could take the lead in Europe in the field of agricultural biotechnology. Czech scientists and farmers are aware of the economic and environmental benefits of biotechnology. This kind of open attitude in Central Europe could be extremely useful to U.S. biotech producers/exporters in the future.

The Czech Republic's EU association agreement established preferential tariffs for non-agricultural, EU-origin products to the Czech markets, while maintaining higher MFN rates for U.S. and other non-EU products. The preferential tariffs for EU goods are declining on an annual basis and by 2001 most EU products will enjoy duty-free status. Since 1992, when the trade-related provisions of the EU association agreement first came into force, a number of U.S. companies within many industry sectors have complained that tariff preferences given the EU under the agreement have diminished their business prospects and ability to compete against EU-origin products.

Trade in agricultural/food products is generally free of major trade barriers although technical barriers continue to hamper imports of certain products. In anticipation of EU membership, the Czech Republic is rewriting much of its legislation related to standards and trade in agricultural/food products. During this transition phase, it is not always clear which rules apply, a situation which has led to some delays in approval. The harmonization of standards with the EU should ease the paperwork burden for those exporters already exporting to the EU. However, the alignment of Czech food legislation with the EU also means that certain products currently prohibited in the EU will also be prohibited in the Czech Republic.

American business people often cite a convoluted, or in some cases corrupt, bureaucratic system, both at national and local levels, which can act as an impediment to market access. Often considerable time is spent by a potential investor to finalize a deal, or enforce the terms of a contract. European companies have sought on occasion to use the Czech Republic's interest in EU membership to gain advantage in commercial competition.

The government is required by law to hold tenders for major procurement. Revisions in 1996 clarified and simplified procedures for public tenders, with a new emphasis on total value rather than minimum cost. The most significant problem facing bidders is the general lack of transparency throughout the procurement process. While the revised procurement law helped standardize government tenders, there is still a lack of executing regulations to guide the tender process, resulting in a complex and often unpredictable process. Czech law also provides for a 10 percent price advantage for domestic firms. The Czech Republic is not a member of the WTO Government Procurement Agreement.

The Czech Ministry of Industry and Trade issues import licenses to those seeking to import selected goods into the Czech Republic. While most products and services are exempt from licensing, oil, natural gas, pyrotechnical products, sporting guns and ammunition require an import license.

Legally, foreign and domestic investors are treated identically and both are subject to the same tax codes and other laws. The government does not screen foreign investment projects other than for a few sensitive industries, e.g., in the defense sector. The government evaluates all investment offers for the few state enterprises still undergoing privatization. As part of OECD membership, the Czech Republic committed not to discriminate against foreign investors in privatization sales, with only a few excepted sectors. The government has overcome political resistance to foreign investment in certain sensitive sectors, such as petrochemical, telecommunications and breweries. In others, as exemplified by the passage of a recent law restricting foreign investment in the gaming sector, opposition to an open investment regime prevailed. The ban on foreign ownership of real estate remains another important exception, although foreign-owned Czech firms may purchase real estate freely.

U.S. investors interested in starting joint ventures with or acquiring Czech firms have experienced problems with unclear ownership and lack of information on company finances. Investors have complained about the difficulty of protecting their rights through legal means such as a secured interest. In particular, investors have been frustrated by the lack of effective recourse to the court system. The slow pace of court procedures is often compounded by judges' limited understanding of complex commercial cases. Also the Czech Republic imposes a Czech language requirement for trade licenses for most forms of business. This requirement can be fulfilled by a Czech partner, but this can be burdensome and involves additional risks.

The opaque nature of the stock market puts U.S. investors and financial services providers at a competitive disadvantage. While stock market reforms were enacted in 1996 to help protect small shareholders and increase transparency of transactions, enforcement has been uneven. The Securities Commission Act was implemented in early April in an effort to improve the regulatory framework of the capital market, to increase capital market transparency, and to foster investor confidence. In its first six months, the Commission initiated 350 cases, levied $3.8 million in fines and revoked eight licenses from investment funds and dealers. It has, however, been hampered by budgetary constraints and a lack of rule-making authority.

U.S. firms also complain about the lack of consistency in the application of customs norms. These problems are primarily due to the newness of recent regulatory changes and recent expansion of customs personnel. Training efforts are underway to correct the situation and address these concerns.

Other complaints expressed by U.S. firms in the Czech Republic include: the continuing imposition of high taxes, slowness of government decision-making, and excessive bureaucracy.

7. Export Subsidies Policy

The Czech Export Bank provides export guarantees and credits to Czech exporters. The bank follows OECD consensus on export credits. Additionally, the government maintains a fund 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.

8. Protection of U.S. Intellectual Property

The Czech Republic is a member of the Berne and Universal Copyright Conventions and the Paris Convention on Industrial Property. Czech laws for the protection of intellectual property rights (IPR) are close to world standard, but enforcement has lagged. Existing legislation guarantees protection of all forms of property rights, including patents, copyrights, trademarks and semiconductor chip layout design. Amendments to the Trademark Law and the Copyright Law have brought Czech law into broad compliance with relevant EU directives and TRIPS. The Czechs continue to harmonize with TRIPS and parliamentary approval is expected on an amendment providing 70 years of copyright protection for literary works, up from the present 50 years.

As a result of enforcement and delays in indictments and prosecutions, the U.S. Government placed the Czech Republic on the "Special 301" Watch List during the 1998 cycle. The Embassy continues to work with U.S. industry and Czech government officials to improve enforcement of IPR norms. There are also two legislative amendments, albeit still in drafting stages, which would expand tools of enforcement of IPR. One would boost the powers of the customs service to seize counterfeit goods, and the other would allow the Czech Commercial Inspection (CCI) to act directly in IPR cases. At present, the CCI can only act in conjunction with the police. A wide-ranging amendment to the criminal code is under preparation which would double sentences in IPR cases to two years.

9. Worker Rights

a. *The Right of Association:* The law provides workers with the right to form and join unions of their own choice without prior authorization, and the government respects this right in practice. Most workers are members of unions affiliated with the Czech-Moravian Chamber of Trade Unions (CMKOS), a democratically oriented, republic-wide umbrella organization for branch unions. It is not affiliated with any political party and carefully maintains its independence. Workers have the right to strike, except for those whose role in public order or public safety is deemed crucial. By law, strikes may take place only after mediation efforts fail. Unions are free to form or join federations and confederations and affiliate with and participate in international bodies. Union membership is on the decline.

b. *The Right to Organize and Bargain Collectively:* The law provides for collective bargaining, which is generally carried out by unions and employers on a company basis. The scope for collective bargaining is more limited in the government sector, where wages are regulated by law.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, including that performed by children, and it is not practiced.

d. *Minimum Age for Employment of Children:* The Labor Code stipulates a minimum working age of 15 years, although children who have completed courses at special schools (schools for the mentally disabled and socially maladjusted) may work at age 14. These prohibitions are enforced in practice.

e. *Acceptable Conditions of Work:* The government sets minimum wage standards. The minimum wage is 2,650 Czech Crowns per month (approximately $86), although the monthly average is 11,600 Czech Crowns (approximately $375) per month. Average net wages are 2.1 times as high as official sustenance costs. The minimum wage provides a sparse standard of living for an individual worker or family, although allowances are available to families with children. The law mandates a standard workweek of 42½ hours. It also requires paid rest of at least 30 minutes during the standard 8 to 8½-hour workday, as well as annual leave from three or four weeks up to eight weeks depending on the profession. Overtime ordered by the employer may not exceed 150 hours per year or 8 hours per week as a standard practice. Industrial accident rates are not unusually high. Workers have the right to refuse work endangering their life or health without risk of loss of employment.

f. *Rights in Sectors with U.S. Investment:* All of the above observations on worker rights apply to firms with foreign investment. Rights in these sectors do not differ from those in other sectors of the economy. Conditions in sectors with U.S. investment do not differ from those outlined above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		196
Food and Kindred Products	9	
Chemicals and Allied Products	68	
Primary and Fabricated Metals	7	
Industrial Machinery and Equipment	18	
Electric and Electronic Equipment	1	
Transportation Equipment	29	
Other Manufacturing	64	
Wholesale Trade		26
Banking		(1)
Finance/Insurance/Real Estate		6
Services		18
Other Industries		27
TOTAL ALL INDUSTRIES		427

(1) 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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	157,862	145,280	148,800
Real GDP Growth (pct)[2 3]	2.8	3.1	2.5
GDP by Sector:[2]			
Agriculture	5,655	4,871	5,000
Manufacturing	27,828	25,174	25,800
Services	72,672	66,899	68,500
Government	36,958	33,434	34,100

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Per Capita GDP (US$)[2]	30,003	27,493	28,075
Labor Force (000s)	2,833	2,866	2,880
Unemployment Rate (pct)	8.7	7.7	6.4
Money and Prices (annual percentage growth):			
Money Supply Growth (pct)	7.2	5.2	4.2
Consumer Price Inflation (pct)	2.1	2.2	1.8
Exchange Rate (DKK/US$ annual average)			
Official	5.80	6.61	6.70
Balance of Payments and Trade:			
Total Exports FOB[4]	51,014	48,732	49,000
Exports to United States[4]	2,064	2,231	2,100
Total Imports CIF[4]	44,974	44,432	46,000
Imports from United States[4]	2,168	2,241	2,350
Trade Balance[4]	6,040	4,300	3,000
Balance with United States[4]	−104	−10	−250
External Public Debt	43,621	40,544	41,000
Fiscal Deficit/GDP (pct)[5]	0.9	−0.2	−0.9
Current Account Surplus/GDP (pct)[5]	1.7	0.6	−0.8
Debt Service Payments/GDP (pct)[5]	2.3	2.0	2.0
Gold and Foreign Exchange Reserves	14,692	19,620	15,000
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available data as of November.
[2] GDP measured as "Gross Value Added by Industry."
[3] Percentage changes calculated in local currency.
[4] Merchandise trade (excluding EU agricultural export subsidies).
[5] Gross Domestic Product.

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of extensive foreign trade, free capital movement, and political stability. It also has an efficient and well-educated labor force, and a modern infrastructure effectively linking Denmark with the rest of Europe. Denmark's natural resources are concentrated in oil and gas fields in the North Sea which have, together with renewable energy, made Denmark a net exporter of energy.

The Danish economy is strong, with a public budget surplus, and low inflation. However, its extensive foreign trade makes the economy vulnerable to foreign "shocks," including the present Asian and Russian financial crises. Of particular concern is the collective impact on Danish agricultural exports. As a result, the recurring Danish balance of payments surplus since 1990 shifted to a deficit in 1998. The government pursues a carefully monitored economic policy including a fiscal policy of minimum public expenditure increases and a tight monetary and exchange rate policy.

Developments during 1998 in some key economic indicators—continued high private consumption and the deficit on the balance of payments—are warning signals for the otherwise strong economy. The positive balance of payments has been particularly important in sustaining foreign confidence in the Danish economy. With the aim of restoring a balance of payments surplus, the government in 1998 introduced new measures to curb private consumption, mostly by reducing tax credits for debt interest payments in order to discourage new loan taking. In addition, the measures are aimed at increasing the incentive to work for low income earners by reducing taxation in the middle bracket of the progressive income tax system. The surplus in the public budget increased in 1998 to one percent of GDP, not least as a result of the sale of the government's holdings in the national telecommunication company to the U.S. company Ameritech, combined with reduced expenditures for unemployment and other transfer income costs.

Denmark welcomes foreign investment, and is home to roughly 250 subsidiaries of U.S. companies. Denmark also welcomes foreign firms focused on doing business in the former East Bloc countries. In that respect, Denmark has a number of preferential joint venture investment and investment guarantee programs and also makes available Danish and EU grants for improving the environment in those countries. A number of leading Danish and American firms in Denmark are members of the newly established Danish-American Business Forum which aims at promoting direct investments and exchange of know-how.

Danish monetary policy puts a high priority on price stability. Denmark has pursued a fixed exchange rate policy since the early 1980's. This policy, and Denmark's full liberalization of capital movements since 1988, leaves the Danish Central Bank limited room to adopt independent interest rate and liquidity policies. Danish monetary policy is at present linked closely to that of Germany, and on January 1, 1999 to the new European Central Bank.

Denmark has opted out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy), although the country's economic performance exceeds the established convergence criteria for membership.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). Since the early 1980s, the government has pursued a firm exchange rate policy by linking the krone closely to the German Mark. On January 1, 1999, when the joint EU currency—the euro—materializes, the krone (through the ERM2) will be linked closely to that currency. In August 1998, the trade-weighted value of the krone was 3.5 percent higher than in August 1997, due mostly to the krone's appreciation against the Swedish Krone and the yen. During the first eight months of 1998, the krone/dollar rate was rather stable, but since September, the krone has appreciated some seven percent against the dollar (from DKK 6.81 to DKK 6.30 to $1.00). The low dollar rate is not yet reflected in increased U.S. exports to Denmark.

3. Structural Policies

Danish price policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by the government's Competition Agency. Denmark during 1997 changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle.

The highest marginal individual income tax rate is over 62 percent, and applies to all taxpayers with earnings exceeding some $37,500 (1998). Foreign executives and researchers working in Denmark on a contract may for a period of up to five years benefit from more lenient income taxation (a flat 33 percent tax on gross income). Danish employers are almost alone in the EU in paying virtually no nonwage compensation. Most sick leave and unemployment insurance costs are paid by the government. Employees pay their contribution to unemployment insurance out of their wages, while around two-thirds of unemployment benefits are paid from general revenues.

The Danish Value Added Tax (VAT), at 25 percent, is the highest in the EU. As VAT revenues constitute more than one-quarter of total central government revenues, a reduction would have severe budgetary consequences. The government therefore has no plans to reduce the VAT, and hopes that EU VAT rate harmonization will raise VAT rates of other EU countries. Environmental taxes are increasingly being imposed on industry (with some roll-back for anti-pollution efforts) and on consumers. The corporate tax rate is 34 percent and favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Denmark has run a balance of payments surplus from 1990 to 1997. Consequently, foreign debt has gradually fallen from over 40 percent of GDP in 1990 to 24 percent in 1997. Net interest payments on the debt in 1997 cost Denmark six percent of its export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and Aa1, respectively.

Denmark's public sector is a net external debtor, while the private sector is a net creditor. At the end of 1997, the government sector's net foreign debt, including foreign exchange reserves, totaled a value of $37 billion, equal to 85 percent of the value of krone-denominated government bonds held abroad.

During 1997, central government debt denominated in foreign currencies rose slightly to $16 billion at the end of the year. Of the total debt, 84 percent is denominated in German Marks, four percent in Swiss Francs, and 1.5 percent in dollars. The debt has an average term of 2.3 years.

Denmark's central government deficits are not monetized, but instead financed through sale of government bonds and treasury bills on market terms. The monetary policy instruments used by the central bank to manage liquidity are certificates of deposit, repurchase agreements (so-called "repos ") and current account deposits.

The central bank issues two-week deposit certificates each week to absorb liquidity and re-purchases both treasury bills and deposit certificates in order to supply liquidity to commercial banks.

For a number of years, the central bank has successfully used small interest rate adjustments of between 0.25 and 0.5 percent to control liquidity. On November 1, 1998, the official discount rate stood at 4.25 percent.

5. Significant Barriers to U.S. Exports

Denmark imposes few restrictions on import of goods and services or on investment. Denmark adheres to all GATT/WTO codes and to all EU legislation which impacts on trade and investment. U.S. industrial product exporters face no special Danish import restrictions or licensing requirements. Agricultural goods must compete with domestic production, protected under the EU's Common Agricultural Policy.

As standards are being harmonized within the EU Single Market, new non-tariff trade barriers (NTBs) have surfaced in individual EU member countries. As Danish firms have found it difficult to win bids on government procurement contracts in other EU countries, Denmark has taken the lead within the EU to work with the European Commission to combat these problems. The Ministry of Business and Industry's National Agency for Trade and Industry and Danish Competition Agency assist Danish firms facing nontariff trade barriers.

Denmark provides national and, in most cases, non-discriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration (which usually requires limited government participation, but not on a "carried-interest" basis); arms production (non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights); aircraft (non-EU 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—about 20 percent—and exercise significant control over the ship or the ship must be on bareboat charter to a Danish firm).

Danish law provides a reciprocity test for foreign direct investment in the financial sector, but that has not been an obstacle to U.S. investment. Two U.S. banks—Republic National Bank of New York and the State Street Bank Trust Company—have representative offices in Denmark. A number of other U.S. financial entities operate in Denmark through subsidiaries in other European countries, including Citicorp (through its UK subsidiary), GE Capital Equipment Finance (through Sweden), and Ford Credit Europe (through the UK).

The government liberalized the Danish telecommunications sector in 1997. The large U.S. company Ameritech took over a controlling interest (42 percent) of the former government-controlled Tele Danmark A/S in October 1997. A number of foreign telecom operators, including Swedish Telia and French Mobilix, are making inroads into the Danish market, which has increased competition. Sonofon, a private cellular mobile telephone network with U.S. Bell South participation, competes with Tele Danmark in that area.

Danish government procurement practices meet the requirements of the GATT/WTO Public Procurement Code and EU public procurement legislation. Denmark has implemented all EU government procurement directives. A 1993 administrative note advised the Danish central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement.

In compliance with EU rules, the government and its entities apply environmental and energy criteria on an equal basis with other—price, quality and delivery—terms in procurement of goods and services. This may eventually restrict U.S. companies' ability to compete in 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 not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

There is no record of any U.S. firm complaining about Danish customs procedures. Denmark has an effective, modern and swift customs administration.

U.S. firms resident in Denmark generally receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company. There is no record of any complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export subsidies to Denmark totaled $432 million (some five percent of the value of total Danish agricultural exports) in 1997. Government support

54-067 99 - 5

for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its non-agricultural exports except for shipbuilding. Denmark welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally and still hopes for U.S. ratification.

The government does not directly subsidize exports by small and medium size companies. Denmark does, however, have programs which indirectly assist export promotion and establishment of export networks for small and medium sized companies, research and development, and regional development aimed at increasing exports. Denmark has one of the EU's lowest rates of state aid to industry (less than two percent of GDP). Danish subsidization of its shipbuilding industry is within the ceiling set in the EU Shipbuilding Directive (nine percent of the contract value) and accounts for about one-third of total Danish state aid to industry.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark requires that 50 percent of all bilateral assistance be used for Danish-produced goods and services. These programs apply equally to foreign firms which produce in and export from Denmark.

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, including the WTO's TRIPS Agreement.

Patents: Denmark is a member of the World Intellectual Property Organization, and 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. Denmark has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation. Denmark strongly supports efforts to establish an EU-wide trademark system. Following a European Court decision in 1998 that "regional trademark consumption" applies within the EU, Denmark is stopping using the "global consumption principle." Denmark has enacted 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 Convention and its 1971 revision, the 1961 International Convention for the Protection of Performers, and the 1971 Convention for the Producers of Phonograms. There is little piracy in Denmark of CDs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over $100 million annually.

Piracy of other intellectual property, including books, appears limited. There is no evidence of Danish import or export of pirated products.

New Technologies: There are no reports of possible infringement of new technologies.

Impact on U.S. Trade with Denmark: Denmark is named on the "Special 301" Watch List because of its failure to meet its TRIPS obligations to provide unannounced searches and provisional relief as required by TRIPS Article 50. The issue is the subject of bilateral U.S./Danish consultations, and the Danish Government has created a committee to find out which legislative changes are needed to meet its TRIPS obligations. The United States is also concerned about Denmark's failure to protect, as required by article 39.3 of the TRIPS agreement, confidential test data submitted to the Danish Environmental Protection Agency for approval of certain chemical products.

A U.S. producer of a cancer drug faced a similar problem stemming from the marketing of a generic Dutch drug. Denmark acknowledged the Dutch approval under EU mutual recognition rules; however, a Dutch court ruled that the approval of the competing drug violates the TRIPS Agreement. Danish authorities removed the Dutch-made drug from the Danish market as of December 31, 1998 to resolve the case. Finally, U.S. authors are not receiving royalties from Denmark for photocopying of their works used in Danish schools and universities, because the Danish collecting agency COPYDAN will not accept the validity of "en bloc" powers of attorney issued by U.S. publisher and author organizations. This issue is also being pursued with the Danish Government.

8. Worker Rights

a. *Right of Association:* Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. During 1997, 101,700 workdays were lost due to labor conflicts compared with 75,700 in 1995. Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *Right to Organize and Bargain Collectively:* Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. The law prohibits antiunion discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial 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 1998, for example, failure to reach agreement resulted in a conflict in the industry sector, which lasted 11 days before the government intervened with legislation. In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts which result from collective bargaining are, as a general rule, also used as guidelines in the non-union sector.

Labor relations in non-EU parts of Denmark—Greenland and the Faroe Islands—are generally conducted in the same manner as in Denmark.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited and does not exist in Denmark.

d. *Minimum Age for Employment of Children:* The minimum age for full-time employment is 15 years. Denmark has implemented EU Council Directive 94/33/EU, which tightened Danish employment rules for those under 18 years of age, and set a minimum of 13 years of age for any type of work. The law is enforced by the Danish Working Environment Service (DWES), an autonomous arm of the Ministry of Labor. Danish export industries do not use child labor.

e. *Acceptable Conditions of Work:* There is no legally mandated work week or national minimum wage. The work week set by labor contracts is 37 hours. The lowest wage in any national labor agreement is equal to about $11 per hour. Danish law provides for five weeks of paid vacation each year. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. Danish law provides for government-funded parental and educational leave programs.

Similar conditions, except for leave programs, are found in Greenland and the Faroe Islands, but in these areas 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 has been in force since 1992. 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 other sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		404
Total Manufacturing		575
Food and Kindred Products	143	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	−3	
Electric and Electronic Equipment	175	
Transportation Equipment	−6	
Other Manufacturing	(1)	
Wholesale Trade		701
Banking		(2)
Finance/Insurance/Real Estate		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount
Services	42
Other Industries	(1)
TOTAL ALL INDUSTRIES	2,576

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

FINLAND

Key Economic Indicators

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

	1996	1997	1998
Income, Production and Employment:			
Nominal GDP (at factor cost)[9]	108.6	103.7	109.4[1]
Real GDP Growth (pct)	3.6	6.0	5.1[1]
GDP by Sector:			
Agriculture, Forestry and Logging	4.4	4.2	4.2[1]
Manufacturing, Construction, Mining and Quarrying	34.8	34.4	37.0[1]
Electricity, Gas and Water Supply	3.0	2.7	2.7[1]
Services	46.6	44.1	47.0[1]
Government	20.9	19.1	19.1[1]
Other Activities	2.3	2.1	2.1[1]
Imputed Bank Service Charges	−2.9	−2.9	−2.7[1]
Per Capita GDP (US$)[9]	24,520	23,150	23,602[1]
Labor Force (000s)	2,490	2,488	2,490[1]
Unemployment Rate (pct)[10]	14.6	12.7	11.4[1]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	−2.0	1.0	4.4[2]
Consumer Price Inflation	0.6	1.2	1.5[1]
Exchange Rate (FIM/US$ annual average)	4.59	5.19	5.30[3]
Balance of Payments and Trade:			
Total Exports FOB	40.5	40.7	28.7[4]
Exports to United States	3.2	2.8	2.1[4]
Total Imports CIF	30.7	30.7	21.5[4]
Imports from United States	2.2	2.3	1.8[4]
Trade Balance	9.8	10.0	7.2[4]
Balance with United States	1.0	0.5	0.3[4]
External Public Debt[5]	−37.6	−29.8	−21.3[1]
Fiscal Deficit-Surplus/GDP (pct)[7]	−3.5	−1.1	1.2[1]
Current Account Surplus/GDP (pct)	4.0	5.5	5.8[1]
Debt Service Payments/GDP (pct)[6]	5.8	5.4	5.1[1]
Gold and Foreign Exchange Reserves	7.9	9.9	8.7[8]
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Estimate, Ministry of Finance.
[2] September 1997-September 1998.
[3] January-September 1998, Bank of Finland middle rate.
[4] January-August 1998, Board of Customs.
[5] Net international investment position exc. shares and other equity items.
[6] General government interest expenditures.
[7] Public sector's budget deficit (EMU).
[8] September 1998, Bank of Finland.

[9] Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Markka.
[10] According to the new, revised labor force study.

1. General Policy Framework

At the beginning of the 1990's, the Finnish economy encountered a severe recession, after a period of rapid growth in the 1980's. GDP growth came to a standstill in 1990 and the following year declined by 7 percent. Industrial output and exports bottomed out in 1991, and total industrial output did not start to grow again until 1993. Unemployment has decreased significantly since 1994, but remains above the European Union (EU) average. EU membership, which took place on January 1, 1995, helped spur structural change in key economic sectors.

Economic growth remained strong throughout the first half of 1998, with particularly robust growth in industrial production and construction. With the deepening of the Asian and Russian economic crises, the growth rate is expected to decelerate towards the end of 1998. Nevertheless, total output is forecast to grow 5.1 percent in 1998 and 3.6 percent in 1999. Inflation is anticipated to remain low in 1998. Wage increases, moderate as such, were the main factor behind minimal rise in costs.

Public sector revenues are expected to grow in 1998, due to increasing tax revenues and curbed growth in expenditures. The financial deficit, as calculated in the national accounts, suggests a fall of almost 2 percentage points relative to GDP, down to 2.5 percent. State debt is anticipated to rise in terms of total value, but as a proportion of GDP it is set to fall to 63.4 percent by the end of 1998, having peaked at 68.9 percent in 1996. Local government finances are forecast to be close to balance in 1998. The strengthening of public sector revenues puts the government budget in the surplus for the first time since 1990. The public sector EMU debt as a proportion of GDP is predicted to fall below 51 per cent by the end of 1998.

According to the Ministry of Finance's 1998 stability program, Finland's public sector is projected to show a surplus of 1.2 percent as a percent of GDP in 1998, and in 2001 there should be a 2.1 percent budget surplus with a debt/GDP ratio of 44.8 percent. It is expected that total public debt (gross debt EMU) for 1998 will amount to about 50.9 percent of GDP, well within the EMU criteria of 60 percent.

In 1997 Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was down to 47 percent from 48.1 percent in 1996. A marginal rise is expected in 1998 (47.1 percent) and a fall of 0.6 percentage point is predicted for 1999 to 46.5 percent.

Debt servicing accounted for 17 percent of government expenditures in 1997. Modest cuts in government social programs and aid to municipalities are helping to keep the debt from rising even faster.

Despite high levels of foreign debt servicing, Finland's balance of payments outlook remains good. Finland has maintained a current account surplus since 1994. The 1997 current account surplus of $6.6 billion is expected to rise to about $7.4 billion in 1998 (6.2 percent of total output). The surplus in merchandise trade in 1998 is expected to rise to $11 billion. In 1999, the terms of trade are envisaged to remain at 1998's level.

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has 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 increase in stock market activity is also due to lower domestic interest rates. Direct foreign investment, however remains modest due to high production costs. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the former Soviet Union and the Baltic States. This effort had scored some successes as foreign firms established production and warehousing facilities in eastern Finland, close to the major Russian markets. The recent Russian financial crisis has caused a significant slowdown in gateway activity.

EU membership and Finland's budget constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The EU agreed to pay compensation totaling approximately $585 million through 1999 for the decrease in value of agricultural stocks and other costs associated with Finland joining the EU. Finland was also granted permission to pay national adjustment support for five years until year 1999. However, these support mechanisms will not be adequate to prevent major structural changes in the agricultural sector. Over the long run, structural changes will entail a reduction in the number of farmers and the consolidation of surviving farms into larger, more efficient units.

In 1996, producer prices for agriculture fell more in Finland than in any other EU country. In 1997 food prices averaged 11.2 percent lower than in 1994 (prior to Finland's EU membership). This fall in prices has been caused by producers reducing prices to EU levels and by intensified competition from EU agricultural imports. So far, most Finnish producers have maintained their domestic market shares, but at the cost of significantly lower profits. In 1997, agricultural output climbed by just under 8 percent, as grain production increased considerably, due to favorable weather. Agricultural output is expected to fall significantly in 1998 due to adverse weather conditions, which depressed the production of grain substantially.

2. Exchange Rate Policy

A 1996 amendment to the Currency Act provides the legislative basis for Finland's participation in the Exchange Rate Mechanism (ERM) of the European Monetary System. As of 16 March 1998, the ECU central rate is FIM 6.01125. As a participant in the ERM, Finland takes part in the mutual intervention arrangements coordinated between the various central banks, which contribute to economic policy goals by stabilizing the exchange rate.

The European Commission reported on 25 March 1998, that 11 EU member countries, one of them Finland, were ready for the economic and monetary union (EMU) and met the conditions to adopt the single currency (Euro). Stage three of the EMU commences at the beginning of 1999. The bank notes and coins of the single currency will be put into circulation in 2002. The irrevocably fixed conversion rates of the national currencies against the Euro will be fixed at the launch of stage three on January 1, 1999.

3. Structural Policies

Finland replaced its turnover tax with a Value-Added Tax (VAT) in June 1994. While the change has had little effect on overall revenues, several sectors not previously taxed or taxed at a lower rate, including corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Legislation on VAT was harmonized with the European Union. Foodstuffs will still be taxed at a 17 percent rate. Services, including health care, education, insurance, newspaper & periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. A uniform tax rate of 28 percent on capital gains took effect in 1996, which includes dividends, 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.

In March 1997, European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the EFTA tariff area.

The structure of taxation has been revised to expand employment opportunities and make work pay. The income brackets in all state income tax scales are to be raised by 2 percent in 1999, and all marginal income tax percentages except the top bracket will be lowered by 0.5 percentage points. Even with this reduction, however, the tax/GDP ratio will remain at historically high levels.

An income policy agreement contract was signed on 12 December 1997 by the Finnish central labor market organizations, which covers all wage and salary earners and is effective until 15 January 2000. The cost effect of the pay increases included in the agreement will be on average 2.6 percent as calculated from the beginning of 1998, including a general increase of 1.7 percent. Following a further general increase at the beginning of 1999 wages will increase by an average of 1.7 percent.

Trade unions publicly have affirmed the importance of keeping inflation under control (The Bank of Finland's target is 2 percent), as well as maintaining the competitiveness of Finnish industry. Given these goals, increases in labor costs over the next two years should be fairly low.

To offset reductions in income tax the Finns have raised "environmental taxes" on some energy resources.

The sharp decline in interest rates and liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland's leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous Center-Conservative government initiated a program aimed at privatizing as much of the state-owned companies as the Finnish Parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing and energy production. The basic strategy has been to reduce the government's stake through the issuance of stock, rather than by selling off companies to individual investors. In every case, however, the State has retained a substantial minority holding which ensures that the State will remain the largest shareholder.

Currently, three of Finland's ten largest companies are majority state-owned, Neste (83.5 percent), Outokumpu (40 percent) and Kemira (53.8 percent). Since 1993 the state has reduced its ownership in 13 state companies. The Finnish Parliament voted in favor of abolishing the rule concerning the State's one third minority share holding in Enso. The direct holding of the State will be slightly less than 18 percent of the shares and approximately 21 percent of the voting rights. The state intends to continue its privatization program and is presently privatizing its tele-operations corporation Sonera. In the current offering, the state sold 22 percent of Sonera and will reduce its stake to 50.1 percent at a later date. The government is also to go ahead with partial privatization of the Neste oil and IVO power generation combine called Fortum, with an initial offering at the end of November 1998. There are 24 companies in Finland with varying degrees of state ownership.

As a result of the recession of the early 1990s, industrial subsidies have increased by about 80 percent of GDP in real terms. The government has begun, however, to reduce subsidies in line with the need for greater fiscal discipline and Maastricht Treaty criteria for monetary union. General horizontal subsidies form the bulk of aid in Finland, including assistance for research and development, environmental protection, energy and investment. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development. The support consists of cash grants, loans, tax benefits, investments in equity, guarantees and employee training.

4. Debt Management Policies

Since the early 1990's Finland has rapidly accumulated external debt in order to finance recession-induced budget deficits. Under the government's EMU convergence program, the general government debt is projected to drop to 47.2 percent of GDP by 1999. Finnish corporations, formerly heavy users of foreign capital, are now reducing foreign obligations. However, financing requirements of the central government have not diminished significantly.

In May 1998, Moody's upgraded its rating on Finnish long-term government bonds to their best rating—Aaa. Standard & Poor's rating was upgraded in December 1996 to AA, which is the third best. Finnish debt issues continue to sell easily in international financial markets.

Finland is an active participant in the Paris Club, the London Club and the Group of 24, providing assistance to East and Central Europe and the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.34 percent of GDP in 1998. The Finnish Government intends to raise foreign assistance to 0.4 percent of GDP by year 2000.

5. Significant Barriers to U.S. Exports

Finland became a member of the EU in 1995, and, as a result, has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels. As part of its terms of EU accession, Finland temporarily imposes higher tariffs than EU levels on the following items: footwear, rubber, plastic, metals, raw hides and skins and some electric machinery. This transition period ends in 1998.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect resistant corn. The Environmental Ministry appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. The government continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives have 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, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier, by eliminating a licensing requirement to construct a fixed telephone network. Only mobile telephone networks are still subject to license.

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 produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remain, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this will be abolished as by January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carrying on trade as a private entrepreneur or as a partner in a Finnish limited or general partnership must get a trade permit from the Ministry of Trade and Industry (MTI) before starting a business in Finland. Additionally, at least one-half of the founders of a limited company must reside in the EEA unless the MTI grants an exemption.

Normally Finland requires that a labor market test be conducted before allowing a foreigner to work in Finland. The purpose of the test is to determine whether or not the same work could be undertaken by a Finn. However, foreign intra-corporate transferees who are business executives or managers are not subject to the labor market test. This standard does not apply to company specialists, who must prove that they possess knowledge at an advanced level of expertise or are otherwise privy to proprietary company business information.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005. As of October 1997, $2.7 billion (or 80 per cent of the total) worth of offsets have been made.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

6. Export Subsidies Policies

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs as well as for some processed agricultural products. Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement. It is presently debating whether or not to become the first European Union country to abandon shipyard subsidies as of 1999, two years before the EU eliminates them.

7. Protection of U.S. Intellectual Property

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. In 1996, Finland joined the European Patent Convention (EPC).

Finland is a member of WIPO, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the U.S., and by some measures (e.g. BSA) is the lowest in the world.

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years. Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. Computer software has been covered by the Copyright Act since 1991.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a BSA survey, the rate of software piracy in Finland dropped to 38 percent in 1997, from 53 percent in 1994. The average software piracy rate in Western Europe was 39 percent in 1997.

8. Worker Rights

a. *The Right of Association:* The constitution provides for the rights of trade unions to organize, to assemble peacefully, and to strike, and the government respects these provisions. Over 80 percent of the work force are organized. This applies to employers as well. All unions are independent of the government and political parties. The law grants public sector employees the right to strike, with some exceptions for provision of essential services. In the fourth quarter of 1997, there were 18 strikes, one of which, the firemen's strike, was not a wildcat strike. Trade unions freely affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The law provides for the right to organize and bargain collectively. Collective bargaining agreements are usually based on incomes policy agreements between employee and employer central organizations and the government. The law protects workers against antiunion discrimination. Complaint resolution is governed by collective bargaining agreements as well as labor law, both of which are adequately enforced. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, and this prohibition is honored in practice.

d. *Minimum Age for Employment of Children:* Youths under 16 years of age cannot work more than 6 hours a day or at night, and education is compulsory for children from 7 to 16 years of age. The Labor Ministry enforces child labor regulations. There are virtually no complaints of exploitation of children in the work force. In 1998, a proposal to tighten the law even further has been made. According to a bill introduced to parliament, comprehensive school student (7-15 years) should not be allowed to hold employment during two thirds of the their holidays, but only during one half. This change is prompted by an EU directive to this effect.

e. *Acceptable Conditions of Work:* There is no legislated minimum wage, but the law requires all employers, including non-unionized ones, to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sector. These minimum wages generally provide a decent standard of living for workers and their families. The legal workweek consists of 5 days not exceeding 40 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements. The government sets occupational health and safety standards, and the Labor Ministry effectively enforces them. Workers can refuse dangerous work situations, without risk of penalty.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		765
Food and Kindred Products	8	
Chemicals and Allied Products	258	
Primary and Fabricated Metals	18	
Industrial Machinery and Equipment	14	
Electric and Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	91	
Wholesale Trade		267
Banking		20
Finance/Insurance/Real Estate		(1)
Services		91
Other Industries		49
TOTAL ALL INDUSTRIES		1,338

(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]

	1996	1997	1998
Income, Production and Employment: [1]			
Nominal GDP	1,539	1,392	1,430
Real GDP Growth	1.6	2.3	3.1
GDP by Sector: [2]			
Agriculture	36	31	N/A
Manufacturing	402	365	N/A
Services	833	931	N/A
Government and Non-Profit Services	269	242	N/A
Per Capita GDP (US$)	26,362	23,761	24,544
Labor Force	25,584	25,642	N/A
Unemployment Rate	12.3	12.5	11.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M3) [3]	−3.4	−0.6	3.0
Consumer Price Inflation	2.0	1.2	0.9
Exchange Rate (FF/US$ annual average)	5.1	5.8	5.9
Balance of Payments and Trade:			
Total Exports FOB [4]	289	290	302
Exports to United States [4]	17	19	22
Total Imports [4]	273	261	276
Imports from United States [4]	23	23	25
Trade Balance CIF/FOB	17	29	27
Balance with United States [4]	−5	−5	−3
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	4.1	3.0	2.9
Current Account [5]	21	39	35
Surplus/GDP (pct)	1.3	2.8	2.4
Debt Service Payments (pct of GDP)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves [6]	59	57	69

Key Economic Indicators—Continued

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

	1996	1997	1998
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Embassy estimates based on published French government data unless otherwise indicated.
[2] GDP excludes value added tax and other taxes.
[3] 1998 figure reflects M3 as of August.
[4] 1998 estimate based on eight months.
[5] 1998 estimate based on eight months.
[6] 1998 figure reflects reserves as of September.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual gross domestic product about one-fifth that of the United States. France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the tenth largest trading partner of the United States and the third largest in Europe (after the United Kingdom and Germany). According to U.S. Department of Commerce data, U.S. merchandise exports to France increased by 10.8 percent to $16.0 billion in 1997, while merchandise imports from France grew 11.2 percent to $20.7 billion, again according to Commerce Department data. This resulted in a U.S. merchandise trade deficit with France of about $5 billion. French trade data shown in the table above account differently for re-exports and transshipments via neighboring European countries. They thus tell a different story: France believes that it had a trade deficit of about $5 billion with the U.S. in 1997. Trade in services is expanding rapidly. In 1997, it added about $25 billion more to the total volume of trade between the U.S. and France. The U.S. and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

The annual real GDP growth rate in 1998 should be 3.0 percent, following 2.3 percent in 1997 and 1.6 percent in 1996. Stronger growth was initially led by export sectors, but domestic consumption and investment spending made increasingly important contributions through mid-1998. Growth is expected to decline somewhat in 1999, due to the impact of the global financial crisis that started in Asia on both net exports and domestic demand. Stronger growth has also permitted a reduction in the unemployment rate (from a high of 12.6 percent in late 1997 to 11.7 percent by September 1998) and a continued reduction in the government budget deficit as a share of GDP to below 3.0 percent in 1998.

Considerable progress has been made over the past decade on structural reforms. However, additional efforts will be necessary for France to achieve its full economic potential. Prime areas for reforms identified by international organizations include continued tax and government spending reduction, privatization, increasing the flexibility of labor markets, and further deregulation of goods and services sectors.

With exports and imports each accounting for about 30 percent of GDP, France's open external sector is a vital part of its economy. The government has encouraged the development of new markets for French products and investors, particularly in Asia and Latin America. It especially seeks to promote exports by small and medium-sized firms. Foreign investment, both inward and outward, also plays a very important role in the French economy, helping generate employment and growth. With about 20 percent of the total, U.S. investment accounts for the largest share of foreign direct investment in France. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis. Despite France's October 1998 withdrawal from negotiations toward a Multilateral Agreement on Investment (MAI) within the OECD, French officials say they are committed to developing a system of rules governing foreign investment.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors both in France and throughout the world.

2. Exchange Rate Policies

As of January 1, 1999, France along with 10 other EU countries, will adopt the euro as its currency and the exchange rate between the franc and the euro will be fixed. Responsibility for exchange rate policy will thereafter be shared between national finance ministries and the European Central Bank. As a member of EMU, France is committed keeping annual public sector deficits below 3 percent of GDP under normal economic circumstances, and keeping total public sector debt below 60 percent of GDP.

3. Structural Policies

Over the past decade, the government has made efforts to reduce its role in national economic life through fiscal reform, privatization, and the implementation of European Union liberalization and deregulation directives. Yet the government remains deeply involved in the functioning of the economy through national and local budgets, state ownership of major corporations, and extensive regulation of labor, goods, and services markets. This can sometimes result in a lack of transparency in the making of decisions that affect U.S. and other firms. While U.S. and foreign companies often cite concerns about relatively high tax rates on business, particularly payroll and social security taxes, state action does not discriminate against foreign firms or investments, with very few, generally clearly defined exceptions, such as those notified to the OECD under its investment codes.

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. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

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, and agreements with the Maghreb and other countries.

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 (irrespective of EU policy) 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., ostrich, emu and alligator) unless authorized by special derogation. Also, current regulations discriminate against imports of bovine semen and embryos (from the United States) by strictly controlling their marketing in France.

France established a new national policy toward Genetically Modified Organisms (GMOs) in 1998 that will likely restrict both imports and production of certain types of GMO products. French delay in approving American GMO corn in spring and summer 1998 resulted in a delay in EU approvals that cost U.S. producers over $100 million in sales to the EU. The U.S. is working with France and the European Commission to improve approval processes for GMO products.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France strictly applies quotas mandating local content. Continuation and growth of a strong French A/V sector is a government priority.

In 1998 the government tried to increase the tax burden on health-related sectors in order to balance the national social security health care budget. Research-based pharmaceutical firms and health equipment firms have been particularly targeted. The U.S. health equipment industry, in particular, is concerned with what it regards as the non-transparent way in which the government reduced reimbursement levels for its products.

6. Export Subsidies Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. To match U.S. export promotion policies that it regards as highly successful, the French Government has begun examining ways to promote exports more aggressively, particularly to the emerging markets in East Asia and Latin America. These efforts include providing information and other services to potential exporters, particularly small and medium-sized enterprises.

Support of the agricultural sector is a key government priority. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. There are virtually no direct government subsidies to agricultural production. The government offers 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 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 "authors 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. 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 during which to file a corresponding application in France.

8. Worker Rights

a. *The Right of Association:* The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The 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.

b. *The Right to Organize and Bargain Collectively:* The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local and plant levels.

c. *Prohibition of Forced or Compulsory Labor:* French law prohibits antiunion discrimination and forced or compulsory labor.

d. *Minimum Age for Employment of Children:* With a few minor exceptions for those enrolled in apprenticeship programs or working in the entertainment industry, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work:* The current minimum wage is FF 40.22 per hour (about $6.84). Legislation lowering the legal work week from 39 to 35 hours was passed in 1998. Negotiations on implementation have begun and a second law on overtime and other details will be proposed before the reduction takes legal effect starting in 2000. 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,045
Total Manufacturing		15,887
Food and Kindred Products	3,147	
Chemicals and Allied Products	3,446	
Primary and Fabricated Metals	1,844	
Industrial Machinery and Equipment	2,974	
Electric and Electronic Equipment	683	
Transportation Equipment	1,080	
Other Manufacturing	2,713	
Wholesale Trade		2,857
Banking		781
Finance/Insurance/Real Estate		8,996
Services		4,118
Other Industries		930

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	34,615

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

GERMANY

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	2,349	2,095	2,109
GDP Growth (pct) [3]	1.3	2.2	2.7
GDP by Sector (pct):			
Agriculture	1.5	1.5	N/A
Manufacturing	33.7	33.8	N/A
Services	48.7	49.3	N/A
Government	13.4	13.0	N/A
Per Capita GDP (US$)	28,667	25,549	25,675
Labor Force (000s)	34,423	33,962	34,095
Unemployment Rate (pct)	10.2	11.4	10.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	4.6	1.1	N/A
Consumer Price Inflation	1.5	1.8	1.0
Exchange Rate (DM/US$ annual average)	1.50	1.73	1.78
Balance of Payments and Trade:			
Total Exports FOB [4]	526.0	513.7	544.7
Exports to United States [4]	40.1	44.3	N/A
Total Imports CIF [4]	460.3	446.3	463.4
Imports from United States [4]	33.0	33.8	N/A
Trade Balance [4]	65.7	67.4	81.3
Balance with United States	7.1	10.5	N/A
Current Account Balance/GDP (pct)	−0.6	−0.2	0.2
External Public Debt	411	408	N/A
Fiscal Deficit/GDP (pct)	−3.5	−2.8	−2.3
Debt Service Payments/GDP (pct)	3.7	3.7	3.7
Gold and Foreign Exchange Reserves	57.2	52.2	N/A
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 Figures are all estimates based on available monthly data in October and consensus forecasts.
[2] GDP at factor cost.
[3] Percentage changes calculated in national currency.
[4] Merchandise trade.

1. General Policy Framework.

Germany's economy is the world's third largest, equivalent to just over two trillion dollars (in nominal terms). Real GDP growth, which reached 2.2 percent in 1997, continued to strengthen through 1998. Most German public and private forecasters estimate growth of around 2.7 percent for 1998 and a slightly lower growth rate in 1999. This expansion is largely fueled by higher exports and, to a lesser extent, by higher equipment investment. Private consumption has picked up somewhat in 1998, but slow growth in the construction sector continued to provide a drag on the overall economy.

In an October 1998 report, leading private economic institutes forecast that growth will be stronger in western Germany than in the east, stopping—at least temporarily—progress toward economic convergence within Germany. Unemployment remains high throughout the country. In eastern Germany, the unemployment rate increased to 16.9 percent in 1998. Despite a modest decrease in the unemployment rate in western Germany, which was largely due to short-term job creation programs, the number of unemployed for all of Germany will be approximately 4.3 million for 1998.

The German "social market" economy is organized on market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health, educational and basic welfare benefits. Increased government outlays associated with German unification have put pressure on fiscal policy during the 1990s. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to raise eastern German production potential via public investment and generous subsidies to attract private investment. However, overall unit labor costs in eastern Germany are still quite high, as productivity growth has lagged behind wage increases. This has resulted in heavy job losses and greatly increased Germany's unemployment compensation costs. As a result, western Germany continues to transfer substantial sums to eastern Germany (more than DM 140 billion annually, or roughly four percent of German GDP). These transfers have accounted for the dramatic ballooning of public sector deficits and borrowing since 1990.

The new government elected on September 27, 1998 has indicated that its highest priority will be to lower unemployment. It also intends to introduce modest reforms in the income tax system over a period of four years, largely benefiting lower income taxpayers and providing only slight overall net tax relief. The new government has also committed itself to keeping the public sector deficit within the limits set in the general Maastricht Agreement.

In the early 1990s, relatively high rates of inflation (the consumer price index rose an average 4.8 percent in 1992 and 1993) and money growth, upward pressure on wages, 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 6.25 percentage points, with the most recent cut, to a historic low of 2.5 percent, occurring in April 1996. The new government has called for a further reduction in interest rates to stimulate demand and reduce unemployment. Wage settlements in 1998 have been moderate and unit wage costs have continued to decline. Labor unions indicate they will push for more generous wage settlements in 1999. At the same time, inflation continues to moderate, with consumer price inflation reaching a new low in August, 1998, rising only a provisional 0.8 percent year-on-year. The overall increase in consumer prices may average less than one percent for 1998 as a whole.

The government's public sector deficits are financed primarily through sales of government bonds, the maximum maturity of which normally is ten years, although 30-year bonds are occasionally sold. The Bundesbank's primary monetary policy tool is short-term liquidity provided to the banking system via repurchasing operations, at a "repurchasing" rate that the Bundesbank largely determines. To preempt inflationary pressures, the Bundesbank raised this rate by 30 basis points in October 1997 to 3.30 percent. The Frankfurt-based European Central Bank took over monetary policy control in January, 1999 with the introduction of the euro, and has indicated it will follow the general policy trends of the Bundesbank.

2. Exchange Rate Policies

The Deutsche Mark is a freely convertible currency, and the government does not maintain exchange controls. On January 1, 1999, the euro was introduced in Germany. Over the next three years, the DM will be phased out and the euro will become the exclusive currency in Germany. All monetary and exchange policies will be handled by the European Central Bank.

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 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 European Union partners, the shock of German unification, pressure from globalization on traditional manufacturing industries, and record high unemployment have forced a rethinking of the German post-war economic consensus and spurred intense public debate on Germany's competitiveness as a location for business and investment.

A number of structural impediments to the growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

(1) a rigid labor market;
(2) a regulatory system that discourages new entrants;
(3) high marginal tax rates and high social charges;
(4) and, inadequate access to risk and venture capital for start-up firms.

The new government is focusing its efforts on combating unemployment. It is not yet clear how and to what extent it intends to address these structural impediments.

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. In conjunction with the liberalization of the telecommunications sector, the government-owned Deutsche Telekom was substantially privatized (25 percent of shares were made public) in what was one of the largest stock offerings in history. The German Government has fulfilled its commitment to open the telecommunications network monopoly to competition as of January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post began operation. The federal government also has sold its remaining stake in the national airline, Lufthansa.

Despite the progress in recent years, lack of competition remains a problem in many protected sectors and drives up business costs in Germany. Services which continue to be subject to excessive regulation and market access restrictions include communications, banking and insurance. The government intends to review existing legislation that limits price competition between firms, as well as laws that reduce competition in the insurance and transport sectors. The Regulatory Authority for Telecommunications has issued new regulations to encourage competition in the telecoms sector. Paralleling German Government efforts to deregulate the economy, the European Union is expected to continue to pressure its member states to reduce barriers to trade in services within the Community. U.S. firms, especially those with operations located in several European Union member states, should benefit from such market integration efforts over the long term.

4. Debt Management Policies

As a part of the introduction of European Monetary Union, the government is working to reduce its public sector deficits and lower its debt/GDP ratio. Germany is also subject to a constitutional limitation to hold its new net borrowing, at or below the amount invested in public sector infrastructure.

Germany has recorded persistent 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. These deficits have been fairly small, however, in relation to GDP, and Germany is expected to show a current account surplus this year. With demand in eastern Germany slowing and exports strengthening, the trade surplus has increased steadily, and will likely reach the high pre-unification level of some $81 billion for 1998. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has contributed to the past current account deficits. The factor income balance has also worsened in recent years due to government interest payments to foreigners holding increasing stocks of German debt. 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 roughly $150 billion by mid-1997.

5. Significant Barriers to U.S. Exports

Germany is the United States' sixth-largest export market and its fifth-largest source of imports. During the first eight months of 1997, U.S. exports to Germany totaled $15.5 billion (FOB basis), while U.S. imports from Germany reached $25.6 billion (FOB basis). Other than EU-imposed restrictions, there are few formal barriers to U.S. trade and investment in Germany. Ingrained consumer behavior and the intense competition prevailing in German product and services markets often make gaining market share a difficult challenge, especially for new-to-market companies.

Import Licenses: Germany has abolished almost all national import quotas. The country enforces, however, import license requirements placed on some products by the European Union, such as the tariff quota on Latin American bananas imposed by the EU's banana import regime. As a result of this discriminatory marketing arrangement, U.S. fruit trading companies have lost market share in Germany. The World Trade Organization's dispute resolution panel and the WTO Appeals body, have found the EU banana regime to violate both the General Agreement on Trade in Services and the General Agreement on Trade in Goods, requiring EU members (including Germany) to reform this trading regime. However, the EU has so far proposed only cosmetic changes that do not bring the banana regime into compliance with WTO rules.

Services Barriers: Foreign access to Germany's insurance market is still limited to some degree. All telecommunications services have been fully open to competition since January 1998, when the EU's telecommunications market liberalization came into effect. Liberalization has opened up opportunities for U.S. telecommunications service providers. Germany has no foreign ownership restrictions on telecommunications services. An EU data privacy directive came into force on October 25, 1998. The directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protections that the EU deems adequate. The U.S. and the EU are engaged in ongoing discussions to establish "safe harbor" principles as a way to allow the continued free flow of data.

Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures are complex and can prove to be a hurdle for U.S. exporters unfamiliar with the local environment. Overly complex government regulations offer—intentionally or not—local producers a degree of protection. Health and safety standards, for example, when overzealously applied, can restrict market access for many U.S. products (e.g., genetically modified organisms). The European Union's attempts to harmonize the various product safety requirements of its member states have further complicated the issue. Existing German standards will likely form the basis in a number of cases for eventual EU standards.

Government Procurement: In May 1998, the government passed the Public Procurement Reform Act. It establishes examining bodies that have the responsibility to review the awarding of public contracts and to investigate complaints pertaining to the procurement process.

Investment Barriers: Under the terms of the 1956 Treaty, U.S. investors are afforded national treatment. The government and industry actively encourage foreign investment in Germany. Foreign companies with investment complaints in Germany generally list the same investment problems as domestic firms: high tax rates, expensive labor costs, and burdensome regulatory requirements.

Customs Procedures: Administrative 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 European Union's framework for export subsidies for agricultural goods. Governmental or quasi-governmental entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

7. *Protection of U.S. Intellectual Property*

Intellectual property is generally well protected in Germany. Germany is a member or the World Intellectual Property Organization; a party to the Berne Convention for the Protection of Artistic and Literary 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. U.S. citizens and firms are entitled to national treatment in Germany, with certain exceptions. Despite Germany's implementation of its commitment under the intellectual property rights portions (TRIPS) of the Uruguay Round, some U.S. firms continue to have concerns about the level of software piracy in Germany. Germany's 1993 implementation of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped improve Germany's performance in this area.

8. *Worker Rights*

a. *The Right of Association:* Article IX of the German Constitution guarantees full freedom of association. Workers' rights to strike and employers' rights to lock-out are also legally protected.

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. Nonetheless, some firms in Eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a "blind eye" to firm-level negotiations. 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 work councils and worker membership 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 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 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,648
Total Manufacturing		20,462
Food and Kindred Products	1,233	
Chemicals and Allied Products	3,927	
Primary and Fabricated Metals	1,495	
Industrial Machinery and Equipment	3,665	
Electric and Electronic Equipment	1,323	
Transportation Equipment	5,646	
Other Manufacturing	3,173	
Wholesale Trade		2,538
Banking		1,065
Finance/Insurance/Real Estate		13,816
Services		1,713
Other Industries		1,689
TOTAL ALL INDUSTRIES		43,931

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

GREECE

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	109,500	105,600	106,260
Real GDP Growth (pct) [3]	2.7	3.5	3.5

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
GDP by Sector:			
Agriculture	9,830	8,960	9.020
Manufacturing	26,230	25,130	25,240
Services	73,440	71,510	72,000
Government	10.600	10,130	10,000
Per Capita GDP (US$)	11,720	11,428	11,398
Labor Force (000s)	4,318	4,294	4,315
Unemployment Rate (pct)	10.3	10.3	10.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M3 Dec)	9.3	9.6	4.0
Consumer Price Inflation	8.2	5.5	4.8
Exchange Rate (DRS/US$ annual average)			
Official	240.7	273.1	290.5
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4]	11,300	10,934	11,500
Total Exports FOB [5]	5,770	5,372	5,000
Exports to United States [6 7]	506	453	161
Total Imports CIF [4]	27,222	25,560	27,000
Total Imports CIF [5]	24,135	23,643	22,000
Imports from United States [6 7]	825	949	425
Trade Balance [4]	−15,922	−14,626	−15,500
Trade Balance [5]	−18,365	−18,271	−17,000
Balance with United States	−319	496	N/A
External Public Debt	30,780	31,500	32,500
Fiscal Deficit/GDP (General Government) (pct)	7.5	4.0	2.2
Current Account Deficit/GDP (pct)	3.7	4.0	4.1
Debt Service (Public Sector) Payments/GDP (pct)	5.5	5.9	6.2
Gold and Foreign Exchange Reserves	19,177	13,337	18,000
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data in November.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise Trade; National Statistical Service of Greece; Customs Data.
[5] Trade; Bank of Greece data; on a settlement basis. The Bank of Greece data, especially those on exports, underestimate true trade figures since exporters are no longer obliged to deposit their export receipts in Greece. The Bank of Greece is preparing a new set of accounts (to be ready at the end of 1998) to be in line with other EU central banks.
[6] U.S. Department of Commerce. U.S. exports and general imports, customs value.
[7] January-April 1998 data.

1. General Policy Framework

Greece has been a member of the European Union (EU) since 1981. Its economy is segmented into the state sector (estimated at 45 percent of GDP) and the private sector (55 percent of GDP). It has a population of 10.6 million and a workforce of about 4 million. Some of Greece's economic activity remains unrecorded. (Estimates of how much of the economy remains unrecorded vary, due, at least in part, to deficient data collection). The moderate level of development of Greece's basic infrastructure—road, rail, telecommunications—reflects its middle-income status. Per capita GDP is $11,398, the lowest in the EU. However, with GDP growth well above the EU average, this gap is slowly closing.

Services make up the largest and fastest growing sector of the Greek economy, accounting for about 70 percent of GDP (including government services). Tourism, shipping, trade, banking, transportation, communications, and construction are the largest service sub-sectors. Greece is an import-dependent country, importing substantially more than it exports. In 1997, imports were $25 billion while exports were only $10.9 billion. A relatively small industrial base and lack of adequate investment in the last 15 years have restricted the export potential of the country. As a general trade profile, Greece exports primarily light manufactured and agricultural products, and imports more sophisticated manufactured goods. Tourism receipts, emigrant remittances, shipping receipts, and transfers from the EU form the core of Greece's invisible earnings. Substantial funds from the EU (about $20 billion) are allocated for major infrastructure projects (road and rail networks, ports, airports, telecommunications etc.) being built over the period 1994-99. About 70 percent of these funds have been utilized to date. Greece may get another EU structural funds package beyond 1999, but official decisions on this remain to be taken. Greece will undertake a number of infrastructure projects to host the 2004 Summer Olympic Games, although some were already underway.

The government is in its fifth year of an austerity program designed to meet the Maastricht Treaty's convergence criteria for the European Monetary Union (EMU). Greece failed to meet the criteria in 1997 to enter EMU in 1999; it aims to join the EMU on January 1, 2001, based on 1999 economic performance. The results of the convergence program on the economy have been generally positive. The drop of inflation to 4.7 percent on an annualized basis in October raised hopes that the 4.8 percent annual average inflation for 1998 can be surpassed. Investment and consumer confidence remain strong and the growth of GDP in 1998 is projected to be around 3.5 percent, unchanged from 1997. Unemployment, which stood at 10.3 percent in 1997 is projected to drop to 10.1 percent in 1998. By the end of 1997, as a result of a fiscal policy focused on expanding revenue collection, the government budget deficit to GDP ratio had fallen to 4 percent, better than the 4.2 percent originally planned. However, real progress in reducing public expenditures has been limited due to continued opposition to structural reforms by labor unions, professional associations, politicians, and the media.

Greece's huge government debt (108.9 percent of GDP or 127.3 billion U.S. dollars in 1997) stems to a great extent from government acquisition of failing enterprises and a bloated public sector. Greece's social security program has also been a major drain on public spending. Deficits are financed primarily through issuance of government securities.

Monetary policy is implemented by the Bank of Greece (the Central Bank). The Bank uses the discount and other interest rates in its transactions with commercial banks as tools to control the money supply. The government continues to retain privileged access to credit via the still low-taxed 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 comply with the monetary targets set by the Bank of Greece.

2. Exchange Rate Policy

Foreign exchange controls have been progressively relaxed since 1985. Medium and long-term capital movements have been fully liberalized. Most restrictions on short-term capital movements were lifted in 1994. Remaining restrictions on short-term capital movements were lifted on August 1, 1997, although some controls still exist to facilitate enforcement of money laundering laws and tax collection. Greece's foreign exchange market is now in line with EU rules on free movement of capital.

From 1994 to March 14, 1998, Greece applied a so-called "stable drachma policy" aimed at preventing the drachma from depreciating against other EU currencies by as much as inflation differentials would naturally dictate. The "stable drachma policy" was the main tool used to bring the double digit inflation of the 1980's and early 1990's under control. This has had an adverse impact on the country's export potential. The drachma was included in the EU Exchange Rate Mechanism (ERM) on March 16, following a 12.3 percent devaluation on March 14, 1998, and a commitment to the EU Monetary Committee that the Greek Government would speed up structural reforms and meet the EMU entry criteria by the end of 1999. The drachma will participate in the ERM-2 as of January 1, 1999 at the same central rate (357 drachmas equal one euro) and terms (plus/minus 15 percent of the central rate) set at the time of the drachma's inclusion in the ERM on March 16, 1998.

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. The 1994-99 Convergence Program, designed to enable Greece to comply with the Maastricht Treaty criteria, set targets that should encourage significant structural reforms, including privatizations. Progress in this area, however, has been limited. The Convergence Program itself has been revised twice. After privatizing a few small banks and the Hellenic Duty Free Shops, the government sold minority stakes in the Hellenic Telecommunications Organization (35 percent currently traded in the market, both domestically and internationally), the National Bank of Greece, and in Hellenic Petroleum, the state petroleum distributor. The government has a plan stretching until the end of 1999 to privatize or sell minority stakes in public sector enterprises and organizations including Ionian Bank, Olympic Airways Catering, the Athens Stock Exchange and the three remaining industries currently under the supervision of the state Industrial Reconstruction Organization (IRO). Restructuring the operations of the public sector (i.e., elimination of unnecessary activities/entities, changes in the labor and social insurance regimes) are also at the top of the Greek Government's agenda.

Pricing Policies. The only remaining price controls are on pharmaceuticals. The last change in pharmaceutical prices in December 1997 inhibited imports of some U.S. pharmaceuticals. The government can also set maximum prices for fuel and private school tuition fees, and has done so several times in the last two years.

About one quarter of the goods and services included in the Consumer Price Index (CPI) are produced by state-controlled companies. As a result, the government retains considerable indirect control over pricing. While this distorts resource allocations in the domestic economy, it does not directly inhibit U.S. imports (with the exception of pharmaceuticals).

Tax Policies: Businesses complain about frequent changes in tax policies (there is a new tax law practically every year). Tax legislation passed in January 1998:

—further tightened tax exemptions;
—increased corporate tax rate from 35 to 40 percent for all corporations that have registered shares but do not trade them on the Athens Stock Exchange (this provided a tax subsidy to Greek firms based on their utilization of the Athens Stock Exchange);
—increased tax rates on interest from Greek Government bonds and treasury bills from 7.5 to 10 percent;
—imposed a duty on mobile phones based on the level of the phone bill;
—and introduced a new tax (0.3 percent) on stock exchange transactions (previously untaxed).

4. Debt Management Policies

Greece's "General Government Debt" (the Maastricht Treaty definition) was 127.3 billion dollars, or 108.9 percent of GDP (market prices) in 1997 (end year). Foreign exchange reserves fluctuated in the first quarter of 1997 between 13.9 and 20.4 billion dollars or between 7 to 10 months of imports.

Servicing of external debt (public sector) in 1998 (interest and amortization) is estimated to equal 66.7 percent of exports and 6.6 percent of GDP. About 65 percent of the external debt is denominated in currencies other than the dollar. Foreign debt does not affect Greece's ability to import U.S. goods and services.

Greece has regularly serviced its debts and has generally good relations with commercial banks and international financial institutions. Greece is not a recipient of World Bank loans or International Monetary Fund programs. In 1985, and again in 1991, Greece received a balance of payments loan from the EU.

5. Significant Barriers to U.S. Exports

Greece, which is a WTO member, has both EU-mandated and Greek Government-initiated trade barriers.

Law: Greece maintains nationality-based restrictions on a number of professional and business services, including legal advice. These restrictions have been lifted in the recent years for EU citizens. U.S. companies can generally circumvent these barriers by employing EU citizens.

Accounting/Auditing: The transitional period for de-monopolization of the Greek audit industry officially ended on July 1, 1997. Numerous attempts to reserve a portion of the market for the former state audit monopoly during the transition period (1994-97) were blocked by the European Commission and peer review in the OECD. However, in November 1997, the Greek Government issued a presidential decree which reduced the competitiveness of the multinational auditing firms. The decree established minimum fees for audits, and imposed restrictions on utilization of different types of personnel in audits. It also prohibited audit firms from doing multiple tasks for a client, thus raising the cost of audit work. The government has defended these regulations as necessary to ensure the quality and objectivity of audits. In practical effect, the decree constitutes a step back from deregulation of the industry.

Aviation: The Greek flag air carrier, Olympic Airways, used to have a monopoly in providing ground handling services to other airlines. As of January 1, 1998, all major airports in the EU had to offer at least two ground handling options. However, in practice Olympic remains the only ground handling option for foreign airlines other than self-handling.

Motion Pictures: Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. Moreover, enforcement of Greek laws protecting intellectual property rights for film, software, music, and books is problematic (see below).

Agricultural Products: Greece insists on testing U.S. wheat shipments for karnal bunt disease. It will not accept USDA certificates stating that wheat comes from areas free from the disease. The testing method used provides a high incidence of false positive results and thus serves as a de facto ban on imports of U.S. wheat.

Generally, Greece has not been responsive to applications for introduction of bioengineered (genetically modified) seeds for field tests despite support for such tests by Greek farmers. In 1998, some field tests for genetically modified cotton and BT corn took place.

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, which currently restricts foreign and domestic private investment in public utilities (with the exception of cellular telephony and energy from renewable sources, e.g. wind and solar), has deregulation plans for telecommunications and energy. Greece has been granted a derogation until January 1, 2001 to open its voice telephony and the respective networks to other EU competitors. In the energy field, the Greek energy market will be gradually deregulated, starting in February 2001.

U.S. and other non-EU investors receive less advantageous treatment than domestic or other EU investors in the banking, mining, maritime, and air transport sectors, and in broadcasting (these sectors were opened to EU citizens due to EU single market rules). There are also restrictions for non- EU investors on land purchases in border regions and certain islands (on national security grounds).

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 adhered to the GATT Government Procurement Code since 1992. Nevertheless, many of the following problems still exist: 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. Firms from other EU member states have had a better track record than U.S. firms 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 required.

In December 1996, the Greek Parliament passed legislation (Law 2446, article 16) which allows public utilities in the energy, water, transport, and telecommunications sectors to sign "term agreements" with local industry for procurement. "Term agreements" are contracts in which Greek suppliers are given significant preference. The official explanation for these agreements is the need to support the national manufacturing base. This was made possible as a result of Greece's receipt of an extension until January 1, 1998, to implement the EU's Utilities Directive 93/38. Before expiration of the extension, in November-December 1997, numerous contracts potentially worth of billions of dollars were signed by Greek public utilities with Greek suppliers. Some of these term agreements have no less than 3-5 years duration, thus effectively excluding foreign suppliers from vital sectors of government procurement for several years. The European Commission has been examining the hurried manner in which these contracts were approved.

6. Export Subsidies Policies

The government does not use national subsidies to support exports. However, some agricultural products (most notably cotton, olive oil, tobacco, cereals, canned peaches, and certain other fruits and vegetables) receive production subsidies from the EU which enhance their export competitiveness.

7. Protection of U.S. Intellectual Property

Greek laws extend protection of intellectual property rights to both foreign and Greek nationals. Greece is a party to the Paris Convention for the Protection of Industrial Property, the European Patent Organization, the World Intellectual Property Organization, the Washington Patent Cooperation Treaty, and the Berne Copyright Convention. As a member of the EU, Greece has harmonized its legislation with EU rules and regulations. The WTO TRIPS agreement was incorporated into Greek legislation as of February 28, 1995 (Law 2290/95).

Despite Greece's legal framework for and voiced commitment to copyright protection, piracy of copyrighted material, especially audio-visual works for television, has continued. Greece took an important 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. However, that law is not yet fully implemented.

The inability of rights holders to obtain effective action against TV stations pirating copyrighted works resulted in Greece being elevated in December 1994 to the USTR's "Priority Watch List" under the "Special 301" provision of the 1988 Trade Act. Just prior to an out-of-cycle review in December 1996, the government presented an "Action Plan" of specific steps it would take by April 1997 to reduce audio-visual piracy. While some of these steps were taken, the government lagged behind in licensing television stations in accordance with the provisions of the 1995 Media Law. The process, while finally underway after extremely long delays, was less than halfway through in October 1998. As a result, the U.S. government launched a WTO TRIPS non-enforcement challenge and consultations under WTO auspices were started in June 1998. Those consultations are continuing.

Although Greek trademark legislation is fully harmonized with that of the EU, another intellectual property protection problem is the lack of effective protection of trademarks, particularly in the apparel sector. Claims by U.S. companies of counterfeiting appear to be on the increase.

Intellectual property appears to be adequately protected in the field of patents. Patents are available for all areas of technology. Compulsory licensing is not used. Patents and trade secrets are protected by law for a period of twenty years. There is a potential problem concerning the protection of test data relating to non-patented products. Violations of trade secrets and semiconductor chip layout design are not problems in Greece.

8. Worker Rights

The Greek economy is characterized by significant labor-market rigidities. Greek labor law prohibits laying off more than two percent per month of total personnel employed by a firm. This restricts the flexibility of firms and the mobility of Greek labor and contributes to unemployment.

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 (public sector employees under civil mobilization may be replaced on a temporary basis).

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. Civil servants who currently do not have a formal system of collective bargaining, negotiate their demands with the Ministry for Public Administration. New legislation which will come into force in 1999 provides for collective bargaining rights for the Civil Service. The new legislation ratified ILO Conventions 151 and 154.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is strictly prohibited by the Greek Constitution and is not practiced. However, the government may declare "civil mobilization" of workers in case of danger to national security or to social and economic life of the country.

d. *Minimum Age of Employment of Children:* The minimum age for work in industry is 15, with higher limits for certain activities.

e. *Acceptable Conditions of Work:* Minimum standards of occupational health and safety are provided for by legislation, which the General Confederation of Greek Workers (GSEE) characterizes as satisfactory. In 1998, GSEE complaints regarding inadequate enforcement of legislation were met when the Ministry of Labor established a new central authority, the Labor Inspectors Agency. The agency is accountable to the Minister of Labor and has extended powers which include the power to close a factory that does not comply with minimum standards of health and safety.

Legislation providing for the legalization of illegal immigrants came into force in January 1998. About 350,000 illegal immigrants were registered and will be entitled to one to three-year renewable work and residence permit. Those issued a permit will have the same labor and social security rights as Greek workers. Non-registered immigrants will be liable to summary deportation if arrested.

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.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		71
Total Manufacturing		115
Food and Kindred Products	−9	
Chemicals and Allied Products	77	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		94
Banking		154
Finance/Insurance/Real Estate		108
Services		56
Other Industries		40
TOTAL ALL INDUSTRIES		638

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

HUNGARY

Key Economic Indicators [1]

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

	1996	1997	1998
Income, Production and Employment:			
Nominal GDP	44.8	44.7	46.5[2]
Real GDP Growth (pct)	1.3	4.4	5.0
GDP by Sector: [3]			
Agriculture	3.0	3.1	N/A
Manufacturing	9.2	9.4	N/A
Construction	2.0	2.0	N/A
Services	23.6	23.1	N/A
Government	6.9	6.6	N/A
Per Capita GDP (US$)	4,402	4,415	4,590
Labor Force (000s)	6,215	6,253	6,200
Unemployment Rate (pct)	10.7	10.4	8.9
Money and Prices (annual percentage growth):			
Money Supply Growth	21.2	23.2	24.6[4]
Average Consumer Price Inflation	19.8	18.4	13–14

Key Economic Indicators [1]—Continued

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

	1996	1997	1998
Official Exchange Rate (HUF/US$ annual average)	152.6	186.8	212
Balance of Payments and Trade:			
Total Exports FOB	13.1	19.1	22
Exports to United States (US$ millions)	653	1,079	1,400 [5]
Total Imports CIF	16.2	21.1	27
Imports from United States (US$ millions)	331	485	500 [5]
Trade Balance	−2.4	−2.6	−5
Balance with United States (US$ millions)	−322	−543	−900 [5]
Current Account Deficit/GDP (pct)	4.0	2.2	4–5
Net External Public Debt	9.5	4.6	4.5
Debt Service Payments/GDP (pct)	21.0	13.8	11–12
Fiscal Deficit/GDP (pct)	3.2	4.6	4.3 [6]
Gold and Foreign Exchange Reserves	9.8	8.2	8.2 [7]
Aid from United States (US$ millions)	17.0	15.0	7.0
Aid from All Other Sources	N/A	N/A	N/A

[1] Source: Central Statistical Office and National Bank data available through October 1998, except where otherwise noted.
[2] Apparent decrease is duc to the ongoing Hungarian forint devaluation against the U.S. dollar.
[3] GDP by sectors is higher than total GDP due to double counting.
[4] June-on-June M1 growth (no M2 data available for 1998).
[5] Source: U.S. Department of Commerce; 1998 projected from January-August data. Note that U.S.-source and Hungarian-source bilateral trade figures differ markedly, due largely to country-of-origin distinctions in exports whose final assembly occurs in Hungary.
[6] Fiscal deficit increase in 1997 due to changed methodology for interest payments.
[7] October 1998.

1. General Policy Framework

Hungary has been transformed into a middle-income country with a market economy and a well-elaborated but still developing Western-oriented legal and regulatory framework. The first post-communist government (1990–94) began significant economic reform, but was unable to privatize many state enterprises and implement systemic fiscal reforms, which led to large imbalances in Hungary's fiscal and external accounts. A successor government (1994–98) achieved economic stabilization through an IMF-coordinated austerity program adopted in March 1995, and accelerated privatization and economic reform. In 1998, Hungary posted solid increases in industrial output, exports, and overall output, while continuing to reduce inflation. Continued economic restructuring under the current government (elected in May 1998) is expected to allow for sustainable growth in the medium term. Substantial regional disparities exist in Hungary, though they will likely narrow in the future.

A revised privatization program enacted in 1995 gave new momentum to sales of government enterprises and assets, largely to Western companies. Privatization contributed to a rapid transformation of the energy, telecommunication, and banking sectors. Currently about 80 percent of the country's GDP is derived from the private sector, and Hungary has lowered government expenditures as a percentage of GDP. Other significant reforms include means-testing of social-welfare payments (partially reversed by the current government) and partial privatization of the pension system (implemented in January 1998). The unfinished reform agenda includes rationalizing health care and local government financing.

Privatization revenues have reduced Hungary's foreign debt burden substantially. The government has an unblemished debt payments record and its foreign-currency obligations have been rated investment grade by all major rating agencies since late 1996. Foreign currency reserves stood at $8.2 billion through October 1998, enough for four months of imports.

In part reflecting concerns about the Russian financial crisis, the government has pledged to continue reducing fiscal deficits and disinflationary wage increases. The consolidated budget deficit in 1998 will equal about 4.5 percent of GDP, down from 8.2 percent in 1994. Hungary finances its state deficit primarily through foreign and domestic bond issuances. The government projects a $1.5 to 2 billion current account deficit for 1998, up from $1 billion in 1997. Foreign direct investment will exceed the current account deficit, preventing an increase in net external debt. Following a cumulative decline of 17 percent from 1995 to 1996, net real wages increased by

4 percent in 1997 and an estimated 5 percent in 1998, matched by large productivity gains over this period.

Hungary is a leader in attracting foreign direct investment, with an estimated $18.5 billion in cumulative inflows since 1989. Although in the process of being scaled down, tax incentives and related credits are available for foreign investments, especially in underdeveloped regions. Hungarian law currently permits the establishment of companies in customs-free zones which are also exempt from indirect taxation tied to the turnover of goods.

A signatory to the Uruguay Round Agreement and a founding member of the World Trade Organization, Hungary joined the Organization for Economic Cooperation and Development (OECD) in May 1996 and, as a part of that process, is further liberalizing capital account transactions. Hungary has harmonized many laws and regulations with European Union standards and has oriented economic policy towards earliest possible accession.

2. Exchange Rate Policy

The revised Foreign Exchange Law, effective January 1, 1996, made the Hungarian Forint essentially convertible for current account transactions. Foreigners and Hungarians can maintain both hard currency and forint accounts. The forint exchange rate is managed within a +/−2.25 percent band ("crawling peg ") against a currency basket composed of the German Mark (70 percent, to be replaced by the euro as of January 1, 1999) and the dollar (30 percent). In January 1999, the preannounced monthly rate of devaluation will be reduced from 0.7 to 0.6 percent. Improved macroeconomic performance has helped slow average annual inflation from 28.3 percent in 1995 to a projected 13–14 percent for 1998.

The Hungarian National Bank (MNB) carries out monetary policy through open market operations focusing on an interest rate policy consistent with disinflation and within the constraints of the foreign exchange regime. Commercial banks can conclude foreign exchange swap transactions with the MNB.

3. Structural Policies

Prices for most products and services are freely set by the market. User prices for pharmaceuticals, public transport, and utilities continue to be partially set by the state. The government offers a wholesale floor price for many agricultural products. Public opposition and regulatory intervention have prevented utility prices from reaching market levels, causing energy companies to receive less than the cost-plus-eight percent return stipulated in privatization contracts.

Starting in 1997, successive governments have reduced income tax rates and employer social contributions in an effort to cut inflation, spur job growth, and shrink the gray economy. Corporate tax remains low at 18 percent. Currently, a ten-year corporate tax holiday applies to investments of at least HUF 10 billion (about $46 million as of November 1998) or HUF 3 billion in less developed regions, and a five-year 50 percent tax holiday applies to investments of at least HUF 1 billion. Other incentive programs exist; consult the Country Commercial Guide or the Hungarian Ministry of Economic Affairs. Many municipalities offer local incentives.

Major structural budget reform has been implemented and further legislation is expected in this area. In January 1998, a new "three pillar" pension system was introduced in which private funds initially augment and gradually supplant more of the current state-funded, pay-as-you-go public system. The government is likely to focus on reforming health care and local government financing, in order to further reduce state expenditures.

4. Debt Management

Hungary is a moderately indebted country (though high by per capita standards), with gross foreign debt expected to be $25.5 billion at the end of 1998. In addition, net foreign debt is projected to be $12.5 billion at the end of 1998, down from $14 billion in 1996. Net public domestic debt was $5.0 billion at the end of October 1998, slightly over half the level at the end of 1996. Hungarian governments have consistently met external debt service payments. A standby credit arrangement with the International Monetary Fund ended in February 1998 by mutual agreement. Hungary has prepaid all past borrowings from the IMF, and received an investment grade rating on sovereign long-term foreign currency debt from leading U.S. credit rating agencies in late 1996. Hungary is expected to have reserves of $8 to $8.5 billion by the end of 1998.

5. Significant Barriers to U.S. Exports

On July 1, 1997, Hungary joined the Pan European Free Trade Zone and Cumulation System. Combined with tariff reductions stipulated in Hungary's 1993 EU Association Agreement, industrial imports from EU members and associated states face declining tariffs (to be eliminated in 2001), while U.S.-origin goods will face Hungary's MFN tariff rates until Hungary's adoption of the common external tariff upon accession to the EU. The increasing differential between tariffs on EU goods and on U.S. goods has disadvantaged many U.S. exporters. Duty must be paid on imports from outside the Pan-European Zone, which may then be exported duty-free to other countries within the Pan European Zone. Duty paid on inputs processed and then exported within the zone is no longer refunded, a problem which the Hungarian Government has addressed on a case-by-case basis for U.S. firms exporting from Hungary to European markets.

Although 95 percent of imports (in value terms) no longer require prior government approval, quota constraints apply to some 20 product groups, mainly cars, textiles, and precious metals (but quotas did not restrict imports in most of these areas). Under WTO rules, Hungary will phase out quotas on textiles and apparel by 2004. As a result of the WTO Agricultural Agreement, quotas on agricultural products and processed foods have been progressive replaced by tariff-rate quotas. In 1997, Hungary eliminated an import surcharge imposed as part of the March 1995 austerity package.

Importers must file a customs document (VAM 91 form) with a product declaration and code number, obtained from the Central Statistical Office. Upon importation, the importer must present Commercial Quality Control Institute (KERMI) certified documentation to clear customs. This permit may be replaced by other national certification and testing agency documents, such as those of the National Institute for Drugs. Hungary participates in the International Organization for Standardization (ISC) and the International Electro-Technical Commission (IEC).

Foreign investment is allowed in every sector open to private investment. Foreign ownership is restricted to varying degrees in civil aviation, defense, and broadcasting. Only Hungarian citizens may own farmland.

Under the November 1995 Law on Government Procurement, public tenders must be invited for purchases of goods with a value over HUF 10 million ($46,500 as of November 1998), construction projects worth HUF 20 million and designs and services worth over HUF 5 million. Bids containing more than 50 percent Hungarian content receive a 10 percent price preference. This process does not apply to military purchases affecting national security nor to gas, oil, and electricity contracts. Hungary is not a party to the WTO Government Procurement Code, and some U.S. firms have taken legal action against non-transparency and procedural irregularities in government tenders.

6. Export Subsidies Policies

The Export-Import Bank and Export Credit Guarantee Agency, both founded in 1994, provide credit and/or credit insurance for less than ten percent of total exports. There are no direct export subsidies on industrial products, but some agricultural products receive export subsidies from the state. After 1993, agricultural export subsidies exceeded Hungary's Uruguay Round commitments in the range and value of products subsidized; in October 1997, the WTO approved an agreement in which Hungary committed to phase out excess subsidies and not to expand exports of subsidized products to new markets.

7. Protection of U.S. Intellectual Property

In 1993, the United States and Hungary signed a comprehensive Bilateral Intellectual Property Rights Treaty. Hungary also belongs to the World Intellectual Property Organization, the Paris Convention on Industrial Property, the Nice Agreement on Classification and Registration of Trademarks, the Madrid Agreement Concerning Registration and Classification of Trademarks, the Patent Cooperation Treaty, and the Berne and the Universal Copyright Conventions.

Legal implementation of intellectual property rights in Hungary is generally very good, but enforcement is hampered by insufficient resources, court delays, and light penalties. A 1994 amendment to Hungary's industrial property and copyright legislation extended patent protection for pharmaceutical/chemical products and provided the legal means to prevent proprietary information from being disclosed or acquired by other than "honest commercial practices." The 1995 Media Law makes broadcast transmission licenses conditional on respect for international copyrights. In 1997, legislation strengthened access to legal injunctions in infringement cases.

8. Worker Rights

a. *The Right of Association:* The 1992 Labor Code, as amended in 1997, recognizes the right of unions to organize and bargain collectively and permits trade union pluralism. Workers have the right to associate freely, choose representatives, publish journals, and openly promote members' interests and views. With the exception of military personnel and the police, they also have the right to strike.

b. *The Right to Organize and Bargain Collectively:* Labor laws permit collective bargaining at the enterprise and industry levels. The Interest Reconciliation Council (ET), a forum of representatives from employers, employees, and the government, sets minimum and recommended wage levels in the public sector. Trade unions and management negotiate private wage levels. Special labor courts enforce labor laws. Affected parties may appeal labor court decisions in civil court. The 1992 legislation prohibits employers from discriminating against unions and their organizers.

c. *Prohibition of Forced or Compulsory Labor:* The government enforces the legal prohibition of compulsory labor.

d. *Minimum Age for Employment of Children:* The Labor Code forbids work by minors under the age of 14, and regulates labor conditions for minors age 14 to 16 (e.g., in apprenticeship programs).

e. *Acceptable Conditions of Work:* The Labor Code specifies conditions of employment, including: termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlement, and conflict resolution procedures.

f. *Rights in Sectors with U.S. Investment:* Conditions in specific goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		11
Total Manufacturing		981
Food and Kindred Products	55	
Chemicals and Allied Products	153	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	8	
Electric and Electronic Equipment	(1)	
Transportation Equipment	6	
Other Manufacturing	110	
Wholesale Trade		51
Banking		(1)
Finance/Insurance/Real Estate		15
Services		−17
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,908

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

IRELAND

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	61,443	65,045	68,974
Real GDP Growth (pct)[3]	7.4	9.8	10.2
GDP by Sector:[2]			
Agriculture	4,646	4,280	N/A
Industry	22,883	25,268	N/A
Services	31,216	32,440	N/A
Government	2,968	3,057	N/A
Per Capita GDP (US$)	18,956	20,031	20,517
Labor Force (000s)	1,508	1,539	1,581

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Unemployment Rate (pct)[4]	11.5	10.2	9.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M3e)[5]	15.7	19.1	19.0
Consumer Price Inflation	1.6	1.5	3.0
Exchange Rate (IP/US$)			
Official	0.62	0.66	0.70
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[6]	49,178	55,489	61,143
Exports to United States	4,502	6,072	9,045
Total Imports CIF[6]	35,163	38,641	42,530
Imports from United States	5,539	5,882	8,038
Trade Balance	14,016	16,848	18,613
Balance with United States	−1,037	190	1,005
External Public Debt[7]	19,341	18,886	N/A
Fiscal Deficit/GDP (pct)[8]	−0.9	0.9	1.8
Current Account Balance/GDP (pct)	2.7	2.8	2.0
Debt Service Payments/GDP (pct)	6.2	5.7	N/A
Gold and Foreign Exchange Reserves[7]	7,936	7,047	7,810
Aid from United States[9]	5	5	5
Aid from Other Sources[10]	1,142	1,256	1,300

[1] U.S. Embassy forecasts.
[2] GDP at factor cost.
[3] GDP at constant market prices (local currency).
[4] ILO definition.
[5] Broad money.
[6] Merchandise trade.
[7] Foreign currency denominated debt plus non-resident holdings of Irish Pound denominated debt; end year.
[8] General government.
[9] Each year the United States contributes 19.6 million dollars to the International Fund to Ireland (IFI). A quarter of this amount is estimated to be spent in the Republic of Ireland's border constituencies.
[10] These figures include transfers from the EU's European social fund, regional development fund, cohesion fund and special programme for Northern Ireland and the border constituencies, as well as the contributions from countries other than the United States to the IFI.

Sources: Central Bank Of Ireland (CBI); Central Statistics Office (CSO); Irish Trade Board (ITB); National Treasury Management Agency (NTMA).

1. General Policy Framework

In 1998, Ireland is expected to have the fastest growing economy in the industrialised world for the fifth consecutive year. Most commentators trace the origins of Ireland's "Celtic Tiger" economy to the economic policy mix put in place in the late 1980s and maintained by successive governments since then. This included: (1) tight control of public spending in order to reduce government borrowing and taxation on corporate and personal incomes; (2) a de facto incomes policy, operated through national economic programs agreed by the government, employers and trade unions, in order to limit wage growth and boost employment creation; (3) the ten percent corporate tax rate for international manufacturing and service companies, together with generous grants to export-oriented multinational firms who locate in Ireland; and (4) high levels of investment in education, training and physical infrastructure, much of it funded by generous transfers from the European Union. In contrast to the economic policies of the 1970s and early 1980s, the policy mix in the last decade has centered on supply-side reforms to the economy, aimed at improving the attractiveness of Ireland as a location for overseas investment and increasing competitiveness of Irish-made goods in the international marketplace.

The results have been impressive. Real Irish GDP growth has averaged almost nine percent since 1994, and real Irish incomes have increased by almost two thirds since the beginning of the decade. Fast growth has been accompanied by increasing openness to the world economy. In 1997, total imports and exports were equivalent to over 155 percent of GDP, compared with under 100 percent a decade earlier. Thanks in large part to the strong performance of Irish-based U.S. and other multinational firms, Ireland now enjoys a huge surplus in merchandise trade (equivalent to 23 percent in GDP in 1997), which more than offsets deficits in services and factor incomes. Despite fast growth, inflation remained low, averaging just 2.0 percent in 1994–97, although rising import prices as a result of the weak Irish pound in 1996–97 have seen inflation accelerate to over 3.0 percent in 1998. Rising disposable incomes, low interest rates, lower taxes, fast employment and strong growth in property prices have together resulted in historically-high high levels of consumer and business confidence.

After the runaway public deficits of the mid 1980s, the government has since maintained a more responsible fiscal position. Fast economic growth, combined with limited growth in public spending, has kept Ireland's general government deficit below 2.5 percent of GDP since 1989. This was consistent with the provisions of the 1992 Maastricht Treaty, which required EU nations to keep their fiscal deficits below three percent of GDP, and allowed Ireland to be confirmed last May, along with ten other EU nations, as a starting participant in the final stage of Economic and Monetary Union (EMU), beginning in 1999.

The small fiscal deficits, together with fast growth in national income, have reduced Ireland's debt/GDP ratio from over 125 percent in 1987 to 63 percent at the end of 1997. The Irish Department of Finance expects the debt ratio to fall to just 55 percent by the end of 1998. In nominal terms, national debt at the end of 1997 amounted to just over 49 billion dollars (using average 1997 exchange rates). Of this, 27 percent was denominated in a foreign currency, down from 41 percent at end 1993. Most new government borrowing, used to refinance maturing debt, is made through the sale of Irish Pound-denominated securities, although a significant proportion of these are purchased by non-residents.

Personal income and consumption taxes form the bulk of total government tax revenue. There are two personal tax rates: the standard 24 percent rate, and the higher 46 percent rate. The higher rate kicks in at slightly below the median industrial wage (about 23,000 dollars). In a bid to secure continued trade union commitment to modest nominal wage increases and to make low-paid jobs more attractive to the unemployed, the current government is committed to lowering personal tax rates and expanding income tax credits significantly over the coming years. The rate of value added tax (consumption tax), at 21 percent, is high by European standards. VAT rates in EU members states, including Ireland, can be raised, but not lowered, without EU approval.

The standard rate of corporate tax is 32 percent. Corporate taxation, however, makes a relatively modest contribution to public finances, mainly because of the special ten percent rate available to companies producing internationally-traded manufactured goods and services, and to companies operating in certain industrial zones. Most Irish-based, U.S.-owned businesses pay corporate tax at the special ten percent rate. In response to European Commission criticism that the special rate of corporate tax constituted a subsidy to industry, the government is committed to harmonizing the special and standard rates of corporation tax at 12.5 percent by 2003, thereby eliminating the differential treatment.

Beginning in 1999, monetary policy in Ireland, as in the other ten EU states adopting the single European currency, will be formulated by the European Central Bank (ECB) in Frankfurt. The Irish Central Bank will continue to exist as a constituent member of the European System of Central Banks (ESCB) and will be responsible for implementing a common European monetary policy in Ireland (i.e. providing and withdrawing liquidity from the Irish inter-bank market at an interest rate set by the ECB.) The governor of the Irish Central Bank (currently Maurice O'Connell) will, ex officio, have one vote in the ECB's 17-member monetary policy committee, although each national central bank governor in the committee will be expected to disregard the individual performances of their own national economies in formulating a common monetary policy for the euro area.

The 1992 Maastricht Treaty identifies price stability as the primary objective of monetary policy under EMU. Price stability is defined by the ECB as a year-on-year increase in the harmonized index of consumer prices for the euro area of below two percent. In making its assessment of future consumer price movements, the ECB will take account of trends in money supply, private sector credit, and a range of intermediate price indicators. The primary instrument of monetary policy is expected to be open market operations by the ECB and the national central banks (purchases and repurchases of government securities at a discount rate announced weekly.)

2. Exchange Rate Policies

At the beginning of 1999, the Irish Pound will cease to exist as Ireland's national currency, and the new single European currency, the euro, will become the official unit of exchange. Although Irish currency will continue to circulate until the introduction of euro notes and coins in 2002, it will be no more than a "denomination" of the euro, with an irrevocably fixed exchange rate to the euro and the nine other participating currencies. The conversion rate between the Irish Pound and the euro will likely to be in the region of euro 1.27: IP1.

The euro will be freely convertible for both capital and current account transactions. The Maastricht Treaty makes exchange rate policy for the euro the responsibility of EU finance ministers, subject to the proviso that exchange rate policy does not threaten price stability in the euro area. Unlike any other euro participant, Ireland's largest trading partner, the UK, remains, for the foreseeable future, outside the single currency. Ireland's loss of control over its exchange rate with UK Sterling poses risks to Irish exports to the UK, and places pressure on Irish exporters to increase the flexibility of their cost base, particularly labor costs. The Irish Pound averaged US$1:IP0.66 in 1997, and is expected to average in the region of US$1:IP0.70 in 1998.

3. Structural Policies

Economic policy in Ireland is geared primarily towards lowering unemployment and raising average living standards, although income redistribution, social cohesion and regional development are also important goals. After the failure of expansionary fiscal policies in the late 1970s to stimulate growth, government policymakers have focused on supply-side measures aimed at creating an environment attractive to private enterprise, and in particular to inward direct investment by export-oriented multinationals. The most important policies in this regard have been the following:

(a) tight control over the public finances in order to maintain macroeconomic stability (in 1997 Ireland recorded a general government surplus for the first time in over 50 years);

(b) the development of a social consensus on economic policy through national wage agreements negotiated by the government, employers and trade unions. The latest agreement, partnership 2000, took effect at the beginning of 1997 and trades off continued moderation by trade unions in wage demands against substantial cuts in personal taxation;

(c) the promotion of greater competition and liberalization in the economy, and reducing the size of state-owned industry, particularly in the provision of transport, energy and communications services;

(d) the availability of a special ten percent rate of corporate taxation and generous grants to attract foreign investment;

(e) a commitment to the single European market and to Irish participation in EMU;

(f) high levels of investment in education and training—of all OECD countries only the Japanese workforce has a higher proportion of trained engineers and scientists;

(g) and improvements in physical infrastructure—structural investment between 1993 and 1999 is expected to total around 16 billion dollars (almost 4,500 dollars per head). Much of this will have been funded by generous EU transfers.

The success of the above policies in attracting foreign investors and raising incomes has had two distinct effects on U.S. exports to Ireland: first, over 500 U.S. firms are now located in Ireland. These companies import a large proportion of their capital equipment and operating inputs from parent companies and other suppliers in the United States. Accordingly, the largest component of U.S. exports to Ireland is office machinery and equipment, followed by electrical machinery and organic chemicals. Furthermore, as U.S. firms in Ireland become increasingly integrated with the local economy, sales by U.S. parent companies to local Irish enterprises are believed to have increased dramatically in recent years, although the data on this remains sketchy. Second, the fast growth in both personal incomes and corporate profitability in Ireland has led to a strong increase in demand for U.S. capital and consumer goods from Irish companies and workers. The combination of the above two effects has seen U.S. exports to Ireland increase by a factor of five between 1983 to 1997. As a result, the United States has become Ireland's second largest trading partner, behind only the UK.

4. Debt Management Policies

The National Treasury Management Agency (NTMA) is the state agency responsible for the management of the government debt. Ireland's general government debt at end 1997 amounted to just over 49 billion dollars (using average 1997 exchange rates), equivalent to just over 63 percent of GDP. The bulk of the national debt was accumulated in the 1970's and early 1980's, partly as a result of high oil prices, but more generally as a result of expanding social welfare programs and public-sector employment. Increased fiscal rectitude since the late 1980s means, however, that Ireland was the only EU member state to have a lower debt/GDP ratio in 1997 than it had in 1991. Foreign currency debt at the end of 1997 made up approximately 27 percent of the total. This is down from just over 41 percent at the end of 1993, reflecting the government's strong financial position and Ireland's substantial balance of payments surplus.

Most new government borrowing, mostly used to roll-over maturing debt, is financed through the issuance of Irish Pound securities, although a substantial proportion of these are purchased by non-resident investors. The total debt servicing cost in 1997 was just over four billion dollars, equivalent to 5.7 percent of GDP. Debt servicing costs are expected to fall significantly as a proportion of national income and total government expenditure in the coming years, reflecting lower interest rates, falling nominal debt levels and fast Irish income growth. This should pave the way for further reform of the personal taxation system, thus increasing consumer demand for U.S. exports of goods and services.

5. Aid

In 1997, the United States contributed 19.6 million dollars to the International Fund for Ireland (IFI), of which around five million is estimated to have been spent in the border constituencies of the Republic of Ireland, with the balance being spent in the UK Province of Northern Ireland.

6. Significant Barriers to U.S. Exports

The United States is Ireland's second largest source of imports, behind only the UK. Total exports from the United States into Ireland in 1997 were valued at $5.9 billion (15 percent of total Irish imports), up from just over $3 billion in 1990. Irish exports to the United States have, however, increased at an even faster rate over the same period. With Irish exports to the U.S. in 1997 standing at $6.1 billion, the trade balance between the two countries in 1997 favored Ireland by almost $200 million—Ireland's first trade surplus with the United States in recent history.

As a member of the EU, Ireland administers tariff and non-tariff barriers in accordance with applicable EU policies. With regard to trade in services, Ireland maintains some barriers 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 bilateral U.S.-Ireland Aviation Agreement also places some restrictions on aviation services between the United States and Ireland. Under the agreement, any carrier providing north Atlantic services to Dublin airport, must also provide service to Shannon airport on Ireland's west coast, making the Dublin service unprofitable for some U.S. airlines.

Ireland's markets for electricity and gas will remain closed to competition until early in the next decade, when EU energy liberalization directives take effect. At least one U.S. firm is likely to enter the Irish electricity market when competition is introduced.

The market for telecommunications services in Ireland will be fully liberalized from December, 1998—more than one year ahead of the timetable agreed with the European Commission in 1996. Until now, the state-owned telecommunications company, Telecom Eireann, has been the monopoly provider of voice telephony services to the general public, although the market for leased lines and other data transmission services was progressively liberalized earlier in the 1990s. Potential new entrants into the Irish market, which are likely to include U.S. firms, will need to carefully examine the framework for the new competitive environment currently being prepared by the Irish telecommunications regulator. Particular attention will be paid to rules pertaining to the interconnection rates for new entrants to Telecom Eireann's existing infrastructure, and the "universal service obligations" to compel new entrants to deliver service to remote areas.

Although some liberalization has taken place 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 exports from the United States. Restrictions also apply to foods containing genetically modified organisms, bananas from outside the Caribbean area, cosmetics containing specified risk materials, and some wines, although as with other goods, these policies are determined at EU level.

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. As member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on an MFN, non-preferential WTO basis.

7. Export Subsidies Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy port, receive exemptions from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. Furthermore, Ireland applies a special ten percent rate of corporation tax (the standard rate is 36 percent) to companies producing internationally-traded manufactures and services and to companies operating out of the SDFPZ and the international financial services center in Dublin. Under pressure from the European Commission, which viewed the tax as a subsidy to industry, the government recently committed to eliminating the special ten percent rate of tax by harmonizing the special and standard rates (currently 32 percent) of tax at 12.5 percent by 2003, thereby abolishing the differential treatment.

In May, 1998, the United States instituted WTO dispute settlement consultations against Ireland in relation to Ireland's "special trading house" tax regime. Under section 39 of the Irish Finance Act, 1980, the special ten percent rate of corporation tax is available to "special trading houses," which are companies that act as an access mechanism and marketing agent for Irish-manufactured products in foreign markets. Following the U.S. action, the Irish Government announced in June, 1998, its intention to seek parliamentary approval for the termination of the scheme "at the earliest opportunity." Trading houses already licensed under the scheme will continue to receive the tax break until December 31, 2000, when the scheme is due to expire in any case under existing EU directives.

Other activities that qualify for the special ten percent rate of corporate taxation include design and planning services rendered in Ireland in connection with specified engineering works outside the European Union. This applied mainly to services provided by engineers, architects and quantity surveyors. Profits from the provision of identical services in connection with works inside the EU are taxed at the standard 32 percent rate.

Since January 1992, the government has provided export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. As a participant in the EU's common agricultural policy, the Irish Department of Agriculture, Food and Forestry administers cap export refund and other subsidy programs on behalf of the EU Commission.

8. Protection of U.S. Intellectual Property

Copyright: Ireland is a member of the World Intellectual Property Organization and a party to the International Convention for the Protection of Intellectual Property (TRIPS). Following intensive negotiations with the U.S. Government in 1997, the Irish Government committed to enacting new copyright legislation by December 31, 1998, to bring Ireland's laws into line with its obligations under the WTO TRIPS agreement. Dublin also agreed to enact a new smaller "break-out" copyright bill in advance of comprehensive legislation which would address the U.S. Government's most pressing concerns with regard to Irish copyright protection. This break-out bill was enacted in June 1998, and, among other provisions, strengthened the presumption of copyright ownership and increased penalties for copyright violation.

Examples of TRIPS inconsistencies in current Irish law which the government is committed to addressing in comprehensive reform legislation by the 1999 deadline include absence of a rental right for sound recordings, no "anti-bootlegging" provision, and low criminal penalties which fail to deter piracy, all of which have contributed to high levels of piracy in Ireland (industry sources estimate that up to 70 percent of personal computer software used in Ireland is pirated.) In light of government commitments to enact new copyright legislation by December 31, 1998, USTR suspended WTO dispute settlements proceedings against Ireland and has downgraded Ireland from "Watch List" to "Priority" status in its annual "Special 301" review of intellectual property protection by U.S. trading partners. At the time this report was written, it was uncertain if the Irish Government would meet the target for enactment of the new legislation.

Patents: As part of the comprehensive copyright legislation to be passed before the year-end, the government is also committed to addressing non-TRIPS conforming provisions of Irish patent law. Ireland's Patent Law, as it currently stands, fails to meet TRIPS obligations in at least two respects: (1) the compulsory licensing provisions of the 1992 Patent Law are inconsistent with the "working" requirement prohibition of TRIPS articles 27.1 and the general compulsory licensing provisions of article 31; and (2) compulsory licensing conditions provided for in the 1964 Patent Law, which continues to apply in some applications processed after December 20, 1991, do not conform to the non-discrimination requirement of TRIPS article 27.1.

54-067 99 - 6

Trademarks: In accordance with EU Council Directive 89/104/European Economic Community (the harmonization of trademark laws), and EU Council Regulation number 40/94 (community trademark and the registration of trademarks in services industries), new legislation was required to replace the Trademarks Act of 1963. The Trademarks Act of 1996 was signed into law in July of that year. There appear to be no problems with the new law.

9. Worker Rights

a. *The Right of Association:* 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. About 55 percent of workers in the public sector and 45 percent in the private sector are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors. The Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 65 member-unions with 682,211 members.

b. *The Right to Organize and Bargain Collectively:* Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits antiunion discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. The current three-year agreement, partnership 2000, which expires in 2000, trades off moderation by trade unions in wage demands against cuts in personal taxation by the government. Employer interests in labor matters are generally represented by the Irish Business and Employers Confederation.

The Labor Relations Commission, established by the Industrial Relations Act of 1990, 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 labor disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. *Minimum Age for Employment of Children:* New legislation introduced in 1997 prohibits the full-time employment of children under the age of 16, although employers may hire 14 or 15 year olds for light work on school holidays, or on a part-time basis during the school year. The law also limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Irish Department of Enterprise, Trade and Employment.

e. *Acceptable Conditions of Work:* After persistent lobbying by trade unions, in April 1998, the Irish Government announced proposals for the introduction of a national hourly minimum wage of IP 4.40 (around US$ 6.70), beginning in April 2000. Although minimum wages already exist in certain low-paid industries, such as textiles and cleaning, these only apply to a relatively small proportion of the workforce. Employers are opposed to the government's proposals, which they believe will lead to the destruction of jobs in labor-intensive manufacturing industries. The full minimum wage will not apply to trainees or workers under 18 years of age.

The standard workweek is 39 hours. In May 1997, a European Commission directive on working time was transposed into Irish law, through the "Organization of Working Time Act, 1997." The Act sets a maximum of 48 working hours per week, requires that workers be given breaks after they work certain periods of time, sets limits to shift work, and mandates four weeks annual holidays for all employees by 1999. Worker rights legislation increasingly is being set at a European level, and further directives in this area, including rights for part-time workers and the right of equal treatment, can be expected in 1999.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		8,462
Food and Kindred Products	635	
Chemicals and Allied Products	2,768	
Primary and Fabricated Metals	157	
Industrial Machinery and Equipment	561	
Electric and Electronic Equipment	1,749	
Transportation Equipment	6	
Other Manufacturing	2,586	
Wholesale Trade		352
Banking		(1)
Finance/Insurance/Real Estate		5,113
Services		3231
Other Industries		22
TOTAL ALL INDUSTRIES		14,476

(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]

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	1,164.5	1,182.0	1,199.9
Real GDP Growth (pct) [3]	0.7	1.5	1.5
GDP (at current prices)	1,213.6	1,145.4	1,165.3
GDP by Sector:			
Agriculture	39.8	335.5	N/A
Manufacturing	329.3	306.7	N/A
Services	634.1	574.5	N/A
Government	210.4	228.6	N/A
Per Capita GDP (US$)	20,520	20,785	21,213
Labor Force (millions)	22.9	23.0	23.1
Unemployment Rate (pct)	12.1	12.3	12.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	3.7	9.1	5.0
Consumer Price Inflation	3.9	1.9	1.8
Exchange Rate (Lira/US$ annual average of market rate)	1543	1703	1730
Balance of Payments and Trade:			
Total Exports FOB [4]	252.0	238.0	147.9
Exports to United States [4]	18.4	10.9	N/A
Total Imports CIF [4]	208.2	208.1	130.7
Imports from United States [4]	10.2	10.4	N/A
Trade Balance [4]	43.8	30.1	17.2
Balance with United States [4]	8.7	8.5	5.4
External Public Debt	81.9	78.0	76.0
Fiscal Deficit/GDP	6.7	2.7	2.6
Current Account Surplus/GDP (pct)	3.4	3.2	3.0
Debt Service Payments/GDP (pct) [5]	11.1	9.5	8.0

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Gold and Foreign Exchange Reserves	69.7	76.0	62.6
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 figures are estimates based on data available through October.
[2] 1990 prices; GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade. 1998 data through July.
[5] Represents total debt servicing costs; less than six percent of total debt is foreign debt.

1. General Policy Framework

Italy has the world's sixth largest economy, having grown into an industrial power in the last 50 years. Italy maintains an open economy, and is a member of major multilateral economic organizations such as the Group of Seven (G-7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy was selected as one of the 11 founding members of the European Economic and Monetary Union (EMU). Beginning in January 1999, EMU member countries will adopt the "euro" as their currency and the new European Central Bank as their monetary authority. National currencies will be phased out and only euros will be used beginning in 2002. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a dynamic private sector characterized primarily by a large number of small and medium-sized firms, although there are some large companies with well-known names such as Fiat, Pirelli and Olivetti. Economic dynamism is concentrated in northern Italy, resulting in a divergence of wealth between north and south that remains one of Italy's most difficult economic and social problems. Traditionally, the government played a dominant role in the economy through regulation and through ownership of several large industrial and financial companies; privatizations and regulatory reform efforts since 1994 have dramatically reduced that presence.

For years, government spending was boosted by generous social welfare programs, inefficiency and projects designed to achieve political objectives. This created large public sector deficits that were financed by incurring debt. Beginning in the early 90's, Italy successfully addressed a number of macroeconomic problems in order to qualify for first-round EMU membership. The public sector deficit, which was 6.76 percent of GDP in 1996, dropped to 2.7 percent in 1997. The level of public debt, highest among the EMU countries as a share of GDP, has gone down slightly and the government has begun a plan to reduce the debt level to the EMU target level.

Interest rates in Italy have come down substantially as the government gets its financial house in order, and as European rates converge in the run-up to monetary union. In October 1998, the Bank of Italy (central bank) reduced the benchmark discount rate to 4.0 percent, the lowest level since 1972.

Price stability is the primary objective of the Bank of Italy's monetary policy; the Bank has carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. It has worked: consumer inflation increased only 1.9 percent in 1997 and a similar level is expected for 1998. Wholesale inflation is negligible. The Bank of Italy uses indirect instruments, primarily open market operations exercised through repurchase agreements with commercial banks, to implement its monetary policy.

2. Exchange Rate Policy

Italy will surrender control over exchange rate policy to the European Central Bank in January 1999. Since 1996, the Italian Lira has been part of the Exchange Rate Mechanism of the European Monetary System (EMS), which obligates Italy to maintain the lira within a 15 percent band of fluctuation vis-a-vis central parities with other EMU currencies until exchange rates versus the euro are fixed.

3. Structural Policies

Italy has not implemented any structural policies over the last two years which directly impede U.S. exports. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. 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 has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body.

U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create anti-trust concerns.

4. Debt Management Policy

Although the domestic public debt level is high, Italy has not had problems with external debt or balance of payments since the mid 1970's. 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, constituting roughly 5.9 percent of total debt. 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

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the U.S. and most other free-world countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Services Barriers: Italy is one of the world's largest markets for all forms of telephony and the largest and fastest-growing European market for mobile telephony. In recent years, the Italian Government has undertaken a liberalization of this sector, including privatization of the former parastatal monopoly Telecom Italia (formerly STET); creation of an independent communications authority; and allowing both fixed-line and mobile competitors to challenge the former monopoly. Following the EU's January 1, 1998 deadline for full liberalization of its telecoms sector, Italy issued more than a dozen fixed-line licenses in 1998, including to new entrants (with U.S. participation) for the establishment of fiber optic networks around Milan. Omnitel Pronto Italia, which is 45 percent U.S.-owned, began offering cellular service in December 1995 after winning the competition for the second cellular operating license—making it Telecom Italia's first competitor. Italy awarded a third cellular license, for DCS-1800 service, in June 1998 to the WIND consortium that includes the parastatal electricity company ENEL. The government plans to issue a fourth mobile license in the first half of 1999.

In 1998, Italy established an independent regulatory authority for all communications, including telecoms and broadcasting; however, the authority was still hiring staff and only partly functional as of late 1998. Concerns remain regarding interconnection fees and conditions, frequency allocation for mobile carriers, regulatory due process, transparency and even-handedness. But the Italian market is much more open to services exports in this sector than it was even one year ago, at the time of the previous report.

In 1998, the Italian Parliament passed government-sponsored legislation including a provision to make Italy's national TV broadcast quota stricter than the EU's 1989 "Broadcast Without Frontiers" Directive. The Italian law exceeds the EU Directive by making 51 percent European content mandatory during prime time, and by excluding talk shows from the programming that may be counted towards fulfilling the quota. Also in 1998, the government issued a regulation requiring all multiplex movie theaters of more than 1300 seats to reserve 15-20 percent of their seats, distributed over no fewer than three screens, to showing EU films on a "stable" basis. Cinema owners argue that "stable" needs to be interpreted flexibly (i.e., the quotas applied on a yearly rather than daily basis) in order to ensure continued profitability. However, it was not clear at press time how flexibly the quotas would be applied.

Firms incorporated in EU countries may offer investment services in Italy without establishing a presence. U.S. and other firms which are not from countries that belong to the EU may operate based on authorization from CONSOB, the securities oversight body. CONSOB may deny such authorization to firms from countries which discriminate against Italian firms.

Foreign companies are increasingly active in the Italian insurance market, opening branches or buying shares in Italian firms. Government authorization is required to offer life and property insurance and usually based on reciprocal treatment for Italian insurers. Foreign insurance firms must prove that they have been active in life and property insurance for not less than 10 years and must appoint a general agent domiciled in Italy.

There are some limits regarding foreign private ownership in banks. For instance, according to the Banking Law a foreign institution wanting to increase its stake in a bank above five percent needs authorization by the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions.

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws. However, there has frequently been a long lag in implementing these directives at the national level, although Italy has been improving its performance in this regard. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). U.S. exporters of "health" and/or organic foods, weight loss/diet foods, baby foods and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. In the case of food additives, coloring and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

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.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport and aircraft manufacturing.

Italian anti-trust law gives the government the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or 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 requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often non-transparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has, however, made some progress in making the laws and regulations on government procurement more transparent. Italy has not yet fully updated its government procurement code, nor has it completely implemented EU directives on government procurement. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value rather than automatic reliance on traditional suppliers.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) Subsidies Agreement, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as a number 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 some direct assistance to industry and business firms, in accordance with EU rules on support to depressed areas, to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian peach processing sector receives subsidies to compensate it for having to pay the EU minimum grower price for its raw product. It is recognized that this grower price is above the world market price for peaches and a U.S.-EU agreement is in place to monitor the level of subsidies paid. However, there is concern that the processors may receive extra benefits from loopholes in the system.

The Italian wheat processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs similar to the initial subsidies operating at present.

7. Protection of U.S. Intellectual Property

Italy 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.

In 1998, the U.S. Trade Representative placed Italy on the Intellectual Property Rights (IPR) "Priority Watch List" under the Special 301 provision of the United States Trade Act of 1988, due to the aforementioned national TV broadcast quotas in excess of the EU norm, and to a lengthy delay in passage of national legislation to address ongoing serious deficiencies in protection of copyright for sound recordings, computer software and film videos. In October 1996, the government introduced anti-piracy legislation in parliament that would impose administrative penalties and increase criminal sanctions. As of the end of 1998, the bill was still awaiting final parliamentary approval. The U.S. will continue to closely monitor developments in this area.

New Technologies: In the spring of 1997, the Italian Minister of Health signed a decree banning the cultivation of Ciba Geigy's BT Corn in Italy, despite the fact that no BT seed varieties are currently included in Italy's National Seed Register. This decision was taken on the advice of Italy's Interministerial Biotechnology Commission, ostensibly based on its opinion that there was a lack of a proper monitoring program regarding BT corn's effect on the ecosystem. After the Biotech Commission reversed its decision, and following EC pressure to remove the ban, the Minister of Health signed the legislation removing the ban in late September.

Intellectual property protection is generally not a problem for agricultural products with the exception of sluggish approval policies for genetically modified organisms.

8. Worker Rights

a. *The Right of Association:* The law provides for the right to establish trade unions, join unions, and carry out union activities in any workplace employing more than 15 employees. Trade unions are free of government controls and no longer have formal ties with political parties. Workers are protected from discrimination based on union membership or activity. The right to strike is embodied in the Constitution, and is frequently exercised. Hiring workers to replace strikers is prohibited. A 1990 law restricts strikes affecting essential public services such as transport, sanitation, and health.

The law prohibits discrimination by employers against union members and organizers. It requires employers who have more than 15 employees and are found guilty of anti-union discrimination to reinstate the workers affected. In firms with fewer than 15 workers, an employer must state the grounds for firing a union employee in writing. If a judge deems these grounds spurious, he can order the employer to reinstate or compensate the worker.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right of workers to organize and bargain collectively and these rights are respected in practice. In practice (though not by law), national collective bargaining agreements apply to all workers regardless of union affiliation. 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 forbids employment of children under 15 years of age (with some exceptions). There are also specific restrictions on employment in hazardous or unhealthy occupations of males under age 18 and females under age 21. 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. In case of disputes, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

A 1997 law reduced the work week from 48 hours to 40. The regular work week should not exceed six days, and the regular work day eight hours, with some exceptions. Most collective agreements provide for a 36- to 38-hour workweek. Overtime may not exceed two hours a day or an average of 12 hours per week.

The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. European Union directives on health and safety have also been incorporated into domestic law; some have already taken effect and others will be phased in during 1997. Labor inspectors are from local health units or from the Ministry of Labor. They are few, given the scope of their responsibilities. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardy to their continued employment. Women are usually forbidden to work at night.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		12,223
Food and Kindred Products	1,708	
Chemicals and Allied Products	2,960	
Primary and Fabricated Metals	529	
Industrial Machinery and Equipment	2,769	
Electric and Electronic Equipment	1,727	
Transportation Equipment	390	
Other Manufacturing	2,140	
Wholesale Trade		2,122
Banking		379
Finance/Insurance/Real Estate		842
Services		1,089
Other Industries		(1)
TOTAL ALL INDUSTRIES		17,749

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

NETHERLANDS

Key Economic Indicators [1]

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

	1996	1997	1998 [2]
Income, Production and Employment:			
Nominal GDP [3]	350.2	322.5	328.5
Real GDP Growth (pct) [4]	3.1	3.6	4.0
GDP by Sector:			
Agriculture	11.6	10.4	10.4
Manufacturing	62.2	56.6	56.9
Services	251.6	227.3	227.7
Government	40.3	35.7	35.6
Per Capita GDP (US$)	22,594	20,675	20,925
Labor Force (000s)	6,528	6,664	6,740
Unemployment Rate (pct)	7.6	6.6	5.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.6	8.8	6.2
Consumer Price Inflation	2.0	2.2	2.0
Exchange Rate (guilders/US$ annual average)			
Official	1.69	1.95	2.02
Balance of Payments and Trade:			
Total Exports FOB [5]	174.1	166.0	170.0
Exports to United States [6]	6.6	7.3	8.0
Total Imports CIF [5]	158.4	151.8	155.1
Imports from United States [6]	16.6	19.8	20.0
Trade Balance [5]	15.7	14.2	14.9
Balance with United States [6]	-10.0	-12.5	-12.0
Current Account Surplus/GDP (pct)	5.9	6.3	6.2
External Public Debt [6]	0	0	0
Debt Service Payments/GDP (pct) [7]	8.4	6.7	9.1
Fiscal Deficit/GDP (pct)	-2.2	-0.9	-1.3
Gold and Foreign Exchange Reserves	36.4	31.7	28.7
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] All figures have been converted at the average guilder exchange rate for each year.
[2] 1998 figures are official forecasts or estimates based on available monthly data in October.
[3] GDP at factor costs.
[4] Percentage changes calculated in local currency.
[5] Merchandise trade.
[6] Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October 1998.
[7] All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.
Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

1. *General Policy Framework*

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a unique position as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government has successfully reduced its role in the economy during the 1990s, and privatization, liberalization and deregulation have become dominant recurring themes in the government's economic policy. Although telecommunication services have been fully liberalized since January 1 1998, deregulation and privatization of the Dutch electricity and gas market will have to wait until 2007. The government continues to dominate the energy sector, and will play an important role in public transport and aviation for some time.

Dutch economic policy is geared chiefly towards environmentally sustainable economic growth and development by way of economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is guided by a national environmental action plan.

General elections in May of 1998 resulted in a clear vote of confidence for the ruling three-party coalition which returned to office for another four-year term. Policy intentions of the new coalition government are articulated in the 1998 coalition accord, with reductions in the tax burden and the fiscal deficit, as well as further labor and product market reforms as chief priorities. The government coalition accord is based on a "conservative" 2.25 percent average annual GDP growth scenario between 1999 and 2002.

Still largely unaffected by the global financial crisis, the Dutch economy continues as one of Europe's strongest with sustained, albeit slightly weaker, GDP growth combined with sharply falling unemployment and moderate inflation. The favorable position has been attributed to the fact that the Netherlands successfully addressed the issues of public finance and stagnating job growth long before its European partners. Reforms are continuing with a strong emphasis on market flexibility. The Dutch economy is forecast to show robust 4 percent growth in 1998, after solid 3.6 percent economic expansion in 1997. A dip in the business cycle will likely cause the economy to decelerate to slightly lower 3 percent growth in 1999. Despite weaker job growth, the level of unemployment in 1999 is expected to fall to less than 5 percent of the labor force. Stable import prices are forecast to soften inflation in 1999 to well below 2 percent. A current account surplus of over 6 percent of GDP in 1998 and 1999 continue as one of the strong features of the Dutch economy.

The Netherlands was one of the first EU member states to qualify for the Economic and Monetary Union (EMU). Fiscal policy aims at striking a balance between further reducing public spending, and lowering taxes, and social security contributions. The fiscal deficit is expected to stabilize at the 1.3 percent level in 1999. This is well below the three percent of GDP criterion in the EMU's Growth and Stability Pact. The stock of public debt will fall from a high of 68.5 percent in 1998 to 66.25 percent in 1999. Both fiscal deficit and public debt are forecast to converge below or closer to EMU deficit and debt criteria.

The deficit is largely funded by government bonds. Since January 1, 1994 financing has also been covered by Dutch Treasury Certificates (DTC). DTCs replace a standing credit facility for short-term deficit financing with the central bank which, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Dutch monetary policy aims at exchange rate stability. This is regarded as a sine-qua-non for a small open economy like the Netherlands, which is heavily dependent on foreign trade. 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 Europe's strongest currencies and remains in the original EMS 2.25 point fluctuation band. A strong guilder should encourage imports from the United States and reduce exchange rate risk for U.S. investors in the Netherlands. There are no multiple exchange rate mechanisms. There are no exchange controls, although Netherlands residents must obtain an NB exchange license for certain large international financial transactions.

The NB controls 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. Until the European Central Bank (ECB) assumes monetary responsibility on January 1, 1999, Dutch monetary policy will closely shadow interest rate developments in Germany.

3. Structural Policies

Tax Policies: Partly with an eye to further EU integration, the Dutch recently took the first step towards a fundamental reform of the tax system. The new tax regime for the 21st century entails a shift from direct to indirect taxes, a broadening of the tax base and a reduction of the tax rate on labor. When implemented in 2001, wage and individual income taxes will be lowered, while excise duties, "green" taxes and VAT rates will be raised. The highest marginal tax rate on wage and salary income will be reduced from 60 percent to 50 percent, while the top VAT rate will rise from 17.5 percent to 19 percent. The Dutch corporate income tax rate is among the lowest in the European Union. Effective January 1, 1998 the standard corporate tax rate paid by corporations (including foreign-owned corporations) has been reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997 the Dutch have been offering multinationals a more friendly tax regime on their group finance activities, effectively reducing tax on internal banking activities from 35 percent (the standard corporate tax rate) to 7 percent.

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country. Measures blend tax incentives and subsidies and are available to foreign and domestic firms alike. There are also subsidies to stimulate R&D and to encourage development and use of new technology by small and medium sized firms.

Complying with EU competition legislation, new Dutch competition legislation became effective on January 1, 1998. The new Competition Law includes a provision for the supervision of company mergers by the Netherlands Competition Authority (NMA). The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of over six percent of GDP and no external debt, the Netherlands is a major creditor nation. The Dutch have run a surplus on current account since the early 1980s. During that period, gross public sector debt (EMU criterion) grew sharply, to 79.1 percent of GDP by 1995. Since the late 1980s, the Dutch fiscal balance has drastically improved. Most observers now predict a significant decline of the debt to GDP ratio towards the EMU 60 percent criterion over the next four years. Debt servicing and rollover has fallen to slightly over nine percent of GDP, with interest payments alone at four percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP equal to $4 billion in 1998. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy, nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the International Convention for the Settlement of Disputes. There are no significant Dutch barriers to U.S. exports, and relatively few trade complaints are registered by U.S. firms. The few trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters:

Agricultural Trade Barriers: These result from the Common Agricultural Policy (CAP) and common external tariffs, which severely limit imports of U.S. agricultural products. Bilateral import barriers, although usually connected with EU-wide regulations, do arise in customs duties, grading, inspection and quarantine. Overzealous implementation of EU rules and procedures hinder commodity and product entry. Although only a few cases have been reported to date, an increasing pattern of delayed or rejected shipments of agricultural commodities, food and beverages appears to have developed. Also, in the absence of EU-wide regulations, tedious approval and administrative procedures hamper the import of some agricultural products, e.g., Genetically Modified Organisms (GMOs). Some of these rejections or delays in clearance cause major financial and logistical problems to Dutch importers and U.S. exporters for particular products, thus dampening trade prospects and flows.

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive, but this has not in any way impeded the transmission of non-European programs. U.S. television shows and films are popular and readily available. Commercial broadcasters may apply for temporary exemptions of the quota requirement on an ad hoc basis.

Cartels: Although the export sector of the Dutch economy is open and free, cartels have long been a component of the domestic sector of the economy. A new Cartel Law which took effect in 1996 bans cartels unless its proponents can conclusively demonstrate a public interest. The United States knows of only two complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands, and neither involved U.S. exports.

Public Procurement: Dutch public procurement practices comply with the requirements of the GATT/WTO Agreement on Public Procurement and with EU public procurement legislation. The Netherlands has fully implemented the EU's Supplies Directive 93/36/EEC, Works Directive 93/37/EEC, and the Utilities Directive 93/38/EEC. Implementation of EU and GATT public procurement obligations have contributed to greater transparency of the Dutch public procurement environment at the central and local government levels. Independent studies show that transparency and enforcement in this area can be deficient, especially at the local level, and procurement may be contingent on offset or local content requirements. The EU Utilities Directive may force more public notification and end the effective duopoly in Dutch power generation and distribution, and the monopoly in production and distribution of natural gas.

6. Export Subsidies Policies

Under the Export Matching Facility, the government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. 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. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company.

The Dutch provide some subsidies for shipping. In conformity with the OECD understanding on subsidies, the government grants interest rate subsidies (maximum two percent) to Dutch shipbuilders up to 80 percent of a vessel's cost with a maximum repayment period of 8.5 Years. This subsidy is only available when "matched" by similar offers by non-EU shipyards. Despite termination of the EU shipbuilding subsidies regime in 1996, the shipbuilding subsidies budget earmarked 50 million guilders ($25 million) annually in 1997 and 1998. As long as the 1994 OECD agreement to phase out shipbuilding subsidies internationally has not been ratified by all parties, the Dutch will continue to support their shipbuilding industry adhering to EU shipbuilding regulations.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR protection. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on Industrial Property and the Berne Copyright Convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used.

The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters. The limited scope of resources devoted to enforcement of anti-piracy laws is of concern to U.S. producers of software, audio and video tapes, and textbooks. Legislation was enacted in early 1994 to explicitly include computer software as intellectual property under the copyright statutes, and the government is working with industry on enforcement.

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 worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 1997, some 15 labor days per 1000 workers were lost due to industrial disputes compared with 7 days in 1996.

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 workers because of union membership is illegal and does not exist. Dutch society has developed a social partnership among the government, employers' organizations, and trade unions. This tripartite "Social Partnership" 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 generally binding agreements (AVVs) cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor, including that by children, 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.

e. *Acceptable Conditions of Work:* Dutch law and practice adequately protect the safety and health of workers. Although a forty hours workweek is established by law, the average workweek for adults working full time currently stands at 37.5 hours. The high level of part-time work have lowered the estimated actual workweek to 35.8 hours. Collective bargaining negotiations are heading towards an eventual 36 hours workweek for full-time employees. The gross minimum wage in 1998 amounted to about 2,276 guilders (US$ 1,217) per month. The legally-mandated minimum wage is subject to semiannual cost of living adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors with U.S. Investments:* The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,623
Total Manufacturing		14,682
Food and Kindred Products	1,121	
Chemicals and Allied Products	8,179	
Primary and Fabricated Metals	510	
Industrial Machinery and Equipment	741	
Electric and Electronic Equipment	1,993	
Transportation Equipment	508	
Other Manufacturing	1,630	
Wholesale Trade		4,936
Banking		(1)
Finance/Insurance/Real Estate		35,732
Services		4,617
Other Industries		(1)
TOTAL ALL INDUSTRIES		64,648

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

NORWAY

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	156,932	152,787	153,200
Real GDP Growth (pct)[2]	5.5	3.4	2.5
Real Mainland GDP Growth (pct)	4.1	3.7	3.0
Nominal GDP by Sector:			
Agriculture	3,408	3,053	2,900
Oil and Gas Production	23,759	22,715	22,900
Manufacturing	17,756	17,280	17,500
Services	87,830	86,243	86,300
Government	24,179	23,495	23,600
Per Capita GDP (US$)	33,570	35,930	34,559
Labor Force (000s)	2,239	2,285	2,325
Unemployment Rate (pct)	4.9	4.1	3.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	4.8	4.6	5.0
Consumer Price Inflation	1.3	2.6	3.3
Exchange Rate (NOK/US$ annual average)	6.5	7.1	7.6
Balance of Payments and Trade:			
Total Exports FOB	49,250	48,228	41,000
Exports to United States[3]	3,488	2,846	2,550
Total Imports CIF	35,342	35,526	39,500
Imports from United States[3]	2,366	2,369	2,600
Trade Balance	13,908	12,702	2,500
Balance with United States	1,122	477	-50
External Public Debt	6,531	2,985	500
Fiscal Surplus/GDP (pct)	4.6	6.5	2.7
Current Account Surplus/GDP (pct)	7.1	5.2	0.1
Debt Service Payments	2,838	3,605	2,318
Foreign Exchange Reserves[4]	26,205	24,135	23,400
Aid from United States	0	0	0
Aid from Other Countries	0	0	0

[1] 1998 figures are all estimates based on monthly data in November.
[2] Growth figures are calculated on the basis of the local currency.
[3] Norwegian foreign trade statistics. Exports exclude Norwegian oil shipped to the U.S. from terminals overseas.
[4] Includes gold; excludes petroleum fund assets.

1. General Policy Framework

Exploitation of Norway's vast energy resources—notably oil, gas, and hydropower—will continue to drive the country's economic growth for at least the next two decades. Offshore, Norway's remaining oil reserves will last for another 26 years at current extraction rates, while the equivalent figure for natural gas is 132 years. Energy-intensive industries such as metal processing and fertilizer production will remain prominent on the mainland due to the availability of abundant hydropower.

Some constraints continue to limit Norway's economic flexibility and ability to maintain international competitiveness. Labor availability remains limited by Norway's small 4.4 million population and a restrictive immigration policy. Norway is also a high-cost country with a centralized collective wage bargaining process and generous government-provided social welfare benefits. Norway's inefficient agricultural sector survives largely through subsidies and protection from international competition.

State intervention in the economy remains significant. The government owns just over 50 percent of domestic businesses, including majority stakes in the two largest oil and industry conglomerates and the two largest commercial banks. While new legislation governing investment was implemented in 1995 to meet European Economic Area (EEA) and World Trade Organization (WTO) obligations, screening of foreign investment and restrictions on foreign ownership remain. The government's dependence on revenues from the oil and gas sector is significant, accounting for an estimated 16 percent of total government 1998 revenue. Since 1995, Norway has been a net foreign creditor and has posted budget surpluses. The surpluses are invested in a petroleum fund for future use.

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. Norway and the EU have preferential access to each other's markets, except for the agricultural and fisheries sectors, through the EEA agreement which entered force in January 1994. Although Norway declined to join the EU following a national referendum in 1994, it routinely implements most EU directives as required by the EEA.

2. Exchange Rate Policy

Norwegian monetary policy is governed by an exchange rate target against other European currencies. The central bank uses interest rate policy and open market operations to keep the currency stable in a managed float which follows a range of values defined in the Exchange Rate Regulation. Responding to significant downward pressure on the krone in the first three quarters of 1998, the central bank increased key interest rates on five occasions for a total of 3.75 percentage points. As a result, from August until mid-November, the deposit and overnight lending rates were, respectively, 8 percent and 10 percent. In August, the central bank allowed the krone to float outside the normal range. Lower world oil prices and economic turbulence in Asia and Russia contributed to the krone's depreciation against European currencies.

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 about remitting payments.

3. Structural Policies

The government's economic priorities include maintaining high employment, generous welfare benefits, and rural development. These economic priorities are part of Norway's regional policy of discouraging internal migration to urban centers in the south and east and of maintaining the population in the north and other sparsely populated regions. Thus, parts of the mainland economy—particularly agriculture and rural industries—remain protected and cost-inefficient from a global viewpoint with Norway's agricultural sector remaining the most heavily subsidized in the OECD. While some progress has been made in reducing subsidies in the manufacturing industry, support remains significant in such areas as food processing and shipbuilding.

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 has returned to profitability following reforms prompted by the banking crises in the early 1990's.

Norway has taken some steps to deregulate the non-bank service sector. While large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry, the government opened telecommunications services to competition in 1998.

4. Debt Management Policies

The state's exposure in international debt markets remains very limited because of Norway's prudent budgetary and foreign debt policies. The government's gross external debt situation significantly improved in the 1990s, declining from about $10 billion in 1993 to about $3 billion at the end of 1997, and has continued to fall in 1998. Norway changed from a net debtor to a net creditor country in 1995 largely because of the contributions from the oil and gas sector. As mentioned above, Norway has accumulated large budget surpluses from oil revenue which are transferred to the State Petroleum Fund (SPF) for investment abroad. The SPF serves several purposes: it insulates the domestic economy from conditions in the oil market, reduces current consumption and specialization of the non-oil economy into domestic consumption, and preserves some oil revenue for future generations.

5. Significant Barriers to U.S. Exports

Norway is a member of the WTO and supports the principles of free trade but significant barriers to trade remain in place. 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 United States and other distant markets.

State ownership in Norwegian industry continues to raise competitive issues in a number of sectors including telecommunications, financial services, and oil and gas. 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. U.S. companies, particularly in the oil and gas sector, operate profitably in Norway.

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 alcoholic beverages, which historically has been handled through a state monopoly, and in the way pharmaceutical drugs are marketed. Norway is obligated to terminate monopolies under the EEA Accord but implementation has been slow. The European Free Trade Association (EFTA) Surveillance Agency (the organization responsible for insuring EEA compliance) has been monitoring Norway's progress in these areas.

6. Export Subsidies Policies

As a general rule, the Norwegian government 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. Norway is reducing agricultural subsidies in stages over six years in line with its WTO obligations. Norway has also ratified the OECD shipbuilding subsidy agreement and has indicated it will eliminate shipbuilding subsidies as soon as the agreement is ratified by other major shipbuilders.

7. Protection of U.S. Intellectual Property

Norwegian intellectual property practices do not adversely affect U.S. trade. Norway is a signatory of the main 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.

Norwegian officials believe that fighting counterfeiting and piracy are the most important aspects of intellectual property rights protection. They 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. *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 4 weeks plus one day 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		4,272
Total Manufacturing		757
Food and Kindred Products	(1)	
Chemicals and Allied Products	16	
Primary and Fabricated Metals	2	
Industrial Machinery and Equipment	54	
Electric and Electronic Equipment	5	
Transportation Equipment	16	
Other Manufacturing	(1)	
Wholesale Trade		289
Banking		(1)
Finance/Insurance/Real Estate		500
Services		216
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,262

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	134,500	135,600	150,031
Real GDP Growth (pct)	6.1	6.9	5.6
GDP by Sector (pct):			
Agriculture	5.9	5.1	N/A
Manufacturing	20.1	20.2	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	3,484	3,507	3,800
Labor Force (000s)	17,064	17,052	N/A
Unemployment Rate (pct)	13.2	10.3	9.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.2	28.8	28.0
Consumer Price Inflation	18.5	13.2	9.5
Exchange Rate (PZL/US$ annual average)			
Official	2.70	3.28	3.53
Balance of Payments and Trade:			
Total Exports FOB (US$ billions)[2]	24.4	27.2	31.4
Exports to United States (US$ billions)[3]	0.6	0.7	N/A
Total Imports CIF (US$ billions)	32.6	38.5	44.0
Imports from United States (US$ billions)[3]	0.97	1.2	N/A
Trade Balance (US$ billions)	−8.2	−11.3	−12.6
Balance with United States (US$ billions)[3]	0.34	−0.52	N/A
External Public Debt (US$ billions)	40.6	38.5	N/A
Fiscal Deficit/GDP (pct)	3.6	2.8	2.5
Current Account Surplus/Deficit/GDP (pct)[4]	−1.0	−3.1	−3.6
Debt Service Payments/GDP (pct)[5]	1.9	1.8	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Gold and Foreign Exchange Reserves (US$ billions)[6]	18.0	20.1	27.0
Aid from United States (US$ millions)[7]	66.0	52.7	58.7
Aid from Other Sources (US$ millions)	419	N/A	N/A

[1] 1998 figures are Polish Government estimates as of October 1998, unless otherwise noted.
[2] Polish Government trade figures, which include direct trade only. U.S. data includes transshipments via third countries.
[3] U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
[4] Including estimated unrecorded trade.
[5] Debt service includes paid interest and principal.
[6] Data available through August 1998.
[7] U.S. Government estimate.

1. General Policy Framework

Since the fall of communism in 1989, Poland has pursued a policy of liberalizing trade, investment and capital flow measures. Today, it stands out as one of the most successful and open transition economies. Poland is expected to post its fifth year of GDP growth above five percent in 1998; the government projects economic growth of around five percent in 1999. The privatization of small and medium state-owned companies and a liberal law on establishment allowed for the rapid development of a vibrant private sector responsible for more than two-thirds of economic activity. In contrast, Poland's large agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. The shadow "gray economy" was estimated to generate around 15 percent of GDP in 1998.

Government Priorities: Poland, which is a member of the WTO, has set membership in the European Union (EU) as one of its highest priorities. As a step in achieving this goal, the government signed an association agreement with the EU in 1991 and began negotiations on joining the EU in 1998. The accession process will affect in some way almost every aspect of the government's economic policies. Each ministry has an EU integration department. The Association Agreement has created a growing tariff differential between EU products and U.S. products. In addition, Poland has agreed to liberalization of its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and bilateral agreements. Poland has concluded bilateral free trade agreements with Estonia, Latvia, Lithuania, Croatia, and Israel. Negotiations are underway to sign such an agreement with Turkey. Poland has also discussed ways to improve bilateral economic relations with its eastern neighbors, Russia, Ukraine, and Belarus, but these talks have not resulted in preferential or free trade agreements.

Fiscal Policy: The government seeks to reduce the budget deficit in 1999 to 2.15 percent of GDP from 2.8 percent in 1998. Further, it aims to eliminate the deficit altogether by 2003. For 1998 and 1999, the government intends to finance the deficit from two principal sources: privatization revenues and the domestic non-banking private sector (e.g., insurance companies and pension funds). The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. Generous social programs (pensions, disability, unemployment and welfare) and debt service obligations constitute the heaviest burdens on the budget. In 1999, the government will introduce a pension reform program, which after several years should gradually reduce the cost of social security to the government.

Monetary Policy: The independent Monetary Policy Council (MPC) sets monetary policy, which the NBP implements. The MPC has announced that its primary goal is to reduce the rate of inflation and, over time, to attain price stability. For 1999, the MPC has set the goal of an inflation rate based on prices of consumer goods and services of between 8.0 and 8.5 percent. In the medium-term, the MPC has established the goal of an inflation rate below 4.0 percent by 2003. The NBP's principal tools have been reserve requirements, basic interest rates, and open market operations. Tight money policies have contributed to a reduction in inflation from 600 percent in 1990 to below 10 percent in 1998. In an effort to slow the growth in domestic demand for credits, the NBP raised real interest rates to around 10 percent, which has attracted substantial investment from foreign portfolio investors. These portfolio inflows combined with foreign direct investment have caused the Polish Zloty to appreciate in real terms. In 1998, the Polish Zloty appreciated in real terms by around ten percent compared with the U.S. dollar, which has made U.S.

exports to Poland more competitive. Poland anticipates eventually joining the European Monetary Union (EMU), but beforehand for at least two years, it intends to become a part of the European Exchange Rate Mechanism (ERM2).

2. Exchange Rate Policies

In 1991, the NBP began managing the exchange rate through a crawling peg mechanism against a basket of reserve currencies (in percentage terms: U.S. Dollar—45; German Mark—35; Pound Sterling—10; and French and Swiss Francs—5 each). Starting in 1999, the basket will be composed of 55 percent the euro and 45 percent the U.S. Dollar. The MPC now depreciates the central parity rate for the zloty by 0.5 percent per month, but allows the currency to float within a 12.5 percent band around that central parity rate.

Poland has followed a policy of liberalizing exchange rate controls, achieving IMF Article VIII current account convertibility in 1995. In 1996, the government eliminated the requirement for Polish firms to convert their foreign currency earnings into zlotys. As part of the OECD accession process, Poland liberalized rules governing capital account transactions and in 1997 removed nearly all limits on capital account outflows by Polish citizens. The government expects to enact a new foreign exchange law by the end of 1998. Under this new law, the zloty will become fully convertible in current account transactions, payments and transfers. The new regime will also liberalize capital flows to and out of Poland, although certain restrictions will remain as regards Polish investments in countries which are not members of OECD and with which Poland has not concluded relevant bilateral agreements (permits will be required from the central bank).

3. Structural Policies

Prices: Most subsidies and controls on the prices of goods were eliminated as part of Poland's 1990 "big bang" shock therapy. However, price controls on fuel, public transportation, and utilities continue. The government has gradually allowed prices to rise with the goal of eventually eliminating price controls. New regulatory bodies will play a central role in setting prices in the energy and telecommunications sectors. The government provides price support for some agricultural products.

Taxes: Poland introduced a Value-Added Tax (VAT) in 1993. In 1998 the Polish Parliament voted to reduce the corporate income tax rate from 36 percent to 34 percent in 1999. Polish law has established special economic zones, which provide foreign investors with substantial tax holidays. Personal income tax rates range from 19 to 40 percent. U.S. investors have complained about inconsistent tax administration.

Regulatory Policies: The primary difficulties concern product certification standards (below) and regulation of telecommunications in favor of the state-owned telephone company.

4. Debt Management Policies

Poland's foreign debt situation has dramatically improved since its default in the 1980s. Rescheduling agreements with the Paris Club (1991) and the London Club of commercial banks (1994), reduced Poland's debt by nearly half ($23 billion in net present value terms). At the end of 1998, Poland's total official foreign debt was $34 billion, including $25 billion to the Paris Club, $6 billion in Brady bonds (London Club), $2.5 billion to international financial institutions (the World Bank, the EBRD and BIS), and $0.8 billion in Rebounds and Yankee bonds. The government's foreign debt service for 1998 amounted to $1.1 billion, which equals three percent of exports and 0.7 percent of GDP. Moreover, the private sector has an estimated $10 to $12 billion in foreign debt as of the end of 1998. Poland prepaid all of its outstanding IMF drawings in 1995. Total state debt (foreign and domestic) shrank to 44 percent of GDP by the end of 1998.

In 1995, Poland received an investment grade rating from various rating agencies and returned to international capital markets with a $250 million Eurobond flotation. As of the end of 1998, Poland has investment grade ratings from the leading rating agencies: a BBB- rating from Standard and Poor's; a BAA3 rating from Moody's; and a BBB rating from IBCA. A few Polish cities (e.g., Krakow and Lodz) also have obtained good credit ratings.

5. Aid

The U.S. provided Poland with $58.7 million in aid in 1998. Of this sum, $35 million was SEED Act funds to help Poland's transition to a free market democracy. The remaining $23.7 million was military aid. In addition, in September 1998, Poland qualified for $100 million in loans under the Central European Defense Loan Program.

6. Significant Barriers to U.S. Exports

Tariffs: Many U.S. products, some of which do not compete with Polish goods, face higher tariffs than the same goods coming from the EU, CEFTA states or developing countries. Some U.S. exporters have complained in particular about the tariff preference received by the EU as a result of Poland's Association Agreement. This preference appears to be particularly disadvantageous for U.S. automobiles, mining equipment, wine, rice, peanut butter, grapefruit and wood products.

Import Licenses: They are required for strategic goods on the Wassenaar dual use and munitions lists. Licenses are also required for beer and wine, fuel, tobacco, dairy products, meat, poultry, semen and embryos. The plant quarantine inspection service issues a mandatory phytosanitary import permit for all imports of live plants, fresh fruits and vegetables into Poland. U.S. grain and oilseed exports to Poland have been hampered by Polish regulations requiring a zero-tolerance for several common weed seeds. Certificates from the Veterinary Department in the Ministry of Agriculture are also required for meat, dairy and live animal products.

Poland intends to implement regulations on biotechnology and genetically modified organisms on January 1, 1999. These regulations will follow EU norms. Import licenses for dairy cattle genetics have already limited U.S. access to the Polish market.

Services Barriers: While some progress has been made, many barriers remain or have been added, especially in audio-visuals, legal services, financial services, and telecommunications. In November 1997, the government enacted a rigid 50 percent European production quota for all television broadcasters. This action has raised questions about certain liberalization commitments undertaken by Poland upon joining the OECD. Domestic television content quotas remain in effect and a new "independent producer" quota is being considered. A law giving preferential treatment to EU citizen lawyers has gone into effect. In January 1998, a new Banking Law and a new law on the central bank came into force. As a condition of its accession to the OECD, Poland agreed to allow firms from OECD countries to open branches and representative offices in the insurance and banking sector starting in 1999. The government began privatizing the state telecommunications monopoly October 1998 and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Local telephone service licenses are being awarded, but interconnectability remains the domain of the state monopoly. The government allows foreign banks to open subsidiaries.

Standards, Testing, Labeling, and Certification: A primary Polish regulation which may adversely affect U.S. exports is a requirement for some 1400 products sold in Poland to obtain a safety "B" certificate from a Polish test center. This regulation was initially set to go into effect in 1995, but has been postponed each year since that time. It is expected that the immediate requirement for a new product to have the "B" certificate will continue to be waived until new legislation is passed. Currently, companies are required to have submitted an application for the "B" certificate in order to market the product, but are not required to have actually received the certificate from the test center. Under the "B" rule, the EU "CE" mark and ISO 9000 will accelerate the certification process. Poland would like to achieve a mutual recognition agreement with the EU, but this requires a new law on product liability, which has yet to be enacted. In the past, U.S. companies have complained about the complexity and slowness of the testing process as well as vague information on fees and procedures. However, recently these complaints have been fewer.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations (foreign sole proprietorships and partnerships are not allowed; the legal form requirement will remain through January 1, 1999). There remain some obstacles to foreign investment in certain "strategic sectors" such as mining, steel, defense, transport, energy, and telecommunications. Nonetheless, over the past year the government has begun privatization of telecommunications, opened one of the largest steel mills in Poland for tenders from private foreign investors and made progress on a defense industry restructuring plan which calls for the significant involvement of foreign investors.

Certain controls remain on foreign investment. Despite an attempt to raise the limit to 49 percent, broadcasting legislation still restricts foreign ownership to a 33 percent stake. Foreign stakes in air and maritime transport, fisheries, and long-distance telecommunications are capped at 49 percent. No foreign investment is currently allowed in international telecommunications or gambling. The government continues to work on auto assembly/manufacturing regulatory changes which would encourage investors to increase domestic content and move towards full manufacturing operations.

As a result of OECD accession, Poland allows foreign entities to purchase up to 4000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent of both the Defense and Agriculture Ministries. Consent is not automatic.

Government Procurement Practices: Poland's new government procurement law is modeled on the UN model procurement code and based on competition, transparency, and public announcement. It does not, however, cover most purchases by state-owned enterprises. Only for reasons of state security or national emergency are single source exceptions to the stated preference for unlimited tender allowed. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation organized under the Joint Ventures Act of 1991 may qualify for "domestic" status. There is also a protest/appeals process for tenders viewed to be unfairly awarded. Since September 1997, Poland has the status of an observer to the WTO's Government Procurement Agreement (GPA).

Customs Procedures: Poland has a harmonized tariff system, having 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, the CEFTA agreement, the FTA with Israel, Croatia, Latvia, Estonia and Lithuania, as well as GSP for developing countries grants firms from these areas certain tariff preferences over U.S. competitors.

Some U.S. companies have been critical of Polish customs' performance, citing long delays, indifference, corruption, and incompetent officials, as well as inconsistent application of customs rules. In an attempt to respond to the customs problems that have arisen since the opening of Poland's economy in 1989 a new Customs Law went into effect in January 1998. Despite this, problems remain, including the amount of paperwork required and the lack of electronic clearance procedures.

7. Export Subsidies Policies

With its 1995 accession to the WTO, Poland ratified the Uruguay Round Subsidies Code. Poland has eliminated past practices of tax incentives for exporters, but it provides for drawback levies on raw material imports from EU and CEFTA countries which are processed and reexported into finished products within thirty days. The sugar refining industry, coal industry, and a number of politically powerful state-owned enterprises continue to directly or indirectly receive production subsidies which result in lower export prices. Poland's policy of rolling-over unused WTO sugar subsidy allowances to be used in combination with current year allowances has been protested by the U.S. and others within the WTO. In response to decreased pork exports resulting from the Russian financial crisis, Poland recently introduced an export subsidy for pork.

Polish industry and exporters are critical of the government for not providing more support for export promotion. The one existing export insurance scheme has very limited resources and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts. It covers only one percent of Polish exports.

8. Protection of U.S. Intellectual Property

The government has made major strides in improving protection of intellectual property rights. The U.S.-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new Copyright Law which offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, audio-visual works, and industrial patterns. Poland also adheres to the Berne Convention (Paris Text, 1971), the Rome Convention on Sound Recordings, and TRIPS provisions within the WTO. Poland's 1993 Patent Law, which provided the first patent protection in Poland since 1939, has been criticized by the pharmaceutical industry for not providing adequate protection.

Much of the pirated or fake items available in Poland are imported from abroad (CDs from Bulgaria and Russia; hosiery from Italy) rather than being manufactured in Poland. Industry associations estimate 1996 levels of piracy in Poland to be: 20 percent in sound recordings; 10 percent in books and video, and 80 percent in software. In 1998, Polish sound recording producers began a public campaign against counterfeit recordings.

While enforcement has improved, especially after the enactment of the new Customs Law, some difficulties still exist. Prosecution remains difficult. Due to a lack of manpower and resources, Polish authorities often rely on rights holders to provide preliminary evidence of violations. In one important 1996 case, a large U.S.-based firm successfully defended several trademarks by employing local counsel. Poland remains on the "Special 301 Watch List" due to concerns over enforcement and the lack of enactment of 50 year protection for preexisting sound recordings as required by TRIPS.

9. Worker Rights

The Labor Code, which became effective June 1996, thoroughly redefined the rights and duties of employers and employees in more modern, free-market terms.

a. *The Right of Association:* Polish law guarantees all civilian workers, including military employees, police and frontier guards, 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 have reported that these rights are largely observed in practice.

b. *The Right to Organize and Bargain Collectively:* The 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 join unions in the growing private sector.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor, except for prisoners convicted of criminal offenses does not exist.

d. *Minimum Age for Employment of Children:* Polish law contains strict legal prescriptions over the conditions in which children may work. The State Labor Inspectorate has reported that increasing numbers of Polish children now work and that many employers violate labor rules by underpaying or paying them late.

e. *Acceptable Conditions of Work:* The large size of the gray economy and insufficient number of labor inspectors complicate enforcement of minimum wage requirements and minimum workers' health and safety standards. Enforcement is a problem of unclear jurisdiction.

f. *Rights in Sectors with U.S. Investment:* Observance of the five worker rights conditions in firms which have U.S. investment generally meets and can exceed those in comparable Polish firms. Over the last several years, there have been relatively few cases where Polish unions have charged managers of U.S.-based firms with violating Polish labor law; those that have arisen have been largely resolved. 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		699
Food and Kindred Products	249	
Chemicals and Allied Products	48	
Primary and Fabricated Metals	24	
Industrial Machinery and Equipment	19	
Electric and Electronic Equipment	(2)	
Transportation Equipment	−2	
Other Manufacturing	361	
Wholesale Trade		69
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		76
Other Industries		4
TOTAL ALL INDUSTRIES		1,204

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

PORTUGAL

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	110.1	102.1	107.5
Real GDP Growth (pct) [3]	3.0	3.6	4.2
GDP by Sector:			
Agriculture	4.4	3.8	3.7
Industry	35.7	33.5	35.4
Services	64.7	59.9	59.0
Per Capita GDP (US$)	11,750	10,890	11,444
Labor Force (000s)	4548	4608	4657
Unemployment Rate (pct)	7.3	6.8	5.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.0	6.6	8.7
Consumer Price Inflation	3.1	2.2	2.4
Exchange Rate (PTE/US$ annual average)	154	175	179
Balance of Payments and Trade:			
Total Exports FOB [4]	24.3	23.2	25.0
Exports to United States [5]	0.9	1.1	1.2
Total Imports CIF [4]	35.9	34.9	39.2
Imports from United States [5]	1.0	1.1	1.3
Trade Balance	-11.6	-11.7	-14.2
Balance with United States	-0.1	0.0	-0.1
External Public Debt	12.8	14.4	13.7
Fiscal Deficit/GDP (pct)	4.2	2.7	2.3
Current Account Deficit/GDP (pct)	5.0	5.5	8.0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	21.4	18.4	18.3
Aid from United States	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Balance of payments statistics.
[5] Portuguese National Institute of Statistics.

1. General Policy Framework

Twenty-five years ago, Portugal was considered the "poor man" of Europe. The revolution of 1974, however, spawned fundamental economic and social changes and, since joining the European Union in 1986, Portugal has been rapidly closing the gap with its wealthier European neighbors. Since 1993, the country has been in a broad-based economic expansion and is expected to continue to grow at rates higher than the EU average. In addition to robust growth, the economy has experienced structural changes over the longer term. Agriculture and fishing, traditionally important sectors of the economy, have been displaced by manufacturing and, increasingly, by the service sector.

Since joining the European Exchange Rate Mechanism in 1992, Portuguese monetary policy has focused on the intermediate goal of exchange rate stability as a means to price stability. The policy has generally been successful, with the Portuguese Escudo trading in increasingly narrow bands against the German Mark. Since qualifying for the third phase of European Economic and Monetary Union (EMU) in 1998, monetary policy has been guided by convergence of interest rates and inflation rates with the other members. The Bank of Portugal has reduced short-term interest rates in a series of steps in an effort to match an EMU target of approximately 3.3 percent by the end of 1998.

According to the Ministry of Finance, Portugal's mid-term fiscal policy (1998–2000) will focus on ensuring sustainability of public finances through improved management and financial control of public expenditure. The plan, in addition, supports structural reforms in areas such as social security, health, and tax administration. As a result, the Finance Ministry forecasts a reduction in the fiscal deficit to 1.5 percent of GDP by 2000.

Portugal has been running a growing merchandise trade deficit. This is offset, somewhat, by receipts from tourism, remittances from Portuguese workers abroad, and net transfers from the EU. However, the country has been running a current account deficit since 1994 (estimated to equal 8 percent of GDP in 1998) which has been largely financed by changes in the short-term foreign assets of Portuguese banks.

2. Exchange Rate Policy

Portugal's exchange rate policy focuses on stabilizing exchange rates prior to European Monetary Union. On January 1, 1999, Portugal and 10 other European countries entered monetary union; future exchange rate policy will be governed by the European Central Bank.

3. Structural Policies

Portugal has generally been successful in liberalizing its economy. The country has used a large proportion of the 20 billion dollar EU-backed regional development financing for new infrastructure projects. These projects have included new highways, urban renewal for the site of Lisbon-based EXPO 98, rail modernization, subways, dams and water treatment facilities.

Portugal has also pursued an aggressive privatization plan for state-owned companies. In 1988, state-owned enterprises accounted for 19.4 percent of GDP and 6.4 percent of total employment. By 1997, these had fallen to 5.8 percent and 2.2 percent, respectively. The country expects to sell off an additional 2.7 billion dollars in state-owned companies in 1999, including major stakes in electricity, telecommunications, paper, and energy. In turn, several of the former state-controlled companies have taken steps to expand their investments overseas. Notably, EDP (electricity) and Portugal Telcom (telecommunications) have made major investments in their respective sectors in Brazil.

4. Debt Management Policies

Following the removal of capital controls in 1992, lower interest rates abroad led to a shift towards a greater reliance on the use of foreign public debt, which rose to 14.4 percent of GDP by 1997. That debt, however, is more than covered by large gold and foreign exchange reserves (18 percent of GDP in 1997) and has yielded benefits in the form of longer debt maturities and lower costs for domestic debt. As a result, interest expenditure on public debt fell from 6.2 percent of GDP in 1994 to 4.3 percent of GDP in 1997.

5. Significant Barriers to U.S. Exports

The EU Customs Code was fully adopted in Portugal as of January 1, 1993. Special tariffs exist for tobacco, alcoholic beverages, petroleum and automotive vehicles. Portugal is a member of the World Trade Organization.

Because Portugal is a member of the EU, the majority of imported products enjoy liberal import procedures. However, import licenses are required for agricultural products, military/civilian dual use items, some textile products and industrial products from certain countries (not including the U.S.). Imported products must be marked according to EU directives and Portuguese labels and instructions must be used for products sold to the public.

Portugal welcomes foreign investment and foreign investors need only to register their investments, post facto, with the Foreign Trade, Tourism, and Investment Promotion Agency. However, Portugal limits the percentage of non-EU ownership in civil aviation, television operations, and telecommunications. In addition, the creation of new credit institutions or finance companies, acquisition of a controlling interest in such financial firms, and establishment of subsidiaries require authorization by the Bank of Portugal (for EU firms) or by the Ministry of Finance (for non-EU firms).

With respect to the privatization of state-owned firms, Portuguese law currently allows the Council of Ministers to specify restrictions on foreign participation on a case-by-case basis. Portuguese authorities tend, as a matter of policy, to favor national groups over foreign investors in order to "enhance the critical mass of Portuguese companies in the economy."

Portuguese law does not discriminate against foreign firms in bidding on EU-funded projects. Nevertheless, as a practical matter, foreign firms bidding on EU-funded projects have found that having an EU or Portuguese partner enhances their prospects. For certain high-profile direct imports; i.e., aircraft, the Portuguese Government has shown a political preference for EU products (Airbus).

Companies employing more than five workers must limit foreign workers to 10 percent of the workforce, but exceptions can be granted for workers with special expertise. EU and Brazilian workers are not covered by this restriction.

Portugal maintains no current controls on capital flows. The Bank of Portugal, however, retains the right to impose temporary restrictions in exceptional circumstances and the import or export of gold or large amounts of currency must be declared to customs.

6. Export Subsidies Program

Portugal's export subsidies programs appear to be limited to political risk coverage for exports to high-risk markets and credit subsidies for Portuguese firms expanding their international operations.

7. Protection of U.S. Intellectual Property

Portugal is a member of the International Union for the Protection of Industrial Property (WIPO) and a party to the Madrid Agreement on International Registration of Trademarks and Prevention of the Use of False Origins. Portugal's current Trademark Law entered into force on June 1, 1995, and is consistent with the terms of the trade related intellectual property provisions (TRIPS) of the General Agreement on Tariffs and Trade (GATT). On copyrights, Portugal is in the process of amending national legislation to conform to TRIPS and EU directives. Portugal adopted national legislation in 1996 to extend patent protection to be consistent with the 20-year term specified in TRIPS and is considering legislation to protect test data.

Despite these measures, some problems remain. Software piracy has decreased over the last two years but rates in Portugal remain among the highest in Europe. Furthermore, one branded apparel company reportedly closed its plant in Portugal due to uncontrolled sales of non-authorized merchandise. Despite these problems, however, there is no evidence that Portuguese intellectual property practices have a material impact on trade with the U.S.

8. Worker Rights

a. *The Right of Association:* Workers in both the private and public sectors have the right to associate freely. The Portuguese Constitution provides for the right to establish unions by profession or industry and trade union associations have the right to participate in the preparation of labor legislation. Two principal labor federations exist. There are no restrictions on the formation of labor federation, on unions to join federations, or on federations to affiliate with international labor bodies. Strikes are constitutionally permitted for any reason, are common and usually short, and are generally resolved through direct negotiations. The authorities respect all provisions of the law on labor rights.

b. *The Right to Organize and Bargain Collectively:* Unions are free to organize without interference, and collective bargaining is practiced extensively in the public and private sectors. While disputes rarely lead to prolonged strikes, the government may order workers back to their jobs if a strike affects an essential sector such as health, energy or transportation. In such cases, the law requires that laborers provide a "minimum level of service" although there has been disagreement between unions and government in establishing those minimum standards. When collective bargaining fails, the government may appoint a mediator at the request of either management or labor.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor, including by children, is prohibited and does not occur.

d. *Minimum Age for Employment of Children:* The minimum working age was raised in 1997 from 15 to 16 years. The government prohibits forced and bonded labor and enforces this prohibition effectively. There are instances of child labor in Portugal, but the overall incidence is low and is concentrated in the clothing, footwear, construction and hotel industries.

The Portuguese Government has worked to eliminate child labor, creating a multi-agency body, the National Commission to Combat Child Labor (CNCTI), to coordinate those efforts. In 1997, the CNCTI expanded its efforts by enhancing cooperation with non-governmental organizations, establishing regional commissions and local intervention teams, and by expanding its public education campaign. The Ministry of Education has also increased its budget allocated to alternative education plans for students in danger of dropping out of school.

As a result of government efforts and a move towards a higher technology industrial base, the number of child labor cases detected by inspectors has fallen dramatically since 1994.

e. *Acceptable Conditions of Work:* Minimum wage legislation covers full-time workers as well as rural workers and domestic employees ages 18 years and over.

For 1998, the monthly minimum wage was approximately $336 and was generally enforced. Along with widespread rent controls, basic food and utility subsidies, and phased implementation of a minimum guaranteed income, the minimum wage affords a basic standard of living for a worker and family. According to the latest figures available, 9.2 percent of the workforce was receiving minimum wage and the average monthly wage in Portugal was $777.

With Christmas bonuses, vacation subsidies and 22 days of annual leave, employees generally receive 14 months pay for 11 months work in Portugal. The maximum workweek for public sector employees is 39 hours and is to be reduced to 35 hours by 1999. Overtime is limited to 2 hours per day or 200 hours per year. The Ministry of Employment and Social Security monitors compliance with these regulations.

Employers are legally responsible for accidents at work and are required to carry accident insurance. Existing legislation regulates health and safety but a lack of funds restricts the effectiveness of enforcement and unions continue to argue for stiffer standards. While the ability of workers to remove themselves from hazardous situations is limited, it is difficult to fire workers for any reason.

f. *Worker 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		364
Food and Kindred Products	83	
Chemicals and Allied Products	217	
Primary and Fabricated Metals	−2	
Industrial Machinery and Equipment	3	
Electric and Electronic Equipment	22	
Transportation Equipment	33	
Other Manufacturing	8	
Wholesale Trade		455
Banking		220
Finance/Insurance/Real Estate		322
Services		45
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,498

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

ROMANIA

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP (Billion Current Leu)[2]	109,515	249,750.2	297,321.9
Real Leu GDP Growth (pct)[3]	3.9	−6.6	−5.0
GDP by Sector (Million US$):			
Agriculture	6,756.7	6,968.6	6,689.9
Manufacturing	12,787	12,404.1	11,759
Services	15,983.2	15,470.2	15,298.6
Per Capita GDP (US$)	1,565	1,541.7	1,486.7
Labor Force (Millions)	10.9	10.8	10.1
Unemployment Rate (pct)	6.3	8.8	9.0

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	69.5	104.8	28.5
Consumer Price Inflation	56.9	151.4	45.0
Exchange Rate (Leu/US$ annual average)			
Official	3,082.6	7,167.9	8,810.2
Parallel	3,800	7,200	8,890
Balance of Payments and Trade:			
Total Exports FOB[4]	8,084.5	8,429	8,252
Exports to United States[4]	192.5	319.7	328.3
Total Imports CIF[4]	11,435.3	11,275.4	10,900.3
Imports from United States[4]	430.7	461.0	501.0
Trade Balance FOB/CIF[4]	−3,350.8	−2,846.4	−2,648.3
Balance with United States	−238.2	−141.3	−172.7
External Public Debt	6,174.4	6,811.3	6,502.9
Fiscal Deficit/GDP (pct)	3.9	3.6	5.4
Current Account Deficit/GDP (pct)	7.3	7.1	7.4
Debt Service Payments/GDP (pct)	3.4	5.3	6.1
Gold and Foreign Exchange Reserves	3,144.3	4,670.9	4,180
Aid from United States	26.1	25.0	38.0
Aid from All Other Sources	168.6	198.7	204.0

[1] 1998 figures are all estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. General Policy Framework

In 1998, Romania continued to implement market based economic reforms and privatize state owned enterprises. Inflation has dropped and the exchange rate remains relatively stable. While political differences within the governing coalition have delayed the passage and implementation of some reform legislation, opinion polls demonstrate that there is a broad popular and political consensus in favor of economic reform.

The economy continued to contract, with GDP expected to fall five percent in 1998. The current account deficit widened and external public debt increased. Falling tax revenues caused the fiscal deficit to rise to 5.4 percent of GDP, well above the target set by the IMF. Public external debt service is projected to be $2.2-2.8 billion in 1999, while gross external financing requirements will be $4-5 billion (approaching 12 percent of GDP). There is growing concern that Romania will be unable to finance these debts, as signaled by recent downgrades by both Moody's and Standard and Poor's.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner. Trade with the EU accounts for over 50 percent of Romania's merchandise imports and exports. While trade with the United States accounted for only 5 percent of Romania's exports and 4.5 percent of its imports, it has been increasing steadily for the past few years. In 1998, U.S. exports to Romania grew by 8.6 percent, and market share increased by 14 percent.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The leu is fully convertible for current account transactions and foreign investment. It is also widely considered to be overvalued. The government is committed to full convertibility in the capital account, but the necessary conditions for this are not yet in place.

3. Structural Policies

Economic reform has resulted in the passage of a wide variety of legislation affecting virtually every sector: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. While new legislation is necessary to create a basis for a market economy, rapid regulatory change has slowed the pace of trade and investment.

Romania continues to make significant progress in its agricultural reform program. (Note: Agriculture accounts for about one-fifth of GDP, and about 35 percent of formal and informal employment is dependent on it.) Prices are determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. Over 80 percent of the agricultural sector has been privatized, and further privatization is on track.

However, deep-seated problems remain in the agricultural sector. Among them:

—the continued pervasive state presence, as evidenced by remaining price controls, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;
—unfinished land reform that has left many fragmented holdings, for which property rights are still not well-defined;
—under-developed rural cooperatives and financial services, few private input suppliers, and no extension services;
—and, resistance from the ruling coalition's agricultural lobby which has prevented the closure of many inefficient state farms.

The pace of reform in heavy industry has been very slow. The state has retained ownership of 67 percent of the industrial sector. While the government remains committed to privatizing or liquidating most of these firms, implementation has proved difficult and politically unpopular.

4. Debt Management Policies

At the end of June 1998, Romania's medium and long-term external debt amounted to $8.3 billion. The National Bank's foreign exchange reserves amounted to $2.04 billion and the commercial banks' reserves reached $1.75 billion in October 1998. However, the National Bank's reserves are down by over 25 percent since June, as it has tried to slow the pace of depreciation. Romania has claims against foreign countries amounting to $3 billion.

Debt service payments will prove a challenge for Romania during the first half of 1999, when at least $2.2 billion in payments will come due. The government has been negotiating with the IMF for a standby loan to assist with these payments. Those negotiations, which stalled in 1998, are slated to resume in late January.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania, as there are no laws which directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged US exports in several sectors, including agriculture, telephonic equipment, and computers. For example, the duty on tires is 30.5 percent from the US, and 18.4 percent from EU.

Bureaucratic red tape and uncertainties in the legal framework can make doing business in Romania difficult. There is little experience with Western methods of negotiating contracts and, once concluded, there enforcement is not uniform. In addition, delays in reconciling conflicting property claims, arising from confiscations during the Communist era, have resulted in a situation that purchasers are potentially subject to legal challenge by former owners and title insurance is not available. The absence of clear legal recourse to recover claims against debtors is a further complication for foreign investors.

The cost of doing business in Romania is high, particularly for office rentals, transportation and telecommunication services. Lack of an efficient, modern financial system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital is very expensive. Also, taxes on both profits and operations are steep. Foreign companies may qualify for some tax exemptions, based on the size of their investment.

Investment barriers are few in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land.) There are no legal restrictions on the repatriation of profits and equity capital. Government approval of joint ventures requires extensive documentation. U.S. investment in Romania is increasing and totaled $267.7 million by July 1998, ranking the U.S. fourth among foreign investors.

Romania is a member of the World Trade Organization, but not a signatory to the agreement on government procurement or civil aircraft.

6. Export Subsidies Policies

The Romanian Government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides refunds of import duties for goods that are then processed for export. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters.

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. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property Rights

Romania has enacted significant legislation in intellectual property protection. Patent, copyright and trademark laws are in place. In the past year, Romania has adopted pipeline protection for pharmaceuticals. Enforcement is limited and often ineffective.

Pirated copies of audio and video cassettes, CDs, and software are readily available, although not openly displayed. In a few cases, pirated films are broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Berne Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania will implement the WTO agreement on intellectual property on January 1, 2000.

8. Worker Rights

a. *The Right of Association:* All workers (except public employees) have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unions.

b. *The Right to Organize and Bargain Collectively:* Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are no legal limitations on the right to strike, except in sectors the government considers critical to the public interest (e.g. defense, health care, transportation).

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. Children over 14 may work with the consent of their parents, but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are required to assist in this regard.

e. *Acceptable Conditions of Work:* Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard work week of 40 hours with overtime for work in excess of 40 hours, and paid vacation of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. Labor organizations continue to press for healthier, safer working conditions. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality.

f. *Rights in Sectors with U.S. Investment:* Conditions do not appear to differ in goods producing sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		−9
Total Manufacturing		22
Food and Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		5
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		78

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

RUSSIA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	2,200	2,586	1881
Real GDP Growth (pct)	−6.0	0.6	−9.9 [3]
Per Capita Personal Income (US$)	778	922	888 [4]
Labor Force (000s)	73,000	72,000	72,000
Unemployment Rate (pct)	9.3	9.2	11.5 [4]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	34	30.6	18 [5]
Consumer Price Index (percent increase)	22	11	56.4
Exchange Rate (Ruble/US$ annual average)	5.124	5.785	14.7
Balance of Payments and Trade:			
Total Exports FOB	85.1	85.0	34.8 [6]
Exports to United States	4.8	4.5	4.8 [7]
Total Imports (CIF)	46.0	52.9	26.0 [6]
Imports from United States	2.9	4.1	3.2 [7]
Trade Balance	39.1	32.1	8.7 [6]
Balance with United States	1.9	0.4	−4.3
External Public Debt	125	123.5	147
Fiscal Deficit/GDP (pct)	8.0	6.8	7.5
Current Account	2	0	−4.3
Debt Service Payments/GDP (pct)	2.1	1.4	3.7
Gold and Foreign Exchange Reserves	17.1	17.8	12.1
Aid from United States (US$ millions) [8]	182	99	141
Aid from All Other Sources	N/A	N/A	N/A

[1] Due to the large ruble devaluation in August and September 1998, and the abrupt change in direction of many indicators of economic activity, estimates for end of year 1998 would be unreliable and misleading. 1998 data has been provided for the last available period (9/98) unless otherwise noted. The Russian Ruble was redenominated on January 1, 1998 by dropping three zeros off the value of the currency. All data in ruble terms have been adjusted to "new rubles" for comparability.
[2] Billions of Russian Rubles.
[3] Nine months ending September 1998.
[4] Data for January-August 1998.
[5] Data for January-July 1998.
[6] Data for the period January-June 1998.
[7] U.S. Commerce Department data for the period January-October 1998.
[8] USAID, total obligations for the year. 51 million was temporarily delayed from FY1997 to the beginning of FY 1998.
Sources: Russian Statistics Committee (Goskomstat), Russian State Customs Committee, International Monetary Fund, USAID and embassy estimates.

1. General Policy Framework

Russia's fragile economic stabilization, the result of three years of tight monetary policy, was shattered by recent global economic instability and falling oil prices. Market turmoil in Asia led to a pullback from emerging markets, which served to highlight Russia's persistent budget deficits. The benchmark interest rate soared from 28 percent in December 1997 to 150 percent in May 1998 as the Central Bank of Russia sought to defend the hard-won stability of the ruble. Gross foreign currency reserves dropped from a high of $24.9 billion in June 1997 to $14.6 billion in May 1998 following the dismissal of the Chernomyrdin government and the protracted political battle over a successor, stalling efforts to implement fiscal reform and improve tax collection.

In June 1998, the newly installed Kiriyenko government announced an ambitious reform program, which cleared the way for a $22.5 billion IMF-led package in July. Markets, however, were not convinced, particularly after the Duma failed to enact necessary revenue measures. Faced with a wholesale loss of confidence, the government announced a series of emergency measures on August 17, 1998. These measures included: a 90-day moratorium on certain payments, including financial credits with maturities over 180 days; a rescheduling of domestic securities; and a widening of the central bank's targeted exchange rate corridor from R6.2/US$ to R9.5/US$.

The exchange rate subsequently plunged to more than R16/US$ by the end of September, and the central bank abandoned its exchange rate corridor altogether. Russia's commercial banking and payments system collapsed. These factors, in turn, contributed to a sharp decline in imports, a fall in tax payments and a rise in government arrears. Inflation, which had fallen to an annualized rate of 5.5 percent in July 1998, reached 70 percent (year-on-year) by October 1, 1998. GDP contracted 9.9 percent for the nine months ending September 1998.

In early September 1998, a new government headed by former Foreign Minister Yevgeniy Primakov was installed. The new government, as of November 1998, has a number of pressing issues to address, including: renegotiating Russia's IMF program; rescheduling R386 billion in outstanding GKOs (Russian Treasury bills) covered by the August restructuring; restructuring Russia's commercial banking system; formulating a new foreign exchange policy; and implementing realistic budgets for end of year 1998 and 1999, including service of external debt. Payments on that debt are estimated at 17.5 billion for 1999. Some cautious steps have been taken to restart the payments system through a series of extraordinary clearing operations and provision of additional liquidity to the commercial banking sector.

2. Exchange Rate Policy

At the outset of 1998 the central bank scrapped its crawling band exchange mechanism used in recent years in favor of a more flexible medium-term regime. The average target ruble exchange rate for 1998 was set at 6.0-6.2. The program permitted the ruble to float 15 percent in either direction from its target peg, giving the government increased flexibility to deal with short-term pressures.

However, Russia's continued fiscal imbalance generated persistent pressure on the ruble that was not alleviated by increases in interest rates, causing foreign currency reserves to decline. Following the decision to widen the ruble band, the ruble fell from R6.3/US$ on August 17, 1998 to R17.5/US$ by October 1998. By the end of the year, the ruble/dollar rate had drifted down to more than R20/US$.

The government also began to enforce existing regulations requiring exporters to repatriate all export proceeds and, in a new regulation, requiring 50 percent of these proceeds to be sold on the Moscow Interbank Currency Exchange (MICEX). MICEX trading was divided into two sessions: a morning session limited to importers, exporters and the central bank and an afternoon session for "speculative" traders. Banks buying foreign exchange on behalf of importers or exporters in the morning session are required to have an import or export contract. Beginning November 1, 1998, banks were not allowed to keep the proceeds acquired for these transactions on account for more than seven days.

3. Structural Policies

By the end of 1997, approximately 70 percent of GDP was produced by companies in the private sector. Extensive structural reforms were still needed in order to create a functioning market economy, instill efficient management, eliminate barter and non-payments problems from the economy, and improve the investment climate. Key areas were considered to be: tax reform, reform of natural monopolies and bankruptcy law, better protection of shareholder rights, and a market-oriented, case-by-case privatization process.

However, structural reforms floundered under the effects of the myriad economic and political crises of 1998. During the first half of the year, the Chernomyrdin and

Kiriyenko governments emphasized the restructuring of natural monopolies in the electricity, rail and gas sectors. They managed to achieve notable, albeit spotty progress, particularly in the electricity sector, on reducing tariffs and eliciting more cash payments for services rendered. New commitments were made to open, fair and competitive privatization but declining oil prices and an unsettled economic environment made individual privatizations less attractive. The Duma passed and the President signed the general part of a new tax code, but legislative action on specific taxes and their rates is still pending.

The Primakov government came to power in September 1998 intending to strengthen the role of the state in the economy in order to stabilize the chaotic financial markets, better manage firms where the government still has a nominal controlling interest, and to create conditions of growth for the manufacturing sector.

The government only presented its new economic strategy to the Duma in mid November. The ideas under consideration propose to increase state intervention in the economy. The plan includes some price and supply controls, foreign currency controls, wage indexation, state support for industry, clearing arrears accrued among companies, public works programs and higher social benefits for the needy, and a privatization program that would focus more on raising enterprise efficiency and less on meeting financial objectives. The plan also calls for more rigorous antimonopoly policy, a bank restructuring plan, improvements to fiscal policy and tax policy, and measures to attract foreign investment. The draft plan, however, does not adequately address the Russian Government's perennial budget deficits or pending foreign debt service payments and does not specify sources of revenue for new government spending programs. The only solid action taken to date to increase tax revenues has been the move to strengthen state control over the production and sale of alcohol.

In effect, the status of structural reforms in Russia is in an ambiguous period. While the Primakov government finalizes its plans, some regional attempts to implement price controls have been overcome by market forces. In addition, there are reports of continued structural progress at Unified Energy Systems (UES), Russia's electricity monopoly, which is still headed by economic reformer Anatoliy Chubays. The Bankruptcy Agency is reporting an increase in the proportion of enterprise liquidations, as compared to restructuring cases. The Russian Government has also announced the sale of a 2.5 percent share of Russian gas monopoly Gazprom, and specified that sale will be open to foreign investors.

4. Debt Management Policies

In 1996 and 1997, Russia finalized the rescheduling of its debt in the Paris and London Clubs. Russia then successfully returned to international capital markets in 1996-98, placing over $13 billion in dollar-denominated obligations, as well as DM3.25 billion of Eurobonds to date.

However, the decisions of August 17, 1998 present the government with new debt management challenges. As of December 1998, the government had not yet reached a final agreement with foreign investors affected by the GKO restructuring. Russia has missed several Paris Club payments on rescheduled debt, and faces other debt service payments of around $20 billion by the end of 1999. The government has indicated that it will seek to reschedule some of these obligations. In addition, Russian private banks and firms owe large sums to Russian and foreign creditors. Many Russian banks are engaged in debt talks with Western creditors.

5. Significant Barriers to U.S. Exports

At the end of 1998, the most significant barriers to U.S. exports were not statutory but were instead results of the difficult economic situation in Russia: reduced purchasing power, reduced availability of trade finance, uncertainty about the future value of the ruble, and payment/clearance problems.

Since 1995, Russian tariffs have generally ranged from five to thirty percent, with a trade-weighted average in the 13-15 percent range. In addition, excise and Value-Added Tax (VAT) is applied to selected imports. The VAT, which is applied on the import price plus tariff, is currently 20 percent with the exception of some food products. In July 1998, VAT rates were raised from 10 to 20 percent for many agricultural goods, and a temporary three-percentage point tariff surcharge on all goods was enacted in August 1998 as a balance of payment and revenue measure, to be effective from August 15 1998 until mid 1999. In addition, throughout 1997 and 1998, new combined customs duties (with minimum import tariffs) were introduced on various meat products, processed cheese, bottled water and miscellaneous manufactured goods.

However, with the onset of the economic crisis in August, imported products became scarce because of financial sector difficulties and the ruble devaluation. For agricultural products, it is estimated that the effective protection of the minimum duties increased by as much as 100 percent. Because of its dependence on imported food, Russia announced the following measures for staple food products and inputs used by the food processing industry: a cancellation of the three percent surcharge, a rollback of the VAT increase and cuts in customs duties.

Other Russian tariffs that have stood out as particular hindrances to U.S. exports to Russia include those on autos (where combined tariffs and engine displacement-weighted excise duties can raise prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent); some semiconductor products; and aircraft and certain aircraft components (for which tariffs are set at 30 percent). A July 1998 Russian Government resolution makes waivers on aircraft import tariffs for purchases by Russian airlines contingent on those airlines' purchases of Russian-made aircraft.

Import licenses are required for importation of various goods, including ethyl alcohol and vodka, color TVs, sugar, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. Most import licenses are issued by the Russian Ministry of Foreign Economic Relations (MINFER) or its regional branches, and controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs.

In October 1998, the government announced its plan for tightening of control over the alcohol industry, including creation of a state monopoly over the production and sale of ethyl alcohol. The plan does not envisage a change in the import regime for alcohol and alcoholic beverages, but a draft law under consideration by the legislature has provisions establishing import quotas.

In spring 1998, Russia passed the Law on Protective Trade Measures, which provides the government authority to undertake antidumping, countervailing duty and safeguard investigations, under certain conditions. Producers of agricultural products have shown particular interest in petitioning for investigations under this law.

The June 1993 Customs Code standardized Russian customs procedures generally in accordance with international norms. However, customs regulations change frequently, (often without sufficient notice), are subject to arbitrary application, and can be quite burdensome. In addition, Russia's use of minimum customs values is not consistent with international norms.

U.S. companies continue to report that Russian procedures for certifying imported products and equipment are non-transparent, expensive and beset by redundancies. Russian regulatory bodies also generally refuse to accept foreign testing centers' data or certificates. U.S. firms active in Russia have complained of limited opportunity to comment on proposed changes in standards or certification requirements before the changes are implemented, although the Russian standards and certifications bodies have begun to work closely with the American Chamber of Commerce in Russia to provide additional information. Occasional jurisdictional overlap and disputes between different government regulatory bodies compound certification problems. In 1998, the government made operational its inquiry point for regulations covered by the Technical Barriers to Trade (TBT) agreement in the World Trade Organization (WTO). On July 31, 1998, a new law on product certification went into effect, which generally meets the requirements of the TBT agreement. Voluntary certification by manufacturers will be allowed for a limited number of products.

A January 1998 revision to State Tax Service Instruction #34, now being enforced, makes it more difficult for expatriate employees of U.S. entities to benefit from the bilateral treaty on avoidance of double-taxation. A wide range of U.S. companies selling goods and services in Russia, who formerly could receive advance exemptions from withholding taxes for salaries, are now required to apply for a refund of tax withheld. While this is not consistent with the terms of the treaty, it remains to be seen how quickly refunds will be made or whether the new approach will significantly increase the cost of expatriate salaries.

Although under current law little of Russia's legislation in the services sector is overtly protectionist, the domestic banking, securities and insurance industries have secured concessions in the form of Presidential Decrees. Foreign participation in banking, for example, is limited to 12 percent of total paid-in banking capital (but as of mid 1998 only accounted for around 4 percent of the total). In practice, foreign companies are often disadvantaged vis-a-vis Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees. In October 1998, the President vetoed legislation that would have limited market access for foreign investors in the tourism sector; in his comments, he cited the lack of justification for such a limitation on consumer choice in this area. As the

54-067 99 - 7

legislature continues to consider regulatory measures for various services sectors, similar issues can be expected to arise.

Although there are no current, significant legal barriers to doing business in Russia, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The Ministry of Finance, local authorities and/or various central government bodies all register foreign investments. Prior approval is required for investment in new enterprises using assets of existing Russian enterprises, foreign investment in defense industries (which may be prohibited in some cases), investment in the exploitation of natural resources, all investments over 50 million rubles, investment ventures in which the foreign share exceeds 50 percent, or investment to take over incomplete housing and construction projects. Additional registration requirements exist for investments exceeding 100 million rubles. Projects involving large scale construction or modernization may also be subject to expert examination for environmental considerations. Although the situation has improved over the past few years, foreigners encounter significant restrictions on ownership of real estate in some cities and regions in Russia.

The government maintains a monopoly on the sale of precious and several rare-earth metals, conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. In September and October, gold and diamond trading were liberalized slightly, but state control is still intact. In August 1997, a series of Presidential Decrees were enacted which established tighter control over military exports by the state enterprise Rosvooruzheniye, enabled two additional state firms to sell military goods and technology, and opened the door to future direct sales by arms manufacturers, if licensed and approved by the Ministry of Foreign Economic Relations. The current government is expected to continue to work toward this goal.

In July 1998, the President vetoed a bill containing amendments to the Russian Law on Foreign Investments, noting that most aspects of foreign investment are already governed by other laws. The bill included provisions creating a program of investment incentives for large projects (which meet certain criteria such as export orientation or import substituting) and has registration requirements for foreign direct investments. Duma sponsor Adrian Puzanovsky has formed a conciliation committee to try to rework the law to respond to the President's concerns. A Presidential Decree signed in early 1998 provides investment incentives for large investments in the auto industry that meet local content requirements. Russia's production sharing agreement legislation for the oil and gas industry has local content requirements, and some proposed amendments to the law, if enacted, would raise the percentage of local content required.

Most of these issues are the subject of discussion, as Russia undertakes negotiation of its accession to the World Trade Organization (WTO). By the end of 1998, the government completed nine working party meetings. It provided its initial market access offers for goods in February 1998 and hopes to submit its offer on services in the first half of 1999. Russia is not yet a signatory of the WTO Government Procurement or Civil Aircraft codes.

6. Export Subsidies Policies

The government has not instituted export subsidies, although a 1996 executive decree allows for provision of soft credits for exporters and government guarantees for foreign loans. The government does provide some subsidies for the production of coal, but coal exports are minimal. Soft credits are at times provided to small enterprises for specific projects.

7. Protection of U.S. Intellectual Property

Russia is in the process of accession to the World Trade Organization (WTO), and as a new member, it will be required to meet obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPs) immediately upon accession. Russia belongs to the World Intellectual Property Organization (WIPO), and has acceded to the obligations of the former Soviet Union under the Paris Convention for the protection of industrial property (patent, trademark and related industrial property), and the Madrid Agreement Concerning the International Registration of Marks, and the Patent Cooperation Treaty. Russia has also become a signatory to the Berne Convention for the protection of literary and artistic works (copyright) as well as the Geneva Phonograms Convention. In 1998, the U.S. Trade Representative retained Russia on the "Special 301" Priority Watch List for a second year due in large part to concerns over weak enforcement of Intellectual Property (IP) laws and regulations as well as lack of retroactive copyright protection for U.S. works in Russia.

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 (IPR) improved somewhat in 1998 with a series of raids on pirates and some seizures of CD's at the border by Russian Customs. A new Criminal Code took effect January 1, 1997, that contains considerably stronger penalties for IPR infringements. However, there are still disappointingly few cases in which these penalties have been applied. By Presidential Decree, a higher patent chamber has been established at the Russian Patent and Trademark Agency (Rospatent) which should bring greater expertise and efficiency to the resolution of patent and trademark disputes. Rospatent is also seeking to establish a Russian Trademark Owners Association to represent the concerns of trademark holders. Nevertheless, widespread sales of pirated U.S. video cassettes, recordings, books, computer software, clothes, toys, foods and beverages continue.

The Patent Law 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. The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins. 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. The September 1992 Law on Topography of Integrated Microcircuits, which also protects computer programs, protects semiconductor topographies for 10 years from the date of registration.

Under the U.S.-Russian Bilateral Investment Treaty (signed in 1992 but 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. An interagency IPR team from the U.S. met with various law enforcement agencies in July 1998 to discuss a wide-range of assistance and training programs, some of which have already begun to be implemented.

8. Worker Rights

a. *The Right of Association:* The law provides workers with the right to form and join trade unions, but practical limitations on the exercise of this right arise from governmental policy and the dominant position of the formerly governmental Federation of Independent Trade Unions of Russia (FNPR). The government has threatened several unions with decertification, drafted changes in the Law on Trade Unions which would make it more difficult for them to register, and proposed legislation which institutionalize labor collectives to compete with trade unions and complicate representation of worker rights. As the successor organization to the governmental trade unions of the Soviet period and claiming to represent 80 per cent of all workers, the FNPR occupies a privileged position which inhibits the formation of new unions.

b. *The Right to Organize and Bargain Collectively:* Although the law recognizes collective bargaining, the effect of numerous governmental policies is to inhibit it. The new draft Labor Law would give precedence to annually renewable individual contracts over collective bargaining agreements. Court rulings have established the principle that non-payment of wages—by far the predominant grievance—is an individual dispute and cannot be addressed collectively by unions. As a result, a collective action based on non-payment of wages would not be recognized as a strike, and individuals would not be protected by the Labor Law's guarantees against being fired for participation. The right to strike is difficult to exercise. Most strikes are technically illegal, and courts have the right to order the confiscation of union property to settle damages and losses to an employer, if a strike is found to be illegal. Reprisals for strikes are common.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor by adults and children. There are documented cases of soldiers being sent by their superior officers to perform work for private citizens or organizations. Such labor may violate military regulations and, if performed by conscripts, would be an apparent violation of ILO convention 29 on forced labor.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits regular employment for children under the age of 16 and also regulates the working conditions of children under the age of 18, including banning dangerous, nighttime and overtime work. Children may, under certain specific conditions, work in apprenticeship or internship programs at the ages of 14 and 15. Accepted social prohibitions against the employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor legislation. The government prohibits forced and bonded labor by children, and there have been no reports that it occurred.

e. *Acceptable Conditions of Work:* The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period. The law requires premium pay for overtime work or work on holidays. Workers have complained of being required to work well beyond the normal week, that is, 10 to 12-hour days, and of forced transfers. Total wage arrears reached 64 billion rubles in August 1998, up from 40 billion rubles a year earlier. Workers are economically constrained: their ruble savings have been destroyed by the rampant inflation of the early 1990's and the devaluation of August 1998; most have not been paid for periods of five to twenty-five months; and their freedom to move in search of new employment is virtually eliminated by the system of residency permits. The law establishes minimal conditions of 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, aerospace, construction machinery, and pharmaceuticals) did not significantly differ from observance in other sectors. There are no export processing zones. Worker rights in the special economic zones/free trade zones are fully covered by the Labor Code.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		485
Total Manufacturing		322
Food and Kindred Products	(1)	
Chemicals and Allied Products	39	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	1	
Electric and Electronic Equipment	(2)	
Transportation Equipment	0	
Other Manufacturing	−4	
Wholesale Trade		−30
Banking		132
Finance/Insurance/Real Estate		809
Services		−60
Other Industries		248
TOTAL ALL INDUSTRIES		1,906

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

SPAIN

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Real GDP (1986 Prices)[2]	337.4	302.1	296.3[3]
Real GDP Growth (pct)[4]	2.4	3.5	3.9
GDP (at current prices)	582.5	532.1	532.2
GDP by Sector:			
Agriculture	20.2	16.7	15.9
Industry	135.9	125.3	126.4
Construction	45.7	40.7	40.6
Services	346.2	316.8	315.7

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Government	96.8	86.0	84.0
Per Capita GDP (US$)	14,595	13,335	13,340
Labor Force (000s)	15,936	16,121	16,245
Unemployment Rate (pct)	21.8	20.8	19.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	7.0	11.8	10.07
Consumer Price Inflation	3.6	2.0	2.0
Exchange Rate (PTA/US$ annual average)	126.6	146.4	150.0
Balance of Payments and Trade:			
Total Exports FOB[5]	102.8	105.2	110.5
Exports to United States[5]	4.3	4.6	4.9
Total Imports CIF[5]	122.5	123.5	129.1
Imports from United States[5]	8.0	7.8	8.3
Trade Balance[5]	−19.7	−18.3	−18.6
Balance with United States[5]	−3.7	−3.2	−3.4
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	4.4	3.0	2.1
Debt Service Payments (paid)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	61.8	72.5	75.0

[1] 1998 figures are all estimates based on available monthly data in July.
[2] GDP at factor cost.
[3] Devaluation.
[4] Percentage changes calculated in local currency.
[5] Merchandise trade.
Note: Estimates for 1998 show lower figures in U.S. Dollars than previous years due to a rise in the U.S. Dollar/Spanish Peseta exchange rate. According to embassy estimates, a 2.5 percent appreciation of the U.S. Dollar over the Spanish Peseta is expected for the end of 1998.

1. General Policy Framework

Spain's economy is expected to grow by 3.9 percent in 1998. This growth is expected to moderate in 1999, but still be in the 3.0-3.5 percent range. Growth is broadly based and enjoys major support from services, agricultural exports, capital goods investment, and private consumption.

The stock market reached new highs through July, and after tracking declines in major industrial economies in August and September, resumed its upward climb in late October.

Much of Spain's economic policy had focused on meeting Maastricht Treaty targets which set out criteria for consideration to join the European Monetary Union. These policies provided continuing benefits in the form of lower interest rates and low inflation rates which have helped Spain promote investment and spur consumer demand. These latter activities have provided greater than anticipated tax receipts which in turn have allowed Spain to meet handily government deficit/GDP targets. Annual inflation, at 2.0 percent, is at its lowest level in over thirty years. Past government budget cuts, higher than expected tax receipts, and lower than expected payments for servicing government debt will allow this government's deficit/GDP ratio to fall below 3 percent in 1998. The government debt/GDP ratio is expected to fall below 69 percent moving toward the 60 percent goal.

Unemployment remains the one area in which structural policies have made some but not adequate inroads. The present government encouraged direct negotiations between employers and unions on employment terms in 1996 instead of looking to the government to make changes through legislation. Changes agreed in 1996 and 1997 provided flexibility in hiring practices that would lessen somewhat the high fixed cost of permanent new hires and have stimulated employment creation. This step in the right direction, combined with a buoyant economy, has succeeded in lowering the unemployment rate to below 19 percent. Despite its labor market rigidities, Spain creates more jobs than any other EU country.

2. Exchange Rate Policy

Spain has maintained its Deutsche Mark (DM) parity in the 84-85 percentile range in preparation for the euro fixing. Throughout 1998, the Bank of Spain lowered interest rates on a path to converge with comparable DM rates. In early November, the Bank of Spain cut its key lending rate to 3.5 percent, only two-tenths of a percent short of the comparable DM rate (3.3 percent).

3. Structural Policies

As a member of the European Union, Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly Spain will be bound to the mutual recognition agreements in its application of certain non-tariff regulations applied to eight categories of goods from the United States.

In 1989, as part of the investment sector reforms necessary to comply with EU membership, Spain made stock market rules and operations more transparent and provided or the licensing of investment banking services. The reform also eased conditions for obtaining a broker's license. A 1992 Investment Law removed many administrative requirements for foreign investments. EU resident companies (i.e. companies deemed European under article 58 of the treaty of Rome) are free from almost all restrictions. Non-EU resident investors must obtain Spanish Government authorization to invest in broadcasting, gaming, air transport, or defense. Restrictions on broadcasting and in transport are facing increasing pressure as the government looks to privatizing its national airline (perhaps in 1999), and completes the privatization of its telephone company.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an enlargement agreement with the EU in 1987 which established a 2.3 million ton annual quota for Spanish imports of corn, specified non-grain feed ingredients and sorghum from non-EU countries. 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.

As an EU member state, Spain must also abide by EU procedures for approving the commercialization of products generated with the aid of biotechnology. The EU's lengthy and non-transparent process for approving agricultural products produced through modern genetic engineering methods has negatively impacted U.S. corn exports to Spain. Due to the EU's failure to approve some U.S. corn varieties in 1997, U.S. corn exports to Spain declined by almost $150 million. Unless the EU takes steps to streamline its biotechnology product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain.

Under its EU accession agreement, Spain was forced to transform its structure of formal and informal import restrictions for industrial products into a formal system of import licenses and quotas. While Spain does not enforce any quotas on U.S.-origin manufactured products, it still requires import documents for some goods, which are described below. Neither of the following documents constitute a trade barrier for U.S.-origin goods:

—Import Authorization (autorizacion administrativa de importacion) is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-origin goods, the document is used for statistical purposes only or for national security reasons;

—Prior Notice of Imports (notificacion previa de importacion) is used for merchandise that circulates in the EU customs union area, but is documented for statistical purposes only. The importer must obtain the document and present it to the general register.

Importers apply for import licenses at the Spanish general register of Spain's secretariat of commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoices number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Goods that are shipped to a Spanish customs area without proper import licenses or declarations are usually subject to considerable delay and may run up substantial demurrage charges. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

The government has signed and ratified the Marrakech Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policy

Eighteen percent of Spanish medium and long-term debt is held by non-residents. The Spanish Government has standby loan arrangements in foreign currency with a consortia of foreign banks and has an agreement with several investment banks to float bonds in foreign markets as an alternative to domestic financing. Approximately one-third of Spanish Government debt is short-term (less than one year) and less than one quarter is long-term (i.e. maturities greater than five years).

At the end of August 1998, international reserves at the Bank of Spain totaled 71.8 billion dollars.

5. Significant Barriers to U.S. Exports

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic marke to compete with domestic production. However, the Uruguay Round agreement has required that all import duties on agricultural products 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 in 1989 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. In August 1997, the WTO ruled that the ban was illegal and must be removed. The EU is required to eliminate the ban by March 1999; however, the EU has appealed that decision.

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 was fully implemented in Spain. 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 requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is 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 will liberalize its telecommunications market beginning December 1, 1998. Prior to this date, the government has been phasing in competition in basic telephony through licenses granted to recently privatized second operator Retevision and to third operator Lince (France Telecom), in addition to incumbent operator Telefonica. Cable operators were allowed to provide basic telephony beginning January 1, 1998, but only by using their own networks; that is, they could provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, has resulted in a slow start for the establishment of the cable sector in Spain.

On the other hand, digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are two digital television platforms, via digital and canal satellite digital, which currently offer digital television programming. Retevision has announced plans to offer a competing digital TV package provided over a terrestrial network. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. Retevision won the bid for a third mobile license in early 1998. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government has established the telecommunications market commission as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took 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).

Television Broadcasting Content Requirements: The EU revision of the 1989 "Television Without Frontiers" broadcast directive was completed in 1997, without significant change. It left intact the flexible language of the original version as regards the quota regime which mandates that a majority of broadcast time be allocated to European content and avoided extending its scope to the new technologies. The Spanish draft implementing legislation calls explicitly for a 51 percent allocation of annual broadcast time to European works.

Motion Picture Dubbing Licenses and Screen Quotas: In January 1997, the government adopted the implementing regulations for the 1994 Cinema Law, which had provoked a strong reaction from U.S. industry because of protectionist provisions that sought to reserve a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations significantly eased the impact of the 1994 law on non-EU producers and distributors as it applies to screen quotas and dubbing licenses. For screen quotas, the new required ratio for exhibitors was changed from one day of EU-produced film for every two days of non-EU-produced film to one day for every three days. For dubbing licenses, the regulations established a three-tiered system, which—according to the 1994 law—is slated to be phased out in 1999. However, the system of screen quotas will remain in effect.

Despite its continuing protectionist elements, Spain's theatrical film system has been modified sufficiently in recent years so that it is no longer a major source of trade friction as it had been earlier. However, in 1998, the Catalan regional government adopted a decree under its new law on language policy, which calls for both dubbing and screen quotas in order to increase the number of films being shown in the Catalan language.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU. After several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations in this area to conform to EU directives. For example, now all telecom equipment must carry the CE mark, which certifies that it complies with all applicable EU directives. This process may take three to four months after all tests have been performed and necessary documents are submitted. However, recognition from other EU countries and an early presentation of all documentation can speed up the process considerably. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

In general there has been improved transparency of process. For example, the CE registration for medical equipment from any of the EU member states is considered valid here. Thus, the product registration procedure is shortened (to about six months) and no longer must be initiated by a Spanish distributor. Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU pharmaceutical agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The United States has been negotiating with the EU for mutual recognition of product standards and acceptance of testing laboratory results.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports, especially in Latin America, the Maghreb, and more recently, China. Such credits reportedly are consistent with the OECD arrangement on 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 about $220 million in 1996. Spanish exports of grains, olive oil, other oils, tobacco, wine, sugar, dairy products, beef, and fruits and vegetables benefited most from these subsidies in 1996.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws, as agreed at the time of its EU accession in 1986. 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, Berne, and Universal Copyright Conventions and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In October 1992, Spain enacted a modernized Patent Law which increases the protection afforded patent holders. At that time, Spain's pharmaceutical process patent protection regime expired and product protection took effect. However, given the long (10 to 12 year) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until after the turn of the century. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered significant losses as a result. While the pharmaceutical sector would like the government to intervene, it looks to the EU commission and the advent of the euro to resolve this single market problem.

The Copyright Law is designed to redress historically weak protection accorded movies, videocassettes, sound recordings and software. It includes computer software as intellectual property, unlike the prior law. In December 1993, legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits and searches do take place under these provisions.

According to industry sources, Spain has a relatively high level of computer software piracy despite estimated declines in the last two years. Industry estimates for 1997 show a drop to 59 percent from 63 percent in 1996. Therefore, concerned groups have focused increasingly on enforcement, with industry and government cooperating on a series of problems aimed at educating the judiciary, police and customs officials to be more rigorous in their pursuit of this problem.

Motion picture (i.e. video) and audio cassette piracy also remains a problem. However, thanks to the government prohibition on running cable across public thoroughfares and strict enforcement of the Copyright Law that holds that no motion picture can be shown without authorization of the copyright holder, the incidence of community video piracy has declined.

Spain's Trademark Law incorporates by reference the enforcement procedures of the Patent Law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. The government has drafted a new Trademark Law which will incorporate TRIPs, the EU Community Trademark Directive, and the Trademark Law Treaty, and which it hopes will be enacted in 1999. But first, the supreme court must decide the case presented by the Catalan and Basque regional governments that they have the constitutional right to operate trademark registration offices as well. National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the government began to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to cope more effectively. Despite these efforts, industry estimates rank Spain as the country with the second highest incidence of trademark fraud in the clothing sector in Europe.

8. Worker Rights

a. *The Right of Association:* All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was established by the workers statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. *Minimum Age for Employment of Children:* The legal minimum age for employment as established by the workers statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The workers statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work:* Workers in general have substantial, well defined rights. A 40 hour workweek 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 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.

f. *Rights in Sectors with U.S. Investment:* Conditions in sectors with U.S. investment 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		194
Total Manufacturing		6,432
Food and Kindred Products	1,504	
Chemicals and Allied Products	1,036	
Primary and Fabricated Metals	212	
Industrial Machinery and Equipment	60	
Electric and Electronic Equipment	1,021	
Transportation Equipment	1,671	
Other Manufacturing	930	
Wholesale Trade		1,472
Banking		2,031
Finance/Insurance/Real Estate		639
Services		432
Other Industries		442
TOTAL ALL INDUSTRIES		11,642

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

SWEDEN

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	252.0	227.6	231.5
Real GDP Growth (pct)[3]	1.3	1.8	3.0

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
GDP by Sector:			
Agriculture	1.6	1.5	1.5
Manufacturing	51.2	47.5	47.0
Services	106.1	98.4	97.5
Government	48.5	45.0	44.5
Per Capita GDP (US$)[2]	28,319	25,724	26,162
Labor Force (000s)	4,310	4,264	4,255
Unemployment Rate (pct)	8.1	8.4	6.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)[4]	11.5	1.3	2.1
Consumer Price Inflation	0.8	0.9	0.5
Exchange Rate (SEK/US$)	6.70	7.63	7.93
Balance of Payments and Trade:			
Total Exports FOB[5]	84.5	83.5	95.6
Exports to United States[6]	7.0	7.5	8.0
Total Imports CIF[5]	66.6	65.4	73.7
Imports from United States[6]	3.9	4.0	4.3
Trade Balance[5]	17.9	18.1	21.8
Balance with United States[6]	3.1	3.5	3.7
External Public Debt[7]	59.5	50.5	46.7
Fiscal Balance/GDP (pct)	−2.1	−1.1	2.1
Current Account Surplus/GDP (pct)	2.6	2.8	2.3
Foreign Debt Service Payments/GDP (pct)	1.48	1.89	2.90
Gold and Foreign Exchange Reserves	20.9	11.8	16.1
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 figures are all estimates based on available monthly data in October.
[2] Decrease due to depreciation of currency.
[3] Percentage changes calculated in local currency.
[4] Source: The Central Bank. M3 is the measurement used in Sweden, very close to a potential Swedish M2 figure.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October.
[7] Source: Swedish National Debt Office.

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent transport and communications links with the world, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and is a strong supporter of liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, by which point 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 also are particularly important. The central bank enjoys significant autonomy in pursuit of its avowed goal of price stability. Fiscal policy decisions in the late 1980's to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically. Since the beginning of 1995, however, Sweden has made impressive strides with its economic convergence program, having restored macroeconomic stability and created the conditions for moderate, low-inflation economic growth. The government intends to run budget surpluses for the foreseeable future in order to assure that the public pension system and other aspects of the welfare state are adequately funded in the face of expected demographic changes.

During 1995 and 1996, Sweden pulled out of its worst and longest recession since the 1930s. (GDP declined by six percent from 1991 to 1993). Only recently has the level of unemployment come down somewhat, from average figures as high as 12 to 14 percent in the mid-1990s, now down to around 10 to 11 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for some 4 percentage points of total unemployment.) In 1992 the Swedish Krona came under pressure and was floated late that year; Swedish interest rates soared but have come down rapidly during 1996-1998, and are now around half a percentage point above German rates.

Sweden's export sector is strong, resulting in large trade balance surpluses and solid current account surpluses since 1994. Domestic demand started to pick up in 1997 and has contributed to the growth since 1997. Structural changes in recent years have prepared the way for future economic growth. The social democratic government at the end of the 1980's and the conservative coalition government at the beginning of the 1990's deregulated the credit market; removed foreign exchange controls; reformed taxes; lifted foreign investment barriers; and began to privatize government-owned corporations.

2. Exchange Rate Policies

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 ECU. Sweden floated the currency in November 1992 after briefly defending the krona during the turbulence in European financial markets. Although Sweden is an EU member, it has chosen not to join the European Monetary Union and does not currently participate in the European Exchange Rate Mechanism.

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980's. No capital or exchange controls remain. (The central bank does track transfers for statistical purposes.)

3. Structural Policies

Sweden's tax burden was 54.8 percent of GDP for 1998. Central government expenditure during the recent severe recession was nearly 75 percent of GDP. The maximum marginal income tax rate on individuals is 59 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add about 40 percent to employers' gross wage bills. The value-added tax is two-tiered, with a general rate of 25 percent and a lower rate of 12 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 are 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 five percent ad valorem on finished goods and around three 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 dual use products that have potential military or non-proliferation application.

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 has brought some re-regulation of agriculture.

4. Debt Management Policies

Central government borrowing guidelines require that most of the national debt be in Swedish crowns; that the borrowing be predictable in the short term and flexible in the medium term; that the government (that is, 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 large national debt grew rapidly in the early 1990's. Total debt in late 1998 is about 73 percent of GDP.

5. Significant Barriers to U.S. Exports

Sweden is open to imports and foreign investment and it 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 material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, 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 the EU's. Sweden is now open to virtually all foreign investment and allows 100 percent foreign ownership of businesses and commercial real estate, except in 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 WTO codes concerned with government procurement, standards, etc. There are no official countertrade requirements.

6. Export Subsidies Policies

The government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. 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

In most cases, Swedish law strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are generally adequate and clear. However, enforcement is not as strong as it should be, especially in the area of copyright protection for software. The police and prosecutors need additional resources, some specialized training to help with acquiring and preserving evidence, and clear signals from the top of the government that copyright protection is a real priority, especially within Swedish public sector organizations. In addition, Swedish law poses a problem for copyright owners by permitting government ministries and parliament to provide to the public copies of works that may be unpublished and protected by copyright law.

The courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As 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 lock-outs. These laws are fully respected. Some 83 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		82
Total Manufacturing		5,082
Food and Kindred Products	29	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	6	
Industrial Machinery and Equipment	306	
Electric and Electronic Equipment	36	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		166
Banking		0
Finance/Insurance/Real Estate		989
Services		934
Other Industries		46
TOTAL ALL INDUSTRIES		7,299

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

SWITZERLAND

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP	296.6	255.5	266.3
Real GDP Growth (pct) [2]	0.0	1.7	1.8
GDP by Sector: [2]			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government [3]	45.7	38.3	39.3
Per Capita GDP (US$)	36,400	34,700	37,200
Labor Force (000s) [4]	3,041	2,996	3,121
Unemployment Rate (pct)	3.9	4.2	3.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	6.9	5.2	1.0
Consumer Price Inflation (pct)	0.8	0.5	0.1
Exchange Rate (SFr/US$)	1.23	1.45	1.44
Balance of Payments and Trade:			
Total Exports [5]	76.6	72.5	76.4
Exports to United States	6.8	7.1	7.6
Total Imports [5]	74.8	71.1	74.3
Imports from United States	4.9	5	5.2
Trade Balance [5]	1.8	1.4	2.1
Balance with United States	1.9	2	2.5

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
External Public Debt [6]	71.9	66.9	75.4
Fiscal Deficit/GDP (pct)	1.9	2.2	2.9
Current Account Surplus/GDP (pct)	7.4	8.9	7.9
Debt Service Payments/GDP (pct)	1.3	1.3	1.3
Gold and Foreign Exchange Reserves [7]	49.8	41.3	41.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] All 1998 figures are estimated.
[2] Estimates for 1997/8.
[3] Including social welfare expenditures.
[4] Full-time equivalent employment.
[5] Merchandise trade excluding gold and other precious metals, jewels, artworks antiques; Source: Swiss Customs Administration; 1998 figures are estimates based on data available through August.
[6] Federal government only (i.e., excluding cantons and communities).
[7] As of 8/98.

1. General Policy Framework

Switzerland has a highly developed, internationally oriented, and open market. The economy is characterized by a sophisticated manufacturing sector, a highly skilled workforce, a large services sector and a high savings rate. Per capita GDP is virtually the highest in Europe while unemployment is practically the lowest.

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 government is making major efforts to maintain its competitiveness in Europe while diversifying its export markets. The Swiss have recently concluded long-running bilateral negotiations with the EU Commission, covering seven different sectors. However, political level approval from the EU Council is still necessary.

After economic prosperity in the eighties, the Swiss economy was Western Europe's weakest between 1990-1996, with growth averaging around 0.0 percent per year (unemployment, however, did not rise above 5 percent). As a result of economic stagnation, Switzerland has run large, unprecedented deficits causing a corresponding increase in public debt. With the recently approved initiative which essentially requires the federal government to run balanced budgets, the government will have to reduce the deficit to less than one billion Swiss Francs in 2001 by strictly controlling expenditures. Modest economic recovery began in 1997 and annual GDP growth is expected to be in the 1.5 to 2.0 percent range for both 1998 and 1999.

No systematic use is made of fiscal policy to stimulate the economy. However, despite the tight budget situation, parliament voted in 1997 to spend $379 million on an investment program to help the Swiss economy pull out recession. Most of the funds will be spent in the construction sector to renovate public infrastructure. Approximately $41 million will be provided to maintain the apprenticeship program and $14 million will be spent for the promotion of technology and innovation.

The Swiss National Bank (SNB) is independent from the Finance Ministry. The primary objective of the SNB's policy is price stability. Monetary policy is conducted through open market operations. The discount rate is used by the SNB only as a signal to the public.

2. Exchange Rate Policies

Since the latter years of the 1990-1996 economic stagnation, the SNB has sought to prevent further appreciation of the Swiss Franc by accelerating growth of the money supply. The high franc had been seen as one of the main reasons for the weak performance of exports. Money supply growth slowed significantly during 1997, due in large part to the weakening of the franc. In the mid and long term, the SNB does not follow any exchange rate policy, and the Swiss Franc is not pegged to any foreign currency.

3. Structural Policies

Few structural policies have a significant effect on U. S. exports. One exception is telecommunications. In 1997, the Swiss Parliament decided to liberalize and privatize the Swiss telecommunications sector, opening a market to investment and competition from U.S. firms. This liberalization took effect on January 1, 1998 and since then, one U.S. firm (and its Swiss partner) has won a license to provide cellular phone service. The same firm will also be building a large land network with fiber optic cabling.

Agriculture is heavily regulated and supported by the federal government. Legislation passed this year will reduce direct government intervention in the market to set prices, but will continue the high level of support for Swiss agricultural production. The goal of the new legislation is to reduce government regulation of the market while continuing agricultural production at current levels through import protection and direct payments linked to environmental requirements. The new regulations will take effect January 1, 1999.

In early 1996, the new Cartel Law came into effect, introducing the presumption that horizontal agreements setting prices, production volume, or territorial distribution diminish effective competition and are therefore unlawful. Over time, the effect of this law should be to improve competition in the domestic economy. As part of its Uruguay Round commitments, Switzerland enacted legislation on January 1, 1996, providing for nondiscrimination and national treatment in public procurement at the federal level. A separate law makes less extensive guarantees at the cantonal and community levels.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland.

5. Significant Barriers to U.S. Exports

Import Licenses: Import licenses for many agricultural products are subject to tariff-rate quotas and tied to an obligation for importers to take a certain percentage of domestic production. Tariffs remain quite high for most agricultural products that are also produced in Switzerland.

Services Barriers: The Swiss services sector features no significant barriers to U.S. exports. Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch here. Foreign insurers may offer only those types of insurance for which they are licensed in their home countries. Until recently, the most serious barriers to U.S. exports existed in the area of telecommunications. However, with the privatization and liberalization which became effective in this sector on January 1, 1998, this market has been further opened to foreign competitors.

Standards, Testing, Labeling, and Certification: Swiss approval and labeling requirements for genetically modified food products and ingredients are among the strictest in the world. Swiss authorities blocked entry early in 1998 of a shipment of corn gluten meal because it contained meal from corn varieties not yet approved in Switzerland. Swiss authorities are currently reviewing the requirement that all food and feed products containing genetically modified ingredients be labeled. They have proposed modifying the requirements to require labeling only if the content is above a set percentage. Swiss officials have approved additional corn varieties for food and feed use in 1998, but the approval process continues to be slower than in the U.S. or the EU.

Investment Barriers: In most cases, foreign investment in Switzerland is granted national treatment. Some restrictions on foreign investment apply to the following areas: ownership of real estate by foreigners; aviation services; limits on the number of foreign workers; and restrictions concerning the number of foreign directors on the boards of corporations registered in Switzerland. For reasons of national security, foreign participation in the hydroelectric and nuclear power sectors, operation of oil pipelines, transportation of explosive materials, television and radio broadcasting, ownership of Swiss-based airlines, and maritime navigation, are restricted by law.

The board of directors of a joint stock company must consist of a majority of members permanently residing in Switzerland and having Swiss nationality.

Government Procurement Practices: On the federal level, Switzerland is a signatory of the WTO Government Procurement Agreement and fully complies with WTO rules concerning public procurement. On the cantonal and local levels, a law passed by the parliament in 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland reached agreement in 1996 on a text which expands the scope of public procurement access on a bilateral basis.

Customs Procedures: Customs procedures in Switzerland are straightforward and not burdensome. All countries are afforded WTO most-favored-nation treatment.

With the exception of certain restrictions on agricultural items, the Swiss market is essentially open for the import of U.S. merchandise.

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. Switzerland is gradually reducing the export subsidies as required under World Trade Organization (WTO) rules. The government has negotiated, but not yet ratified, an agreement with the European Union that neither country will subsidize dairy product exports to the other.

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 on the GATT Uruguay Round negotiations. Enforcement is generally very good. Since May of 1998 Switzerland has been in compliance with its obligation under TRIPS to protect company test data required by national authorities in order to obtain approval to market pharmaceuticals. The new regulation enacted by the Swiss Intercantonal Office for the Control of Medicines mandates a 10-year protection period for such data. Prior to this regulation taking effect, the lack of protection in this area negatively impacted one U.S. company. However, it is now very unlikely that any further problems will arise for U.S. firms.

Patent protection is very broad, and Swiss law provides rights to inventors that are comparable to those available in the United States. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty (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 European Patent Convention, once it enters into force) and receive protection in Switzerland. If filed in Switzerland, a patent application must be made in one of the country's three official languages (German, French, Italian) and must be accompanied by detailed specifications and, if necessary, by technical drawings. The duration of a patent is 20 years. Renewal fees are payable annually on an ascending scale. Patents are not renewable beyond the original 20 year term, with the exception of pharmaceuticals, where the Swiss adopted a patent term restoration procedure in 1995.

According to the Swiss Patent Law of 1954, as amended, the following items cannot be covered by patent protection: methods for surgical or therapeutic treatment and for diagnosis applied to human or animal bodies; inventions, the exploitation of which would be contrary to public order or morality. In addition, patents shall not be granted for new varieties of plants or animal breeds (except under certain limited circumstances), or for essentially biological processes for producing plants or breeding animals. However, microbiological processes and products obtained by such processes are patentable. In virtually all other areas, coverage is identical to that in the United States.

Trademarks are 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 law explicitly recognizes computer software as a literary work and establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment. According to industry sources, software piracy continues to be a problem. This appears to be largely due to illegal copying by individuals and some small and medium-sized establishments. It is highly unlikely that there are any exports. Owners of television programming are fully protected and remunerated for rebroadcast and satellite retransmission of their works, and rights holders have exclusive rental rights. Collecting societies are well established. Infringement is considered a criminal offense. The term of protection is life plus 70 years.

The Swiss also protect layout designs of semiconductor integrated circuits, trade secrets, and industrial designs. Protection for integrated circuits and trade secrets is very similar to that available in the U.S., and protection for designs is somewhat broader.

Industry sources estimate lost sales due to software piracy at $93 million in 1997 (out of a total market value of $2 billion for software). Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

8. Worker Rights

a. *The Right of Association:* All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

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 antiunion discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and employers has meant fewer than 10 strikes per year since 1975. There were no significant strikes in 1997.

c. *Prohibition of Forced or Compulsory Labor:* There is no forced or compulsory labor, although there is no legal prohibition of 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.

e. *Acceptable Conditions of Work:* There is no national minimum wage. Industrial wages are negotiated during the collective bargaining process. Such wage agreements are also widely observed by non-union establishments. The Labor Act establishes 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. The law prescribes a rest period during the workweek. Overtime is limited by law to 260 hours annually for these working 45 hours per week and to 220 hours annually for those working 50 hours per week.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor. There were no allegations of worker rights abuses from domestic or foreign sources.

f. *Rights in Sectors with U.S. Investments:* Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,144
Total Manufacturing		3,723
Food and Kindred Products	196	
Chemicals and Allied Products	1,454	
Primary and Fabricated Metals	189	
Industrial Machinery and Equipment	538	
Electric and Electronic Equipment	490	
Transportation Equipment	4	
Other Manufacturing	853	
Wholesale Trade		8,151
Banking		3,341
Finance/Insurance/Real Estate		16,786
Services		1,880
Other Industries		177
TOTAL ALL INDUSTRIES		35,203

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

TURKEY

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Real GDP	186.7	190.4	200.7
Real GDP Growth (pct)	7.2	7.5	5.0
GDP by Sector:			
Agriculture	30.7	27.6	N/A
Manufacturing	38.5	48.2	N/A
Services	91.8	91.0	N/A
Government	15.3	17.1	N/A
Per Capita GDP (US$)	2,962	3,046	3,162
Labor Force (000s)	23,030	22,359	22,681[2]
Unemployment Rate (pct)	5.8	6.9	6.4[2]
Money and Prices (annual percentage growth):			
Money Supply Growth (nominal M2)	130.3	96	85
Consumer Price Inflation	79.8	99.1	69.7
Exchange Rate (TL/US$ annual average)	81,137	151,239	259,000
Balance of Payments and Trade:			
Total Exports FOB	23.22	26.3	28.1[3]
Exports to United States	1.64	2.02	1.60[4]
Total Imports CIF	43.63	48.59	38.1[5]
Imports from United States	3.52	4.35	2.93[4]
Trade Balance	−19.42	−21.32	−16.7[6]
Balance with United States	−1.6	−1.6	−1.33[4]
External Public Debt	79.8	92.2	94.5[7]
Fiscal Deficit/GDP (pct)	−8.2	−7.7	−7.2
Current Account Deficit/GDP (pct)	−2.4	−2.5	−2.6
Debt Service Payments/GDP (pct)	6.4	6.5	8.8
Gold and Foreign Exchange Reserves[8]	25.0	27.2	31.0
Aid from United States	0.36	0.31	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Unless otherwise indicated, 1998 figures are estimates based on available monthly data in November.
[2] 96 and 97 figures are as of October; 98 figure is as of April.
[3] Total exports for 1998 (January-December). Turkish Exporters Union estimate.
[4] As of July 1998.
[5] Imports from January through October. Source: State Statistics Institute.
[6] January through October 1998.
[7] As of March 1998.
[8] Includes reserves held by central bank and commercial banks. 1998 figure is embassy estimate for year-end.

1. General Policy Framework

From the establishment of the Republic in 1923 until 1981, Turkey was an insulated, state-directed economy. In 1981 the country embarked on a new course. The government abandoned protectionist policies and opened the economy to foreign trade and investment. The state gave up much of its role in directing the economy and abolished many outdated restrictions on private business. These reforms unleashed the country's private sector and have brought impressive benefits. Since 1981, Turkey's average 5.2 percent real GNP growth rate has been the highest of any OECD country. In terms of market opening, Turkey's efforts reached a new stage in January, 1996 with the inauguration of a customs union with the European Union. Turkey has now harmonized nearly all of its trade and industrial policies with those of the EU. Turkey has already begun to reap benefits from the customs union, particularly in terms of improved economic efficiency, which have had a positive impact on overall U.S. exports to and investments in Turkey. The long-term consequences of the customs union should be very favorable, particularly in terms of trade creation and investment.

Despite the impressive reforms introduced since 1981, Turkey continues to suffer from an inefficient public sector and weak political leadership. These factors, combined with a high domestic debt interest burden and the private sector's ingrained high inflation expectations, constrain higher growth rates. Consumer price index inflation has averaged about 78 percent since 1988, but dropped to 69.7 percent in 1998. In 1994, government attempts to manipulate interest rates triggered a financial crisis and forced the government to introduce a tough austerity program. The sharp 1994 recession was Turkey's worst since World War II. The economy bounced back strongly, however, growing by over 8 percent in 1995, and over 7 percent in 1996 and 1997. Strong export growth sparked a surge in imports of raw materials and intermediate and capital goods through mid-1998, as did the elimination of import duties and surcharges for most EU goods which accompanied the introduction of the customs union on January 1, 1996.

After declining in 1994 and 1995, the budget deficit and public sector borrowing requirement both rose significantly in 1996 and 1997, reflecting in part the cost of the 1995 elections and populist economic measures introduced by successive Turkish governments. The Yilmaz government, in power from July 1997 to November 1998, undertook significant (if gradualist) disinflationary reforms and permitted the central bank to continue its disciplined monetary and exchange rate policies, thus increasing market confidence.

Turkey and the IMF concluded a Staff Monitored Program (SMP) in mid-1998. The government met or exceeded its year-end SMP targets, including achieving a 54.7 percent year-end WPI inflation rate, its lowest since 1991. Further progress in implementing structural reforms could lead to an IMF funding facility or contingency fund in mid-1999. The government has set an ambitious year-end 1999 WPI inflation target of 35 percent as well as a $5 billion privatization target. To date, the Asian and Russian financial crises have not seriously affected Turkey's economy; however, the lingering effects of these crises and any slowdown in the EU or U.S. economies (which take a 70 percent share of Turkey's exports) will restrict Turkey's ability to attract foreign capital or to grow its exports at the desired rate.

Building on significant liberalization of the economy in the mid-1980s, Turkey's private sector has become less dependent on the government. As a result, it has grown at an even faster pace than the overall economy, while it also expanded its share of Turkey's GDP. Turkey's most successful companies are foreign oriented and very competitive. Since 1993, bilateral trade with the United States has expanded more than 50 percent, totaling $6.4 billion at the end of 1997. While Turkish exporters have doubled their value of exports, U.S. companies have also experienced a significant increase in exports to Turkey, expanding both their market share and their overall value of trade. Unfortunately, investment levels remain flat, though significant opportunities remain in the energy and telecommunications sectors for further investments, should the government resolve investor concerns over access to arbitration rights and concerns over contract terms.

2. Exchange Rate Policy

The Turkish Lira (TL) is fully convertible and the central bank follows a stable real exchange rate policy. The rate is essentially market-determined, although the central bank sets a daily reference rate. The bank also intervenes in money markets to dampen short term exchange rate fluctuations and manage the TL's rate of depreciation.

Overvaluation of the TL from 1989–93 was a significant factor in the 1994 financial crisis. As a result, the TL depreciated against the dollar in real terms in 1994. Since then, the central bank has maintained a stable real exchange rate measured against a trade-weighed dollar/German Mark basket.

3. Structural Policies

Since 1980, Turkey has made substantial progress implementing certain structural reforms and liberalizing its trade, investment, and foreign exchange regimes. The resulting rapid economic growth and high rate of private business creation has generated tremendous demand for imported goods, particularly capital goods and raw materials, which together account for over 85 percent of total imports.

The government's failure to complete structural reform measures has constrained private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added. Although many of these firms are profitable, transfers to state firms constitute a substantial drain on the budget. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives (held in check before elections, accelerating after). The government actively supports the agricultural sector through both subsidized inputs and crop support payments.

Turkey and the European Union entered into a customs union on January 1, 1996. Nearly all industrial goods from EU and EFTA countries now enter Turkey duty-free. Turkey has adopted the EU's common external tariff for third countries, which has resulted in significantly lower tariffs for U.S. products. The government has also abolished various import surcharges. As part of the customs union agreement, Turkey has revised its trade, competition, and incentive policies to meet EU standards, which also help U.S. exporters.

4. Debt Management Policies

As of March 1998, Turkey's gross outstanding external debt was $94 billion, 51 percent of which is government debt. Debt service payments in 1998 will amount to an estimated 7.7 percent of GNP (and 36 percent of current account receipts). Turkey has had no difficulty servicing its foreign debt in recent years.

In 1997, Turkey successfully floated $2.8 billion in 10-year Eurodollar and Euromark issues, and in 1998, Turkey floated $2.4 billion in similar issues. As a result, Turkey's domestic debt stock has increased significantly. With the government forced to offer high real interest rates for short periods to attract capital, interest payments have become a large budget burden.

5. Aid

In 1998, the United States ended its support for Turkey through Economic Support Funds and Foreign Military Financing (market-rate loans). In 1998, the United States provided Turkey $4.0 million in assistance under a USAID-funded family planning program, $1.4 million in International Military Education and Training funding, and $500,000 in counter-narcotics assistance. Turkey receives significant grant and loan aid from the European Union, but much of this is on hold as the result of political disputes with Greece.

6. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from 11 percent to 6 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been 6 percent; nearly all these goods now enter Turkey duty-free. There have been very few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. A significant number of U.S. companies have reported that the customs union has benefited them by reducing tariffs on goods they already exported to Turkey from European subsidiaries. The customs union does not cover agricultural trade or services. U.S. exporters have voiced increasing frustration over barriers to agricultural trade, most notably a ban on the import of livestock.

Import Licenses: Import licenses are generally not required for industrial products. The exception is products which need after-sales service (e.g. photocopiers, ADP equipment, diesel generators). Licenses are required for agricultural commodities. In addition, the government requires certification that quality standards are met for importation of human and veterinary drugs and certain foodstuffs. This has posed problems for U.S. exporters. In 1996 the government tightened standards for levels of various toxins found in grain, temporarily halting U.S. grain exports. Discussions with the Ministry of Agriculture successfully resolved the issue.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It normally follows competitive bidding procedures for tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially 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 entry into force of a Bilateral Tax Treaty between the U.S. and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: The U.S.-Turkish Bilateral Investment Treaty (BIT) entered into force in May 1990. Turkey has an open investment regime. There is a screening process for foreign investments, which the government applies on an MFN basis; once approved, firms with foreign capital are treated as local companies. Although Turkey has a BIT with the United States, and despite its membership in international dispute settlement bodies, Turkish courts do not recognize investors' rights to third party arbitration under any contract defined as a concession. This is particularly problematic in the energy, telecommunications and transportation sectors.

7. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and GATT/WTO standards. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits are also available to exporters.

8. Protection of U.S. Intellectual Property

Turkey's intellectual property regime has improved considerably since 1995. After years of complaints from western businesses and governments about weak intellectual property laws and lax enforcement, the Turkish Parliament approved a number of new laws in mid-1995 as part of Turkey's harmonization with the EU in advance of the customs union. The new patent, trademark, copyright and other laws, as well as Turkish acceptance of a number of multilateral intellectual property conventions (see below), have given Turkey a comprehensive legal framework for protecting intellectual property rights. The government has since amended some provisions of these laws to improve their compliance with TRIPS, notably amendments to the Patent Law in 1995. Draft amendments to the Copyright Law awaited parliamentary approval at the end of 1998.

The government is working to implement the new laws, for example by expanding staff in the copyright and patent offices, improving examination procedures for patent and trademark attorneys and educating judges and prosecutors about the requirements of the new law. However, the Turkish judicial system remains overburdened and it will likely be some time before the necessary elements for a smoothly functioning system are fully in place. The government has initiated a number of efforts to educate businesses, consumers, judges, prosecutors and others on the implications of the new laws. As an example, the Culture Ministry (the administrator of copyrights) began a campaign to apply a hologram to software, books and compact disks to distinguish them from pirated copies.

Turkish police and prosecutors are working closely with trademark, patent and copyright holders to conduct raids against pirates within Turkey. A number of seizures have been made, and several cases have been successfully brought to conclusion, although trade associations in the United States have complained the fines and penalties levied are insufficient to deter pirates. Turkish Customs officials have also seized a number of pirated goods at ports of entry.

Although there is still no "pipeline protection," coverage for pharmaceutical products began in January 1999 in accordance with Turkey's Customs Union commitments to the EU. In accordance with the TRIPs agreement's "mailbox" provisions, the Turkish Patent Institute has prepared hundreds of patents (led overwhelmingly by U.S. firms) for issuance on January 1, 1999.

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.

Turkey acceded to a number of international patent and trademark 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.

9. Worker Rights

a. *The Right of Association:* All workers except police and military personnel have the right to associate freely and to form representative unions. Most workers also have the right to strike, but the constitution does not permit strikes among workers employed in the public utilities, petroleum, sanitation, education and national defense sectors, or by workers responsible for protection of life and property. Turkish law requires collective bargaining before a strike. Solidarity, wildcat, and general strikes are illegal. The law on free trade zones forbids strikes for 10 years following the establishment of a free trade zone, although union organizing and collective bargaining are permitted. The high arbitration board settles disputes in all areas where strikes are forbidden.

b. *The Right to Organize and Bargain Collectively:* Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent, a union must represent not only "50 percent plus one" of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor, and it is not practiced.

d. *Minimum Age for Employment of Children:* The constitution and labor laws forbid employment of children younger than age 15, with the exception that those 13 and 14 years of age may engage in light, part-time work if enrolled in school or vocational training. The constitution also prohibits children from engaging in physically demanding jobs such as underground mining and from working at night. The Ministry of Labor enforces these laws effectively only in the organized industrial sector.

In practice, many children work because families need the supplementary income. An informal system provides work for young boys at low wages, for example, in auto repair shops. Girls are rarely seen working in public, but many are kept out of school to work in handicrafts, especially in rural areas. The bulk of child labor occurs in rural areas and is often associated with traditional family economic activity, such as farming or animal husbandry. It is common for entire families to work together to bring in the crop during the harvest. The government has recognized the growing problem of child labor and has been working with the ILO to discover its dimension and to determine solutions. With the passage in 1997 of the eight-year compulsory education program (previously five years were compulsory), the government hopes the number of child workers will be reduced significantly. Children enter school at age 6 or 7 and are required to attend until age 13 or 14.

e. *Acceptable Conditions of Work:* The Ministry of Labor 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 nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		116
Total Manufacturing		581
Food and Kindred Products	183	
Chemicals and Allied Products	91	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	−6	
Transportation Equipment	125	
Other Manufacturing	(1)	
Wholesale Trade		61
Banking		150
Finance/Insurance/Real Estate		7
Services		34
Other Industries		26
TOTAL ALL INDUSTRIES		1,076

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

UKRAINE

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	43.10	44.00	40.76
Real GDP Growth (pct)[2]	−10.0	−3.2	0
GDP by Sector:			
Agriculture	14.50	5.21	4.48
Manufacturing	N/A	14.46	11.80
Services	19.8	20.1	16.7
Government	N/A	N/A	N/A
Per Capita GDP (US$)	854	863	854
Labor Force (millions)	23.2	22.6	N/A
Unemployment Rate (pct)	1.6	3.1	3.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	38.0	39.3	33.2
Consumer Price Inflation	40.0	10.3	29.0
Exchange Rate (Hryvnia/US$ annual average)	1.8	1.9	2.7
Official	1.89	1.85	2.50
Balance of Payments and Trade:			
Total Exports FOB[3]	20.2	15.4	N/A
Exports to United States (US$ millions)[4]	507	414	N/A
Total Imports, CIF[3]	21.2	19.6	N/A
Imports from United States (US$ millions)[4]	394	404	N/A
Trade Balance[3]	−1.0	−4.2	N/A
Balance with United States (US$ millions)[4]	113	10	N/A
External Public Debt/GDP (pct)	19.8	23.8	29.0
Fiscal Deficit/GDP (pct)	6.0	5.6	2.5
Current Account Deficit/GDP (pct)	−2.7	−2.6	−2.8
Debt Service Payments/GDP (pct)	3.5	3.3	N/A
Gold and Foreign Exchange Reserves	2.0	2.4	1.2
Aid from United States (US$ millions)[5]	545.80	369.07	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data through August 1998, or are 1999 forecast. Source: Government of Ukraine.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
[5] Figures are actual FY expenditures. Cumulative budgeted assistance (credits and grants) for FY 92-97 totals approximately $2.46 billion.

1. *General Policy Framework*

Since achieving independence in August 1991, Ukraine has followed a course of democratic development and gradual economic reform. After a period of hyperinflation, it curbed inflation and successfully introduced a new currency, the "hryvnia," in 1995. A tremendous amount of work still lies ahead in the area of economic development and the creation of an economic environment conducive to foreign investment and governed by market forces. Ukraine's economic inheritance from the Soviet Union of a large defense sector and energy-intensive heavy industry has made the transition to a market economy particularly difficult. Ukraine's principal resources and economic strengths include rich agricultural land, significant coal and more modest gas and oil reserves, a strong scientific establishment, and an educated, skilled workforce. Ukraine is an important emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East, and holds great potential for becoming an important new market for U.S. trade and investment. A significant number of both large multinationals and smaller foreign investors are present, although private investment (including U.S. investment) is greatly hampered by overregulation, lack of transparency, high business taxes, and inconsistent application of local law.

Ukraine still has much progress to make in the areas of large scale privatization, tax reform, and contract enforcement. Until recently, the government has had great success in efforts to achieve macroeconomic stability. Inflation, for example, was reduced from a rate of approximately 10,000 percent in 1993 to 10 percent in 1997. Inflation for the first eight months of 1998 was just 5.4 percent. The 1998 world financial instability began to affect Ukraine severely in August, however, after the financial crisis in Russia. This, coupled with indigenous weakness in the Ukrainian economy resulting from the general failure to implement economic reforms aggressively, led to a drop in the hryvnia and jump in some prices, resulting in projected annual inflation for 1998 of at least 15 to 18 percent.

The exchange rate relative to the U.S. Dollar had remained steady within a narrow band in 1996 and 1997, but between August 1 and September 30, 1998, the hryvnia depreciated approximately 40 percent against the dollar before stabilizing. On September 4, the IMF approved an Extended Fund Facility (EFF) for Ukraine worth approximately $2.2 billion. Under the terms of the EFF, Ukraine must accelerate economic reform and significantly reduce its budget deficit (see Section 4).

Ukraine's budget deficit has largely been the result of excessive spending on social programs and subsidies to both noncompetitive industries and private consumers, coupled with inadequate revenue collection. Financing was achieved through a combination of issuance of T-Bills to domestic and foreign borrowers, borrowing from the National Bank of Ukraine (NBU), assistance from international financial institutions (IFIs), and accumulation of wage and pension arrears. With the onset of the Russian financial crisis in August, however, the market for government debt has largely dried up, and the government has had to rely increasingly upon credits from IFIs, especially the IMF and World Bank. Ukraine has followed a relatively strict monetary policy for the past several years as part of its effort to control inflation and maintain the value of the hryvnia. In the fall of 1998, it began efforts to reduce liquidity through raising bank reserve requirements and increased control of foreign exchange operations.

2. Exchange Rate Policy

In September 1998, the NBU established a new official currency exchange band range of 2.5 to 3.5 hryvnia per dollar, with the maximum permissible difference between the official and legal street rate limited to five percent. All businesses in Ukraine, foreign or domestic, were barred from making advance payment on import contracts, and commercial banks were forbidden to give residents credits in foreign currency. In early September, the NBU imposed a mandatory sale of 75 percent of enterprises' hard currency earnings, though this figure was reduced within two weeks to 50 percent. At the same time, the ability of private banks to purchase foreign currency was significantly restricted; the NBU closed the interbank market for foreign exchange, forcing all FOREX transactions onto the official market, where it exercised stringent oversight.

Such restrictions, particularly the prohibition against advance payment for imports, have produced significant hardships for U.S. firms doing business with Ukraine. U.S. exporters are reluctant to ship goods without prior payment, while U.S. businesses operating in Ukraine (many of which are highly dependent on imports) have had difficulties in obtaining materials necessary for their operations. The NBU has stated its intention to relax these restrictions when circumstances permit.

3. Structural Policies

There are no pricing requirements for consumer goods in Ukraine. Stiff import tariffs and VAT taxes, along with the small number of suppliers of Western products in Ukraine, tend to keep prices of imported goods high. At the beginning of the Russian financial crisis, the Ukrainian Government imposed price controls on some fuel products.

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment and business development. Personal income and social security taxes remain very high. Combined payroll taxes were reduced by Presidential Decree from 48.5 percent to 37.5 percent effective January 1, 1999. Tax filing and collection procedures do not correspond to practices in Western countries. Import duties and excise taxes are often changed with little advance notice, giving foreign investors little time to adjust to new requirements.

The regulatory environment is chaotic and Ukraine's product certification system is one of the most serious obstacles to trade, investment, and ongoing business. Procedures for obtaining various licenses are complex and unpredictable, significantly raising the cost of doing business in Ukraine, and encouraging corruption and the development of the shadow economy.

4. Debt Management Policies

Ukraine's foreign debt stood at nearly $11 billion in late 1998. The largest amount (approximately $4 billion) is owed to Russia and Turkmenistan, primarily for past trade credits for deliveries of gas, which have been rescheduled into long-term state credits. Ukraine owes about $4.5 billion to international financial institutions and bilateral export credit agencies. Debt service as a percent of GDP was a little over three percent in 1997. This figure for 1998 is not available but is expected to be higher due to significant payments on T-Bills.

On September 4, 1998, the IMF approved a three year, $2.2 billion Extended Fund Facility (EFF) intended to overcome balance of payments difficulties stemming from macroeconomic imbalances and structural problems. Monthly disbursements under the EFF are conditioned on Ukraine pursuing more aggressive economic reform, and maintaining foreign reserve levels and a low budget deficit. In September, the World Bank approved credits worth $900 million for specific projects in agriculture, the coal industry, financial reform, and enterprise development, with disbursements tied to sectoral reform and compliance with the requirements of the EFF.

Also in September, the government rescheduled several hundred million dollars worth of debt due foreign holders of T-Bills. T-Bill holders who had also purchased currency hedges were repaid 20 percent of the amount due up front, with the remainder payable in two year, dollar-denominated Eurobonds. T-Bill holders without currency hedges received 100 percent of the value in two year, dollar-denominated Eurobonds. Those T-Bill holders who refused this arrangement were paid in hryvnia the full amount due. In October, the government rescheduled a $110 million debt arranged by Chase Manhattan, paying 25 percent in dollars immediately and the remainder in two year Eurobonds.

5. Aid

Ukraine is one of the leading recipients of U.S. assistance. The FY98 Foreign Assistance Act set aside $225 million for Ukraine, focused on economic reform and privatization, business development, energy and environment (including nuclear safety/Chernobyl), democracy and local government, legal reform, and health and social development. In addition, around $100 million in other U.S. funding went for exchange programs, Peace Corps, transport of humanitarian supplies, and the Nunn-Lugar Cooperative Threat Reduction Program.

U.S. assistance also reaches Ukraine indirectly through international financial institutions. As stated above, in September 1998, the International Monetary Fund approved a three year, $2.2 billion Extended Fund Facility designed to promote fiscal reform, financial stabilization, and the accelerated development of a market economy. Major World Bank loans promote agricultural reform, privatization, modernization of the financial sector, and reform in the energy sector. The European Bank for Reconstruction and Development is expanding its role in financing small business development (in conjunction with USAID), and is considering a major role in the nuclear sector, including in improvement of safety at Chernobyl and the possible completion of new nuclear reactors.

6. Significant Barriers to U.S. Exports

The daunting menu of a VAT (20 percent), import duties (ranging from 5 to 200 percent) and excise taxes (10 to 300 percent) present a major obstacle to trade with Ukraine. A limited number of goods, including raw materials, component parts, equipment, machinery, and energy supplies imported by commercial enterprises for "production purposes and their own needs" are exempted from VAT. Many agricultural enterprises are also exempt from the VAT.

Import duties differ and largely depend upon whether a similar item to that being imported is produced in Ukraine; if so, the rate may be higher. Goods subject to excise taxes include alcohol, tobacco, cars, tires, jewelry, and other luxury items. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for importing products. The customs value, however, is fixed at a minimum amount for a number of items, such as used cars.

The significant progress made in the last few years on economic stabilization and the reduction in inflation have improved conditions for U.S. companies in Ukraine. However, foreign firms need to develop cautious and long term strategies which take full account of the problematic commercial environment. The underdeveloped banking system, poor communications networks, difficult tax and regulatory climate, increasing occurrences of crime and corruption, limited opportunities to participate in privatization, and lack of a well-functioning legal system impede U.S. exports to and investment in Ukraine.

Ukraine's domestic production standards and certification requirements apply equally to domestically produced and imported products. Product testing and certification generally relate to technical, safety and environmental standards as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at the company's expense. 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 receive preferential custom rates if the following three criteria are met: (1) the company is registered in the United States; (2) the goods have a certificate to prove U.S. origin; and (3) the goods are imported directly from the United States. There are no special registration or other requirements, according to the State Customs Committee. Duties on goods imported for resale are subject to varying ad valorem rates. Imported goods are not considered legal imports until they have been processed though the port of entry and cleared by Ukrainian customs officials. Import licenses are required for very few goods, primarily medicines, pesticides, and some industrial chemical products.

7. Export Subsidies Policies

As part of its effort to cut the budget deficit, the government has significantly reduced the amount of subsidies it provides to state owned industry over the last several years. Nonetheless, subsidies remain an important part of Ukraine's economy, particularly in the coal and agriculture sectors. These subsidies, however, appear not to be specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition to a market-based economy. The government does not target export subsidies specifically to small business. (Ukrainian exporters, however, now enjoy a number of tax benefits, such as the VAT applied at a zero rate.) Ukraine's subsidy policy may change in the context of its negotiations to join the World Trade Organization (WTO). The country's sixth WTO Working Party meeting was held in the summer of 1998. Ukraine has tabled WTO market access offers for both goods and services, though its accession process is proceeding slowly.

8. Protection of U.S. Intellectual Property

Ukraine is a member of the World Intellectual Property Organization, the Paris and Madrid Conventions, and a party to the Patent Cooperation Treaty, the Universal Copyright Convention, and the Berne Convention. It has also established a comprehensive legislative system for the protection of Intellectual Property Rights (IPR). Enforcement of IPR legislation is weak, however. Estimates are that over 90 percent of computer software in Ukraine is pirated, and piracy of video and audio recordings is widespread. On May 1, 1998, Ukraine was placed on the USTR's "Special 301" Watch List because of substantial losses to U.S. industry caused by copyright piracy. There is no data available concerning infringement of trademarks in Ukraine.

9. Worker Rights

a. *The Right of Association:* The constitution provides for the right to join trade unions to defend "professional, social and economic interests." Under the constitution, all trade unions have equal status, and no government permission is required to establish a trade union. The 1992 Law on Citizens' Organizations (which includes trade unions) stipulates noninterference by public authorities in the activities of these organizations, which have the right to establish and join federations on a voluntary basis. In principle, all workers and civil servants (including members of the armed forces) are free to form unions. In practice, the government discourages certain categories of workers, for example, nuclear power plant employees, from doing so. The successor to the Soviet trade unions, known as the Federation of Trade Unions (FPU), has begun to work independently of the government and has been vocal in advocating workers' right to strike. Independent unions now provide an alternative to the official unions in many sectors of the economy. The constitution provides for the right to strike "to defend one's economic and social interests." The constitution also states that strikes must not jeopardize national security, public health, or the rights and liberties of others.

b. *The Right to Organize and Bargain Collectively:* The Law on Enterprises states that joint worker-management commissions should resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level. Overlapping spheres of responsibility frequently impede the collective bargaining process. The government, in agreement with trade unions, establishes wages in each industrial sector and invites all unions to participate in the negotiations. The Law on Labor Disputes Resolution that came into force in March 1998 provides for establishment of an arbitration service and a National Mediation and Reconciliation Service to mediate in labor disputes. These services, however, have not yet been established. The manner in which the collective bargaining law is applied prejudices the bargaining process against the independent unions and favors the official unions. The collective bargaining law prohibits antiunion discrimination, but there have been cases in which such disputes have not been settled in a fair and equitable manner.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits compulsory labor, and it is not known to occur. The government does not specifically prohibit forced and bonded labor by children, although, the constitution and the Labor Code prohibit forced labor generally, and such practices are not known to occur. Human rights groups described as compulsory labor the common use of army conscripts and youths in the alternative service for refurbishing and building private houses for army and government officials. Student groups have protested against a Presidential Decree obliging college and university graduates, whose studies have been paid for by the government, to work in the public sector at government-designated jobs for three years or to repay fully the cost of their education.

d. *Minimum Age for Employment of Children:* The government does not specifically prohibit forced and bonded labor by children. The minimum employment age is 17 years. In certain non-hazardous industries, however, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent.

e. *Acceptable Conditions of Work:* The Labor Code provides for a maximum 40-hour workweek, a 24-hour day of rest per week, and at least 24 days of paid vacation per year. The law contains occupational safety and health standards, but these are frequently ignored in practice. In 1997, 1,646 people were killed and 51,888 injured in accidents at work, with an equally high figure projected for 1998. In theory, workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. Independent trade unionists have reported, however, that asserting this right would result in retaliation or perhaps dismissal by management.

f. *Rights in Sectors with U.S. Investment:* Enterprises with U.S. investment frequently offer higher salaries and are more observant of regulations than their domestic counterparts. Otherwise, conditions do not differ significantly in sectors with 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		−4
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	−4	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		(2)

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

UNITED KINGDOM

Key Economic Indicators

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

	1996	1997	1998[2]
Income, Production and Employment:			
Nominal GDP	1177.2	1[illegible]23.2	1390.2
Real GDP Growth	2.6	3.5	2.5
GDP by Sector:[3]			
Agriculture	18.6	17.8	N/A
Industry	254.2	271.7	N/A
Services	715.2	819.8	N/A
Government	61.1	64.2	N/A
Per Capita GDP (US$)	20,019	22,289	23,483
Labor Force (millions)	28.5	28.6	28.7
Unemployment Rate (pct)	8.2	7.1	6.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M4)	9.4	8.1	N/A
Consumer Price Inflation	3.5	2.4	2.7
Exchange Rate (US$/BPS)	1.56	1.64	1.65
Balance of Payments and Trade:[4]			
Total Exports FOB	261.1	283.5	270.1
Exports to United States[5]	31.0	36.4	28.7
Total Imports FOB	281.6	302.9	299.6
Imports from United States[5]	29.0	32.7	33.2
Trade Balance	−20.4	−19.5	−28.8
Balance with United States[5]	2.0	3.7	4.4
External Public Debt	28.0	21.4	20.9
Fiscal Deficit/GDP (pct)	4.0	2.0	0.8
Current Account/GDP[6]	−0.5	−0.1	N/A
Debt Service/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	46.3	38.4	35.3
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Converted from British Pound Sterling (BPS) at the average exchange rate for each year.
[2] 1998 figures estimated from data available through September, unless otherwise indicated.
[3] Gross value added at current basic prices, converted by average annual exchange rate. "Industry" includes mining as well as manufacturing; "services" includes construction, utilities, health, education and social services; "government" reflects only public administration and defense. No sectoral data is available for 1998.
[4] Merchandise trade, converted at average exchange rate for the applicable year; 1998 numbers extrapolated from data through July.
[5] Source: U.S. Department of Commerce (USDOC) and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on USDOC data available for January-October.
[6] Current prices.
Sources: UK Office for National Statistics, Bank of England.

1. General Policy Framework

The United Kingdom has the sixth largest economy in the industrialized world, with a GDP of about $1.2 trillion in 1997. The UK's 58 million inhabitants live in an area the size of New York and Pennsylvania. Per capita income was about $22,300 in 1997.

In May 1997, the Labor Party won an overwhelming parliamentary majority, ending 17 years of Conservative government. The new Prime Minister, Tony Blair, inherited an economy still expanding from the 1990-92 recession; Gross Domestic Product (GDP) grew 2.6 percent in 1996 and 3.5 percent in 1997. Growth began slowing this year as tighter monetary and fiscal policy combined with a stronger pound and faltering global economy to put the brake on exports. Economic growth is expected to be about 2.5 percent for the year, declining to 1.0 percent for 1999. Underlying inflation averaged 2.8 percent in 1997, is expected to be 2.6 percent in 1998 and is forecast at 2.5 percent in 1999. Unemployment has fallen significantly, reaching 6.3 percent in August 1998, down from a high of 10.3 percent in 1993.

Fiscal Policy: The government has pledged to adhere to a "Code for Fiscal Stability," balancing current government receipts and expenditures over the economic cycle. The deficit declined from eight percent of GDP in 1993 to two percent in 1997, and is expected to be just under one percent in 1998. In its November 1998 "Pre-Budget," the government said current receipts would exceed current expenditures by 5.5 billion pounds this fiscal year, adding that it expects a "current surplus" of one billion pounds next fiscal year despite the slowdown.

Tax Policy: The new government promised during the campaign not to raise the personal income tax rate (now between 20 and 40 percent), the VAT (now 17.5 percent), or personal contributions to the UK's social security system. The main corporate tax rate was reduced in July 1997 to 31 percent from 33 percent; the small companies' rate was reduced to 21 from 23 percent. Labor also undertook a controversial measure to tax the windfall gains of privatized utilities; this tax is expected to yield 5.2 billion pounds over three years, which the government will use to help finance its new welfare-to-work program. Other domestic tax revenue sources include excise taxes on alcohol, tobacco, retail motor fuels and North Sea oil production. Some of these taxes were raised this year, and additional energy taxes are being discussed for environmental reasons.

Monetary Policy: The new government has emphasized its commitment to a low inflation policy. In one of its first official acts, it established an inflation target of 2.5 percent and granted the Bank of England independence to set interest rates to achieve this target. (The Bank must explain to the government if inflation varies from the target by more than one percentage point). Base rates were subsequently raised six times, from 6.0 percent in May 1997 to 7.5 percent in mid-1998 before being brought down to 6.25 percent in December 1998.

The UK manages monetary conditions through open market operations by buying and selling overnight funds and commercial paper. There are no explicit reserve requirements in the banking system.

2. Exchange Rate Policy

Since the UK's withdrawal from the EU's Exchange Rate Mechanism (ERM) in January 1993, the pound has floated freely. The sterling appreciated significantly between the beginning of 1996 and mid-1998, with the trade-weighted exchange rate (1990=100) rising from a low of 83.5 to 105.3 during the second quarter of 1998. This has begun to abate, and the index stood at 99.2 on November 5, 1998. The appreciation reflects a variety of factors, including generally higher interest rates in the UK than in Continental Europe, possible concerns about European Economic and Monetary Union (EMU) and the effects of the 1997-98 global financial crisis.

The new Labor government favors joining European Monetary Union in principle, but determined that doing so when the "euro" was launched on January 1, 1999 would not be in the UK's interests. It is undertaking an active program to prepare the economy for EMU, with a view to making a decision on joining early in the next parliament (which must be elected no later than 2002). The decision to join will be based on five economic tests (the most important of which is cyclical convergence), and will be subject to a popular referendum.

3. Structural Policies

The UK economy is characterized by free markets and open competition, and the government promotes these policies within the EU and in other international fora. The UK's relatively low labor costs and labor market flexibility are often credited as major factors influencing the UK's success in attracting foreign investment. However, relatively low manufacturing labor productivity remains a concern.

Prices for virtually all goods and services are established by market forces. Prices are set by the government in those few sectors where it still provides services directly, such as urban transportation. In addition, government regulatory bodies monitor prices charged by telecommunications firms, and set price ceilings for electric, natural gas and water utilities. The UK's participation in the EU Common Agricultural Policy significantly affects the prices for raw and processed food items, but prices in wholesale and retail markets are not fixed for any of these items.

The Labor government inherited an economy that underwent significant structural reforms under the previous administration, which deregulated the financial services and transportation industries and sold the government's interests in the automotive, steel, coal mining, aircraft and aviation sectors. Electric power (except nuclear), rail transport and water supply utilities were also privatized. 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. The current government is expected to continue this approach, although it has instituted a new national minimum wage and union recognition rules, as noted below.

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 government is an active participant in the Paris Club and other multilateral debt negotiations.

5. Significant Barriers To U.S. Exports

Structural reforms and open market policies make it relatively easy for U.S. firms to enter UK markets. The UK does not maintain any barriers to U.S. exports other than those implemented as a result of EU policies. (See the report on the European Union for details.)

The US-UK Bilateral Aviation Agreement is highly restrictive, particularly in limiting the number and access of carriers serving Heathrow Airport and the European destinations beyond UK airports to which U.S. airlines may fly. The U.S. believes the two sides should conclude an Open Skies Agreement, but the UK Government continued to raise objections to this during the last (October 5-7, 1998) negotiating session.

6. Export Subsidies Policies

The government opposes export 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 department for international development (DFID, akin to 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. The UK adheres to the OECD "Arrangement on Officially-Supported Export Credits" to minimize the distortive effects of such programs.

7. Protection of U.S. Intellectual Property

UK intellectual property laws are strict, comprehensive and rigorously enforced. The UK is a signatory to all relevant international conventions, including the Convention establishing the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention, and the Universal Copyright Convention.

New copyright legislation simplified the British process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora are very similar to the U.S. positions.

8. Worker Rights

a. *Right of Association:* Unionization of the work force in Britain is prohibited only in the armed forces, public sector security services, and police force.

b. *Right to Organize and Bargain Collectively:* Nearly 9 million workers, about a third of the work force, are organized. Employers are barred from discriminating based on union membership. New legislation presented in November 1998 will determine under what conditions an employer must bargain with a trade union. Employers are allowed to pay workers who don't join a union higher wages than union members doing the same work.

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. Unions do not have immunity from prosecution for secondary strikes or for actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is not the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets.

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:* A new national minimum wage, established in 1998, will take effect in April 1999. The initial minimum was set at BPS 3.60/hour, based on the recommendations of a tri-partite commission. Daily and weekly working hours are not now limited by law, although the EU directive outlawing mandatory work weeks longer than 48 hours will be implemented under legislation soon to be presented in Parliament.

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. The system is efficient and fully involves workers representatives.

f. *Rights in Sectors with U.S. Investment:* U.S. firms in 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		14,228
Total Manufacturing		38,267
Food and Kindred Products	6,088	
Chemicals and Allied Products	10,038	
Primary and Fabricated Metals	1,479	
Industrial Machinery and Equipment	7,788	
Electric and Electronic Equipment	2,877	
Transportation Equipment	3,223	
Other Manufacturing	6,774	
Wholesale Trade		7,389
Banking		6,886
Finance/Insurance/Real Estate		54,023
Services		7,569
Other Industries		10,402
TOTAL ALL INDUSTRIES		138,765

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

AMERICAS

ARGENTINA

Key Economic Indicators

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

	1996	1997	1998
Income, Production and Employment:			
GDP (at current prices) [2]	291	323	339
Real GDP Growth (pct)	4.3	8.6	5.0
GDP by Sector (pct):			
Agriculture	7.6	7.3	7.2
Manufacturing	24.7	24.7	24.8
Mining	3.0	3.0	2.9
Services	38	38	38.1
Government	9.1	10.3	10.8
Per Capita GDP (US$)	8,300	9,100	9,570
Labor Force (Millions)	14.0	14.0	14.3
Unemployment Rate (pct)	17	16.1	13.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [3]	19.8	26.5	10
Consumer Price Inflation [3]	0.5	0.3	1.0
Exchange Rate (Peso/US$)	1	1	1
Balance of Payments and Trade:			
Total Exports FOB	23.7	26.2	26.5
Exports to United States [4]	2.3	2.2	2.5
Total Imports CIF	23.7	30.4	32.5
Imports from United States [4]	4.5	5.8	6.5
Trade Balance	0.6	−4	−6
Balance with United States [4]	−2.2	−3.6	−4
External Public Debt	87	100	108
Fiscal Deficit/GDP (pct)	−1.8	−1.4	−1.2
Current Account Deficit/GDP (pct)	−1.6	−2.8	−3.7
Debt Service Payments/GDP (pct)	7.2	7.1	7.2
Gold and Foreign Exchange Reserves	16	20	24

[1] Figures for 1998 are embassy estimates.
[2] Nominal GDP is virtually the same in dollars or pesos. In April 1991, when the convertibility plan took effect, the peso was tied to the U.S. Dollar at the rate of one to one.
[3] End of period.
[4] Source: U.S. Department of Commerce and U.S. Census bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through October.

1. General Policy Framework

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. Despite a sharp recession in 1995 due primarily to the Mexican peso crisis, real GDP growth averaged over 6 percent a year from 1991-1997. In 1998, real GDP is expected to grow by more than 5 percent, down from 8.6 percent growth the previous year. Inflation remains low with the annual rate of increase for consumer prices in 1998 expected to be one percent—a major accomplishment given Argentina's bouts with hyperinflation during the last decade. A stable exchange rate and reductions in trade barriers resulted in a boom in imports, particularly from the United States, during 1991-94. In 1998, Argenti-

54-067 99 - 8

na's trade deficit with the United States is projected to be about four billion dollars. Argentina is expected to incur a six billion dollar overall trade deficit in 1998, reflecting strong demand for imports generated by rapid economic growth.

The number of financial institutions in Argentina dropped from over 200 in December 1994 to about 135 by October 1998. In many respects, Argentina's macroeconomic prospects are better than at any time since December 1994. Argentina remains one of the hemisphere's most promising emerging markets.

Argentina's consolidated public sector budget is expected to run a deficit in 1998 of about 4.5 billion dollars—equal to approximately 1.5 percent of GDP. Tax collection has improved, but evasion is a major problem for the government. Still, impressive economic growth and increases in consumption have boosted tax receipts in 1997 and 1998.

2. Exchange Rate Policy

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 the rate of one to one. This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls. Customers may freely buy and sell currency from banks and brokers at market prices.

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 international trade. The government's role in the economy has diminished markedly with the privatization of most state firms. The authorities have also eliminated price controls on almost all goods and services. Still, recurring trade deficits and continued high unemployment have led the government to take some ad hoc protectionist measures.

For example, in 1994 authorities imposed increased "specific" duties on almost all textile and footwear imports, followed in 1995 by increased duties on apparel imports. The government later put in place burdensome certificate-of-origin and labeling requirements on imports of these, and other unrelated products. In February 1997, Argentina repealed the existing "specific" duties on footwear—only to immediately reinstate them under a safeguard investigation. The specific duties were maintained under a final safeguard order issued in September 1997. The United States requested formation of a WTO panel to review Argentina's footwear and textile regimes, as well as the three-percent statistical tax in early 1997. After a WTO panel found that the textile regime and statistical tax violate Argentina's WTO commitments, Argentina cut the statistical rate tax to .5 percent, and set a 35 percent ad valorem cap on the textile duties.

Argentina, Brazil, Paraguay And Uruguay established the Southern Cone Common Market (MERCOSUR) in 1991, and on January 1, 1995, formed a partial customs union with a Common External Tariff (CET) covering approximately 85 percent of trade. The CET ranges from zero to 20 percent. In 1998, MERCOSUR members hiked the CET by three points for most products. The increase is scheduled to expire in 2000. Initially, the government exempted some products from the CET, such as capital goods, informatics and telecommunications, to help support the modernization of the industrial infrastructure. However, in August 1996 tariffs on these items were increased to the MERCOSUR level. As a result, many non-MERCOSUR products entering Argentina now face higher tariffs. Chile signed a free trade agreement with MERCOSUR, effective October 1, 1996, but will not participate in the CET. Bolivia also entered into a similar pact on April 30, 1997. MERCOSUR is also discussing the prospect of a free trade agreement with the Andean community.

Argentina signed the Uruguay Round agreements in April 1994, congress ratified the agreements at the end of 1994, and Argentina became a founding member of the WTO on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the longer term. Debt increased in 1998, rising to almost $110 billion. Argentina is expected to make total debt service (principal and interest) payments of about $15 billion per year through 1999. Interest payments on public debt in 1998 will represent only about two percent of GDP. The turmoil in international financial markets triggered by Russia's devaluation in August 1998 has complicated Argentine access to foreign capital, but there is no indication Argentina will be unable to meet its short term financing needs. Still, Argentina remains vulnerable to financial contagion from Brazil.

5. Significant Barriers to U.S. Exports

One of the key reforms of the Menem administration has been to open the Argentine economy to international trade. The government abolished the import licensing system in 1989 and in 1990 cut the average tariff from nearly 29 percent to less than 10 percent. However, MERCOSUR common external tariff rates are slightly higher, so that Argentina's average tariff is now closer to 14 percent. In August 1996, Argentina raised the tariff on capital goods—which account for over 40 percent of U.S. exports to Argentina—from 10 to 14 percent to boost revenues.

Barriers to U.S. Exports: Despite the generally open market for imports, the authorities occasionally erect protectionist barriers, such as the increase in "specific" duties applied to textiles and footwear in January 1994. In May 1996 the government issued a resolution requiring local generation of a majority of cable TV channels carried by cable and pay television operators in Argentina. The resolution also obliges all operators to register their programming with a government regulatory body. U.S. companies fear the measure will limit the entrance of new foreign channels and programming, but it has had little impact to date on their operations.

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 because of heavy demand that outstrips local production. The government plans to revise the present auto protection scheme by 2000, when a common MERCOSUR auto policy is scheduled to take effect.

Standards: Argentina generally recognizes U.S. and European standards. However, as the government and its MERCOSUR partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products. Under the WTO agreement on technical barriers to trade, Argentina established an "inquiry point" to address standards-related inquiries. While this inquiry point exists formally at the Direccion General de Industria, it is not fully functional at present.

Services Barriers: In January 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

Investment Barriers: There are very few barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange requires no government approval. 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 and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the international center for the settlement of investment disputes or any other arbitration institution mutually agreed by the parties. Several U.S. firms have invoked the treaty's provisions in on-going disputes with Argentine national or provincial authorities over the last year.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement, although "Buy Argentine" 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 cumbersome and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter underinvoicing and "social" dumping, primarily from East Asia. In 1997, the government merged the customs and tax authorities to boost revenue collection and improve efficiency. It instituted a preshipment inspection system in November 1997 to verify the price, quality and quantity of imports. The system is being implemented by six private firms.

6. Exports Subsidies Policies

As a WTO member, Argentina adheres to WTO subsidies obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also maintains an industrial specialization program which allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program will end in the year 2000.

7. Protection of U.S. Intellectual Property

Argentina belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative maintained Argentina on the "Special 301" Priority Watch List. Argentina's lack of patent protection for pharmaceutical products has consistently been a contentious bilateral issue and in 1997 cost Argentina 50 percent of its benefits under the U.S. Generalized System of Preferences (GSP).

Patents: After a three-year conflict between the Argentine Executive and Congress over the issue of patent protection for pharmaceutical products, the Executive issued a March 1996 decree that improves earlier Argentine patent legislation, but provides less protection than that originally proposed. This decree authorizes the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection starting in November 2000. However, there is concern that the government will ultimately delay implementation until 2005 (the TRIPS Agreement allows developing country members that did not previously offer patent protection for pharmaceutical and agrochemical products until January 1, 2005 to implement this protection). The decree does not provide patent protection for products under development, and contains ambiguous language on parallel imports and compulsory licenses. For example, the decree bans parallel imports but allows the import of products that have been licitly placed in commerce in a third country. Compulsory licenses can be awarded in cases of anti-competitive practices or for failure to work a patent.

The decree also does not meet the concerns of the U.S. pharmaceutical industry. In December 1996, the Argentine Congress passed legislation that fails to provide exclusive protection for confidential data submitted by pharmaceutical and agrochemical companies for approval of new products by regulatory authorities. While the government is currently finalizing the 1996 law's implementing regulations, it is unlikely that the government will address U.S. concerns about the law, which permits Argentine competitors to rely on data submitted for product registration in Argentina, the United States, and other countries.

Copyrights: Argentina's Copyright Law, enacted in 1933, appears to be adequate by international standards. An executive decree extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, video piracy is a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In October 1998, the Argentine Congress enacted legislation criminalizing software piracy. The law closes an important gap in Argentina's protection of intellectual property rights. Still, a cumbersome judiciary and lack of police resources continue to hamper enforcement efforts.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secret law as such, laws on contract, labor, and property have recognized and encompassed the concept. 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. Although existing legislation on patents or copyrights could cover this technology conceivably, this has not been verified in practice. 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 and 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 antiunion practices. The trend continued towards bargaining on a company level, in contrast to negotiating at the national level on a sectoral basis, 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 1998.

d. *Minimum Age for Employment of Children:* The law prohibits employment of children under 14, except in rate 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 workday is eight hours, and the workweek is limited to 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,427
Total Manufacturing		4,017
Food and Kindred Products	1,014	
Chemicals and Allied Products	1,563	
Primary and Fabricated Metals	401	
Industrial Machinery and Equipment	24	
Electric and Electronic Equipment	(1)	
Transportation Equipment	345	
Other Manufacturing	(1)	
Wholesale Trade		506
Banking		1,181
Finance/Insurance/Real Estate		1,337
Services		711
Other Industries		588
TOTAL ALL INDUSTRIES		9,766

(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]

	1996	1997	1998
Income, Production and Employment:			
GDP (Current Prices)	3,750	4,000	4,250[1]
Real GDP Growth	4.2	3.0	4.0[1]
GDP by Sector (Percent of total):			
Tourism	50	60	60
Finance	12	12	15
Manufacturing	4	3	3
Agriculture/Fisheries	4	3	3
Government	12	12	12
Other	18	10	7
Per Capita GDP (US$)	11,115	N/A	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998
Labor Force (000s)	148,000	N/A	N/A
Unemployment Rate (pct)	10.0	9.7	N/A
Money and Prices (annual percentage change):			
Money Supply (M1) (pct increase)	0.6	0.14	0.7 [2]
Commercial Interest Rate (pct)	6.75	6.75	6.75
Personal Savings Rate	3.28	3.35	3.28
Retail Price Index	1.4	0.9	0.8
Exchange (US$:BD)	1	1	1
Balance of Payments and Trade:			
Total Exports FOB	N/A	102	N/A
Exports to United States [3]	165.4	165.8	84.4
Total Imports CIF	1261.6	1622	N/A
Imports from United States [3]	725.0	809.9	545.5
Trade Balance	−1059.9	N/A	N/A
Balance with United States [3]	−559.6	−644.1	−461.1
External Public Debt	77.0	90.7	N/A
Debt Repayment	82.6	68.4	85.0
Gold Reserves	N/A	N/A	N/A
Foreign Exchange Reserves	163.0	219.5	323.0 [2]
Aid from United States	0	0	0
Aid from Other Countries	N/A	N/A	N/A

[1] Finance Ministry projection.
[2] As of June 1998.
[3] U.S. Department of Commerce.

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 60 and 15 percent of 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 increased from $725 million in 1996 to $789.6 in 1997 and account for approximately 55 percent of all imports. Although certain areas of economic activity are reserved for Bahamian citizens, the government actively encourages foreign investment in unreserved areas and operates a free trade zone on Grand Bahama. Capital and profits are freely repatriated, and personal and corporate income is not taxed. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The government enacted a policy in the 1995-1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 1998-1999 budget totaling $892.6 million provides for recurring expenditures of $868 million. Overall, the budget emphasized the government's resolve to expand the delivery of priority services such as health care, education, public safety, and tourism and international services promotion, while moving closer to eliminating the deficit on recurrent expenditure by 2001. As a result, the government's focus remains on expenditure restraint, with anticipated revenue increases from economic growth and more efficient collection rather than tax increases.

Recurrent revenue for 1998-1999 is projected at $852 million. The government expects an 8.6 percent growth in tax collections, an 18.3 percent hike in non-tax receipts, a 22 percent hike in proceeds from business and professional licensing, mainly a result of fee increases for International Business Company (IBC) licenses.

The 1998-1999 budget contains no new taxes, other than provisions for an increase from $100 to $250 in annual fees on IBCs with an authorized share capital of up to $50,000, and a hike in license fees for local commercial banks. The government expects these measures to yield an additional $112.5 million in revenue.

The 1998-1999 budget eliminated customs duties for computer software, discs and computer tapes, farming pesticides, jewelry manufacturing items and various medical items, which also benefited from a reduction in stamp levies from 7 percent to

2 percent. In addition, the customs tariff was lowered on chicken, combination TV and radio appliances, combination TV and VCR appliances, and golf carts.

The government believes that the move toward hemispheric free trade by the year 2005 will involve restructuring its revenue sources. As part of its overall strategy to simplify and harmonize customs import duties, the government consolidated the current 123 separate import duty rates to 29 rates as of July 1, 1997. Rates will also be reduced or eliminated on a variety of imported goods, ranging from construction materials (nails, cement, sheetrock, plywood, etc.) to computers and computer parts, musical instruments and consumer electronic appliances. The government hopes to recover these lost revenues through increased collection enforcement, reduced administrative costs, increased business generation and enhanced local purchasing.

The commercial bank's prime lending rate remained at 6.75 percent.

2. Exchange Rate Policy

The Bahamian Dollar is pegged to the U.S. Dollar at an exchange rate of 1:1, and the Bahamian Government recently repeated its long-standing commitment to maintain parity.

3. Structural Policy

Price controls exist on 13 bread basket items, as well as gasoline, utility rates, public transportation, automobiles, and auto parts. The rate of inflation is estimated at 0.8 percent as of June 1998.

The Bahamas is recognized internationally as a tax haven. The government does not impose personal or corporate income, inheritance or sales taxes. In the 1995-1996 budget, the government lowered taxes and reduced the stamp duty on various tourism related items including: liqueurs and spirits, jewelry and watches, perfumes, toilet water, table linens, and non-leather designer handbags. The government hopes this measure will increase the country's competitive edge in the tourism sector and expects merchants to pass these savings on to tourists. These concessions should safeguard employment in retail trade catering to tourists and promote price competitiveness of goods in the Bahamian market. The rate of stamp duty on cigarettes was also lowered.

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 government repealed the Immovable Property (Acquisition by Foreign Persons) Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country, and replaced it with the Foreign Persons (Landholding) Act. Under the new law, approval is automatically granted for non-Bahamians to purchase residential property of less than five acres on any single island in the Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina.

The new law also provides for a two-year real property tax exemption for foreign persons acquiring undeveloped land in The Bahamas for development purposes, provided that substantial development occurs during those two years. The property tax structure for foreign property owners is as follows:

—$1–$3,000: the standard tax is $30.00.
— $3,001–$100,000: tax is 1 percent of the assessed value.
— over $100,000: tax is 1½ percent of the assessed value.

This new legislation has stimulated the second home/vacation home market and revived the real estate sector. In addition, the government lowered the rate of stamp duty on real estate transactions in the 1995-1996. The reduction ranges from two percent on transactions under $20,000 to eight percent on transactions over $100,000.

To increase revenues, the airport departure tax was raised from $13 to $15 per person in 1993. The harbor departure tax was lowered from $20 to $15 per person effective April 1, 1992 because of protests from ship operators.

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.

On April 30, 1998 Prime Minister Hubert Ingraham officially launched the new Bahamas Financial Services Board, a joint private and public sector board dedicated to promoting The Bahamas as a financial services center.

The Bahamas Investment Authority, a "one-stop shop" for foreign investment, was established in 1992, comprising the Bahamas Agricultural and Industrial Corporation and the Financial Services Secretariat. The Authority facilitates and coordinates local and international investment and provides overall guidance to the government on all aspects of investment policy.

Other measures providing trade and investment incentives include:

—The International Business Companies Act, simplifying procedures and reducing costs for incorporating companies;
—The Industries Encouragement Act , providing duty exemption on machinery, equipment, and raw materials used for manufacturing;
—The Hotel Encouragement Act, granting refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels;
—The Agricultural Manufacturers Act, providing exemption for farmers from duties on agricultural imports and machinery necessary for food production;
—The Spirit and Beer Manufacturers Act, granting duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in production;
—and, the Tariff Act, granting 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 Casino Taxation Act was amended in October 1995 to allow for the establishment of small scale casinos through the reduction of the basic tax and winnings tax rates for casinos of less than 10,000 square feet. The basic tax was reduced from $200,000 to $50,000 for casinos with floor space of less than 5,000 square feet. The tax rises to $100,000 for casinos of 5,000-10,000 square feet. Unlike the winnings tax rate for traditional casinos (25 percent of the first $20 million), small casinos pay a progressive winnings tax rate of 10 percent on the first $10 million of gross winnings, and 15 percent thereafter.

4. Debt Management Policies

From the end of 1992 to the end of 1997, total national debt had grown from $1.3 billion to $1.67 billion, an increase of $389 million or 30 percent. Debt amortization amounted to $85 million, with $47.4 million applied towards internal domestic and foreign currency obligations and $83.6 million to external debt.

5. Significant Barriers to U.S. Exports

The Bahamas is a $700 million market for U.S. companies. There are no significant non-duty 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.

The Ministry of Agriculture imposed a ban on banana imports in October 1995, creating a monopoly for locally grown bananas. The ban has been extended to include other varieties of produce for which the ministry determines that demand can be met by local farmers (e.g. Christmas poinsettias, romaine lettuce, yellow squash, and zucchini). In June 1996, the ministry announced a ban on the importation of fruits, vegetables, flowers, plants or other propagate materials from Caribbean countries unless the Department of Agriculture is assured that the country is free of the pink (or hibiscus) mealy bug. Shipments must be accompanied by a phytosanitary certificate issued by the Ministry of Agriculture in the country of origin. The ministry continues to enforce its ban on imports of citrus plants and fruit from Florida, imposed in 1995 because of reported outbreaks of canker disease. Imports of citrus plants are permitted from states other than Florida.

6. Export Subsidies Policies

The Bahamian Government does not provide direct subsidies to export-oriented industries, although state-owned companies such as Bahamas Air and the Broadcasting Corporation of The Bahamas receive regular infusions of public money. The Export Manufacturing Industries Encouragement Act provides exemptions from duty for raw materials, machinery, and equipment to approved export manufacturers. The approved goods are not subject to any export tax.

7. Protection of U.S. Intellectual Property

The Bahamas belongs to the World Intellectual Property Organization (WIPO) and is a signatory to the Paris Convention, Berne Convention, and the Universal Copyright Convention.

Copyrights: The majority of videos available for rent are the result of unauthorized copying of videotapes from promotional tapes provided by movie distributors, U.S. hotel "pay-for-view" movies and shows, or satellite transmissions. It is doubtful that pirated videotapes are exported. In May 1997, the government passed a bill to amend the Copyright Act to provide for payment of equitable royalties to copyright owners (particularly Bahamian musicians) for works broadcast on radio and television. In September 1997, a local radio station was ordered to pay copyright damages to the Performing Rights Society of London for failing to enter a defense in an action accusing the station of breach of copyright laws.

8. Worker Rights

a. *Right of Association:* The constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *Right to Organize and Bargain Collectively:* Workers are free to organize, and collective bargaining is extensive for the estimated 25 percent of the work force who are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. In addition, the government established the Industrial Tribunal in 1997 to handle labor 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 16 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, generally after school hours. 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. However, in 1996 the government instituted a minimum wage of $4.12 an hour for non-salaried public service employees. Parliament is considering a new Minimum Labor Standards Act which will cover employees in both the public and private sectors. This act contains new guarantees of employees rights to paid vacations, sick leave, redundancy payments and protection against unfair dismissal.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. The ministry normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		57
Total Manufacturing		80
Food and Kindred Products	0	
Chemicals and Allied Products	71	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	-3	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	12	
Wholesale Trade		164
Banking		-297
Finance/Insurance/Real Estate		1,434
Services		28
Other Industries		51
TOTAL ALL INDUSTRIES		1515

(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]

	1996	1997	1998
Income, Production and Employment:			
Nominal GDP	7,355	7,647	8,213
Real GDP Growth (pct)	4.1	4.2	4.7
GDP by Sector (pct share):			
Agriculture	N/A	14.9	15.3
Manufacturing	16.7	16.8	16.7
Services	27.6	30.3	29.8
Government	9.1	9.1	9.8
Per Capita GDP (US$)	935	969	1,033
Labor Force (millions)	2.2	2.4	2.5
Unemployment Rate (pct) [2]	3.6	4.1	5.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	20.4	25.6	27.4
Consumer Price Inflation	8.0	7.0	6.7
Average Exchange Rate (Bs/US$)	5.09	5.26	5.50
Balance of Payments and Trade:			
Total Exports FOB	1,192	1,134	1,240
Exports to United States FOB [3]	263	275	223
Total Imports CIF	1,536	1,810	1,920
Imports from United States CIF [3]	213	269	295
Trade Balance	-345	-677	-680
Balance with United States [3]	50	6	-72
External Public Debt	4,900	4,600	4,800
Fiscal Deficit/GDP (pct)	1.9	3.3	4.2
Current Account Deficit/GDP	-5.1	-7.4	-7.7
Debt Service Payments/GDP (pct)	4.4	4.1	4.2
Gold and Foreign Exchange Reserves	644	951	1007
Aid from United States [3]	90	84	120

Key Economic Indicators—Continued

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

	1996	1997	1998
Aid from All Other Sources[4]	453	530	468

[1] UDAPE, National Institute of Statistics, Central Bank of Bolivia (INE) and embassy projection.
[2] For urban areas; data does not consider underemployment.
[3] Sources: U.S. Census Bureau and embassy estimates.
[4] Aid obligated.

1. General Policy Framework

Sixteen years after its return to democracy, Bolivia continues to consolidate a series of structural reforms that further orient the economy to the demands of the market and encourage greater efficiency by exposing it to increasing international competition. Parallel reforms in the judicial system promise to create a more reliable rule of law in the coming years.

The foundation of this new economic system was the "capitalization"/privatization of five large state-owned corporations and the establishment of a regulatory system to monitor the functioning key sectors. The capitalization program has succeeded in promoting steady rates of growth of private investment and savings, principally from the United States and in the hydrocarbons sector. This investment portends enhanced prospects for economic growth in the coming years. The government projects that the economy will grow by 4.7 percent in 1998, with inflation in consumer prices dropping to about 6.5 percent.

Macroeconomic indicators have improved steadily since the government undertook stabilization and structural reforms in the mid-1980s. Commercial bank deposits have doubled since 1991, to over $3.4 billion (September 1998). Persistent trade deficits since 1991 have been offset by large inflows of foreign assistance and private investment, allowing official foreign exchange reserves to grow to $1.0 billion (September 1998), equal to about eight months of imports. Despite continuing improvements in tax collection, the budget deficit of the non-financial public sector increased to 3.3 percent in 1997 and to about 4.1 percent in 1998, largely a result of pension reform.

The money supply (M1) has grown steadily since 1991, with M1 now averaging around 11 percent of GDP. Total liquidity represents approximately 43 percent of the GDP. The published figures for money in circulation are misleading, however, since there are billions of U.S. dollars in circulation side-by-side with the local currency, the Boliviano. Dollars are a legal means of exchange, and contracts can be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, at the end of September 1998 nearly 89 percent of the $3.4 billion of deposits in the Bolivian financial system was denominated in dollars.

Low rates of inflation at home and abroad have helped to lower interest rates. In September 1998 the average rate paid on dollar deposits was 7.8 percent, and the average rate charged on dollar loans was 15.3 percent. Increased bank competition and new foreign investment in the sector will likely cut financial spreads, making credit still cheaper in the near-term.

2. Exchange Rate Policy

There are no restrictions on convertibility or remittances. The official exchange rate is set by a daily auction of dollars managed by the central bank. Through this mechanism the central bank has allowed the Boliviano to depreciate slowly to preserve its purchasing power parity. The rate in the parallel market closely tracks the official exchange rate. The official exchange rate fell with respect to the dollar by 4.8 percent in 1996, 3.3 percent in 1997 and about 4 percent in 1998 (through the end of September.)

3. Structural Policies

A variety of laws have liberalized the economy significantly since the sea change seen in Bolivia's economic policies in the mid-1980s. In 1990 the government simplified tariffs to five percent for capital goods and 10 percent for all other imports. The government charges a 13 percent value-added tax and a three percent transaction tax, whether imported or produced domestically. There are also excise taxes charged on some consumer products. No import permits are required, except for the import of arms and pharmaceutical products.

The 1990 Investment Law guarantees inter alia the free remission of profits, the freedom to set prices and full convertibility of currency. It essentially guarantees national treatment for foreign investors and authorizes international arbitration. An Arbitration Law was enacted in 1996.

The 1996 Hydrocarbons Law authorized YPFB (the petroleum parastatal) to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. A subsequent law deregulated hydrocarbon prices, establishing international prices as their benchmarks. A recent Mining Law taxed profits and opened up border areas to foreign investors so long as Bolivian partners hold the mining concession. Most mining taxes can be credited against U.S. taxes.

Subsequent to the enactment of a new Banking Law, the government enacted a new financial law—the Law of Property and Popular Credit—in 1998 which changed the institutional set-up of the financial regulatory bodies. It also provided for improved prudential regulation for all types of financial institutions and promoted stability in the financial system while also inducing greater competition and efficiency.

4. Debt Management Policies

The Bolivian Government owes about $4.3 billion to foreign creditors (end-September 1998). Two-thirds of this amount is owed to international financial institutions (principally the Inter-American Development Bank, the World Bank and the Andean Development Corporation); almost one-third is owed to foreign governments, and less than 0.6 percent is owed to private banks. Bilateral debt payments have been rescheduled six times by the Paris Club, and several foreign governments have forgiven substantial amounts of the bilateral debt unilaterally. In 1998 Bolivia entered into the Highly Indebted Poor Country (HIPC) program, which will reduce this stock by approximately $460 million in present value terms over the life of the agreement.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia. The Bolivian Export Law prohibited the import of products that might affect the preservation of wildlife, particularly nuclear waste. Bolivia became a member of the World Trade Organization (WTO) in September 1995.

The Investment Law essentially guarantees national treatment for foreign investors. The one real barrier to direct investment—a prohibition on foreigners holding mining concessions within 50 kilometers of the border—is applied uniformly to all foreign investors. Bolivians with mining concessions near the border, however, may have foreign partners as long as the partners are not from the country adjacent to that portion of the border, except if authorized by law. There are no limitations on foreign equity participation.

The governments of the United States and Bolivia signed a Bilateral Investment Treaty during the Summit of the Americas in Santiago in April 1998. It will come into effect after the U.S. Senate ratifies it, and the Bolivian Government fulfills a side agreement which requires that it first bring its laws into compliance with the WTO's TRIPS.

6. Export Subsidies Policies

The government does not directly subsidize exports. The 1993 Export Law replaced a former drawback program with one in which the government grants rebates of all domestic taxes paid on the production of items later exported.

7. Protection of U.S. Intellectual Property

Bolivia belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, and the Nairobi Treaty. In 1998, the U.S. Trade Representative placed Bolivia on the "Special 301" Other Observations list.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia. However, there have been some recent positive developments: the government has just created a National Service of Intellectual Property that for the first time will unify the administration of patents, trademarks, copyrights, and other intellectual property. Earlier, the government enacted a Copyright Law that, with some key modifications now being considered in Congress, should create the proper legal environment to promote IPR protection. The government is presently drafting a new Intellectual Property Law that will bring Bolivia's protection for IPR up to the standards specified in the WTO TRIPs Agreement. Creating awareness in the judiciary and among the public of the rights of IPR holders is the next challenge.

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 union per enterprise and allows the government to dissolve unions; the code, however, has not been strictly enforced in recent years. While the code denies civil servants the right to organize and bans strikes in public services, 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; in fact, approximately one-half of the workers in the formal economy—or about 15 percent of all workers—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 does it impose penalties.

The COB's numerous strikes to protest the government's economic reforms are receiving decreased support. The COB demonstrations that habitually have disrupted public order in major cities have been largely absent in 1997 and 1998. The leadership of the urban teachers union—the most aggressive affiliate within the COB—has conducted several strikes lasting days in opposition to the government's ongoing efforts at educational reform.

Unions are not free from influence by political parties. Most parties have labor committees that try to sway union activity, causing fierce political battles within unions. Most unions also have party activists as members.

The Labor Code 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. Collective bargaining (voluntary direct negotiations between unions and employers without participation of the government) is limited but growing.

The COB contends that it still is the exclusive representative of all Bolivian workers. Consultations between government representatives and COB leaders are common but have little effect on wages or working conditions. Major structural reforms have further eroded the COB's legitimacy as the sole labor representative. Private employers may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. These adjustments, however, usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the COB.

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 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 unregulated apprenticeship of children, 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 Code prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. It permits apprenticeship for those 12 to 14 years of age; it is ambiguous, however, on conditions of employment for minors aged 14 to 17, a practice which has been criticized by the International Labor Organization. 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; when so employed, however, they often work the same hours as adults. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but they generally are not enforced.

The past two governments attempted to revise the Labor Code but desisted in the face of COB opposition. The present government is obliged to legislate reforms to the Code—including greater labor flexibility—by mid-1999 under the terms of the HIPC.

e. *Acceptable Conditions of Work:* The Law establishes a minimum wage Bs 300 per month (approximately $54), bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers earn more. Its economic importance resides in the fact that certain benefit calculations are pegged to it. The minimum wage does not cover about 20 percent of urban workers (e.g., vendors and shoe polishers), 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.

f. *Rights in Sectors with U.S. Investment:* The majority of U.S. investment is in the sectors of hydrocarbons, power generation and mining. The rights of workers in these sectors are the same as in other sectors. Conditions and salaries for workers in the hydrocarbons sector are generally better than in other industries because of stronger labor unions in that industry.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		51
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		4
Banking		2
Finance/Insurance/Real Estate		0
Services		5
Other Industries		185
TOTAL ALL INDUSTRIES		246

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

BRAZIL

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	775	804	775
Real GDP Growth (pct)[3]	2.8	3.2	0.7
GDP by Sector (pct):			
Agriculture	4.1	1.9	2.72
Industry	3.7	5.5	0.05
Services	1.9	2.0	0.97
Per Capita GDP (US$)[4]	5,311	5,030	4,800
Labor Force (millions)	74.1	75.6	77.1
Unemployment Rate (pct)	5.4	6.0	8.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	56.6	21.7	33.8
Consumer Price Index[5]	9.1	4.3	2.0
Exchange Rate (R/US$ annual average):			
Commercial	1.00	1.08	1.15
Balance of Payments and Trade:			
Total Exports FOB[6]	47.7	53	51.1
Exports to United States[6]	9.3	9.4	9.8
Total Imports FOB[6]	53.3	61.4	57.6
Imports from United States[6]	11.9	14.3	13.7
Trade Balance[6]	−5.6	−8.4	−3.9
Balance with United States[6]	−2.6	−4.9	−3.9

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
External Public Debt[7]	88.4	80	81.8
Fiscal Deficit/GDP (pct):			
Nominal	5.9	6.1	8.5
Operational (inflation adjusted)	3.8	4.3	6
Current Account Deficit/GDP (pct)	3.3	4.2	4.3
Debt Service Payments/GDP (pct)	1.6	1.8	2.0
Gold and Foreign Exchange Reserves (int'l liquidity)	60.1	52.2	45.5
Aid from United States (US$ millions)[8]	13.7	12.9	14.0
Aid from Other Countries	N/A	N/A	N/A

[1] 1998 figures estimated based on January-August data, except where noted.
[2] GDP at market prices. Sectoral growth rates are cumulative for first three quarters.
[3] Percentage changes calculated in local currency.
[4] At current prices; 1998 figures estimated based on January-June data.
[5] Source: INPC (National CPI).
[6] Merchandise trade; Source: Ministry of Industry, Commerce and Tourism (MICT). Trade totals are preliminary for entire year. U.S. totals are extrapolated from January-September data.
[7] Nonfinancial public sector (excludes Petrobras and CVRD); 1998 figure is October balance.
[8] USAID only.

1. *General Policy Framework*

Brazil is in the fifth year of an economic stabilization program (the so-called Real Plan) which has brought down inflation, dramatically reduced the role of the state in the economy, and encouraged greater private sector investment to achieve sustainable long-term growth. Since the July 1994 introduction of a new currency, the Real, national consumer price inflation has dropped from a monthly average of 50 percent in the first half of 1994 to just over two percent for the first three quarters of 1998. Key features of economic policy have been reliance on high real interest rates both to attract foreign capital and to facilitate financing of a growing domestic debt, and a strong currency and market-opening measures which increase competition and exert downward pressure on prices for traded goods in particular. Long term economic stabilization with improved real growth depends on continuing privatization in the medium run and on the success of a three-year Fiscal Stability Program introduced in October 1998 in response to the world financial crisis. Brazil made progress on reforms following the onset of the Asian financial crisis in late 1997, notably implementing civil service reform in mid-1998, and social security reform in early November 1998.

With the drop in inflation, the public sector has had a harder time balancing budgets as it could no longer reduce the real value of expenditures by postponing payments (revenues were fully indexed for inflation). Brazil ran a nominal deficit (including interest payments) in 1995 equal to five percent of GDP after four years of nearly balanced budgets. The government was able to reduce this figure to four percent of GDP in 1996 but the gap rose to six percent in 1997 and will likely hit eight percent in 1998 due to higher debt service costs. Responding to adverse developments in world credit markets in 1998, the government had to raise nominal interest rates to unsustainable levels while introducing a series of budgetary measures aimed at stabilizing the debt/GDP ratio and regaining investor confidence. In addition to constitutional reforms of the civil service and social security, tax and labor reforms are also on the table.

The Real Plan was premised on tight monetary policy. With fiscal reforms lagging, monetary policy has had to bear most of the burden. Together with greater availability of credit, higher real incomes due to price stabilization and a hike in the minimum wage freed pent-up consumer demand and led to a consumption boom in 1994/95 which ended in mid-1997. Lower trade barriers and a strong currency prompted a surge in imports, which grew almost 150 percent from 1993 to 1997. Imports dropped slightly in the first three quarters of 1998 due to slowing domestic demand. In contrast, exports were up just over a third for the same four-year period and growth is flat so far in 1998. To dampen consumption and stave off a widening current account deficit, the government tightened monetary policy by imposing high bank reserve requirements and credit restrictions in 1995. However, high domestic real interest rates have also inhibited business investment, particularly by small and medium sized businesses that cannot borrow overseas. As a result, real growth slowed from over four percent in 1995 to three percent in 1996 and rose just over three percent in 1997.

Due to the impact of the world financial crisis and the even tighter monetary policy adopted in response to it, real growth in 1998 will likely be no more than one percent and the economy may enter into a recession in 1999. Concerned about a widening current account deficit, which reached 4.2 percent of GDP in 1997 (and which reached 4.37 percent of GDP for the 12 months ended in September 1998), the government began to adopt measures in 1997 aimed at discouraging imports and encouraging exports. These have included imposing restrictions on short-term import finance and consumer credit, expanding the official export credit program, eliminating tariff exemptions for a long list of capital goods, adoption of a customs valuation table, increasing import documentation requirements, and tightening standards and enforcement.

In response to an import boom, in March 1995, the government significantly raised import tariffs on a range of consumer durable goods, including automobiles, toys, and shoes. The new tariff levels are as high as 63 percent on some products. Over the past two years, through the adoption of a special "ex-tarifario" regime, however, the tariff increases exempted most capital goods, which constitute a significant portion of U.S. exports to Brazil. The exemption was phased out for most capital goods in September 1997. In December 1995 Brazil implemented a complex automotive products import regime. The regime liberalizes imports of capital goods and inputs for domestic manufactures of vehicle parts. It also permits domestic vehicle manufacturers to import finished vehicles at a 50 percent reduction to the current 63 percent duty, but links this benefit to export performance and local content requirements which appear inconsistent with Brazil's WTO obligations. The regime expires in 1999 and will be replaced by an as-yet-undefined MERCOSUR regime in the year 2000.

In March 1997, Brazil imposed new import financing rules that adversely affected a range of U.S. exports to Brazil. The measure requires importers to purchase foreign exchange to pay for most imports upon importation or 180 days in advance, rather than when payment is due under the contract. The measure, which provides more favorable treatment for imports from MERCOSUR members and associate members such as Bolivia and Chile, effectively increases the cost of many imports by eliminating or reducing supplier credits of less than one year. Despite the restrictive measures—measures which the Brazilian government maintains 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 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. CET levels range between zero and 23 percent. With the exception of tariffs on computers, 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 23 percent; the most commonly applied tariff is 17 percent. MERCOSUR is now negotiating free trade agreements with its South American neighbors. Association agreements with Chile and Bolivia went into effect in October 1996, and negotiations with the Andean Pact began in November 1996. In January 1, 1999, Argentina and Brazil will take further steps towards a common market, by reducing tariffs on a list of 224 Argentine products and 32 Brazilian products to zero. Zero tariffs for Argentina will allow easier entry for Brazilian exports of soluble coffee, apparel, shoes, specialty steel and wood. Zero tariffs for Brazil will allow access for Argentine peaches, wine and rubber products.

The Brazilian Congress ratified the GATT Uruguay Round Agreements in December 1994 and Brazil became a founding member of the WTO.

2. Exchange Rate Policy

Brazil has three exchange rates: commercial, tourist (or floating), and parallel. The commercial rate is used for commercial and financial transactions registered with Brazil's Central Bank, Banco Central do Brasil. 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 that they intend to unify the commercial and tourist rates eventually.

When introduced in July 1994, the new currency, the real, was pegged at parity with the U.S. Dollar but quickly appreciated. The Central Bank established a new system of trading bands in March 1995 and has subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. Since February 1998, the trading band has been 1.14 to 1.22 reals for one U.S. Dollar. Currently, the bank is pursuing a "crawling peg" policy of nominal depreciation of the real against the dollar at the rate of about 7.5 percent per year. Due to slowing domestic inflation, the real effective exchange rate against the dollar has gradually depreciated against the U.S. Dollar over time.

3. Structural Policies

While 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. As part of its efforts to keep inflation down, the government has in the past frozen public utility rates.

Brazil is accelerating its privatization program initiated in 1990 to reduce the size of the government and improve public sector fiscal balances. Steel companies and most petrochemical companies owned by the government, the main exception being Petrobras, have already been privatized. The majority of voting shares in mining conglomerate Companhia Vale do Rio Doce (CVRD) was sold to the private sector in May 1997 and Telebras was split into 12 firms and privatized in July 1998. Several electric utilities have been privatized and so-called "Band B" cellular telephone concessions covering the whole country were sold in 1997 and 1998. The Rio de Janeiro State bank, Banerj, was sold to the private sector and Sao Paulo state bank Banespa is also to be auctioned. Up until September 1998, Brazil realized $68 billion in sales revenues and a further $17 billion in transfer of public sector debt.

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. Because of difficulties in passing comprehensive tax reform through Congress, the government has focused on limited revisions by executive order. In late 1995, it passed revisions to the corporate and individual income tax regimes. In 1996, it exempted exports and capital purchases from the state-collected value added tax and announced a single tax on the gross receipts of small and medium enterprises. While the overall objective remains simplification, the government imposed an additional tax on financial transactions for a two-year period beginning in 1997 to finance the health system. The government has announced plans to transform the current system into one where a value-added tax, state and city sales taxes, and a selective excise tax would replace the current system of multiple taxation. The proposal is strongly advocated by Brazil's private sector and will likely be considered by the Congress in 1999.

4. Debt Management Policies

Brazil's total external debt by the end of 1997 was $200 billion, of which 43 percent was owed by the public sector (excluding Petrobras and CVRD) and the remainder by the private sector. While total external debt rose 11 percent in the year, external public sector debt fell both absolutely and as a share of the total. Debt service represented 2.0 percent of Brazil's Gross Domestic Product and 27.2 percent of merchandise exports. Brazil concluded a commercial debt rescheduling agreement (without an IMF standby program) in April 1994 after twelve years of negotiations and has fully complied with the commitments made in this agreement. Until the global financial crisis erupted in mid-1998, the terms of Brazilian debt obligations had lengthened and spreads narrowed on both public and private sector external debts. Progress on the fiscal stability program announced by the government in late-October 1998, along with developments in the external economic environment, will greatly influence Brazil's borrowing costs in 1999. Brazil's growing internal public sector debt remains a concern.

5. Significant Barriers to U.S. Exports

Import Licenses: Although Brazil requires import licenses for virtually all products, many licenses are issued automatically through the Secretariat of Foreign Trade's computerized trade documentation system, SISCOMEX, which has been fully operational since 1997. An increasing number of products are subject to non-automatic licensing. In a move that was presented as an attempt to reduce the high incidence of under-invoicing, in December 1997, the government removed over 300 products from the list of products receiving automatic licenses and required various ministry approvals prior to shipping. These products include food and wine, tapes and CDs, chemicals and energy products. In October 1998, Brazil issued a series of administrative measures that require some additional sanitary and phytosanitary and safety approvals from various ministries for products subject to non-automatic licenses. Implementation of the measures continues to be poorly coordinated and the backlog continues to delay imports and force some importers to incur unnecessary storage costs.

Agricultural Barriers: While progress has been made in the area of fruit and vegetable regulations between the United States and Brazil, sanitary and phytosanitary (SPS) measures remain significant barriers in many cases. However, in November 1998, the U.S. and Brazil agreed on a protocol which will allow the U.S. to comply with Brazilian phytosanitary requirements on wheat, resolving the largest bilateral phytosanitary issue with Brazil.

Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. Brazil had previously granted conditional approval for U.S. poultry exports, which was withdrawn when the United States could not grant Brazil an exception to the standard U.S. approval process. Following the lead of the European Union, Brazil prohibits the importation of beef treated with anabolic hormones; 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 (a sheep disease), although scrapie is believed to exist in Brazil.

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances, and arbitrary application of regulations and laws limit U.S. service exports to Brazil. In some areas, such as construction engineering, foreign companies are prevented from providing technical services in government procurement contracts 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 oil and mining industries, have been restricted by limitations on foreign capital under the 1988 Constitution. Unless approved under specific conditions, foreign financial institutions are restricted from entering Brazil or expanding pre-1988 operations. The Brazilian Congress approved five constitutional amendments in 1995 that eliminated the constitutional distinction between national and foreign capital; opened the state telecommunications, petroleum and natural gas distribution monopolies to private (including foreign) participation; and permitted foreign participation in coastal and inland shipping. However, the degree to which these sectors are actually opened will depend on implementing legislation. Legislation permitting the licensing of private cellular phone networks to compete with existing parastatal monopolies was passed in May 1996, but it requires majority (51 percent) Brazilian ownership of eligible companies.

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.

After several years of deteriorating bilateral maritime relations, the Brazilian Government recently altered its tax treatment of incoming cargo to indirectly subsidize its own national carriers at the expense of U.S. shipping companies. The government has done this in two ways: 1) by exempting cargo carried on Brazilian ships from certain taxes, and 2) by removing previous tax exemptions from certain cargo carried by U.S. vessels. The net effect is lost business for U.S. carriers. The Federal Maritime Commission (FMC) is following these issues along with several previous bilateral maritime complaints against Brazil.

Foreign participation in the insurance industry has responded positively to market-opening measures adopted in 1996. However, problems remain with market reserves for Brazilian firms in areas such as import insurance and the requirement that parastatals purchase insurance only from Brazilian-owned firms. In June 1996, the government legally ended the state's monopoly on reinsurance, but the monopoly has yet to end in practice and its persistence is keeping costs high for insurers, both domestic and foreign.

Investment Barriers: Various prohibitions restrict foreign investment 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. Some of these restrictions may be reduced once the 1995 Constitutional amendments are implemented, although new restrictions were introduced in the auto sector in 1995. Foreign ownership of land in rural areas and adjacent to international borders is prohibited.

Informatics: The 1991 Informatics Law eliminated prohibitions and requirements for government prior review for informatics imports, investment, or manufacturing by foreign firms in Brazil. However, import duties remain high (up to 29 percent) on informatics products, and Brazilian firms receive preferential treatment in government procurement and have access to certain fiscal and tax benefits. For a foreign-owned firm to gain access to some of these incentives, it must commit to invest in local research and development and meet customer service and export and local training requirements. Market access for U.S. software has improved since a new Software Law was signed by President Cardoso in February 1998. The new law contains amendments that have introduced a rental right and increased the term of protection by 50 years. Onerous registration requirements were also removed. The law contains a link to tax evasion that improves enforcement efforts by requiring a tax investigation to be conducted in any case of software piracy.

Government Procurement: Brazil is not a signatory to the WTO Government Procurement Agreement. Federal, state and municipal governments, as well as related agencies and companies, follow a "buy national" policy. Brazil permits foreign companies to compete in any procurement related to multilateral development bank loans and opens selected procurements to international tenders. Given the significant influence of the state-controlled sector, discriminatory procurement policies are a relatively substantial barrier to U.S. exports in Brazil's market, though the privatization of Telebras effectively removes the telecommunications sector from being subject to the procurement laws.

Law Number 8666 of 1993, covering most government procurement (except informatics and telecommunications), requires nondiscriminatory treatment for all bidders, regardless of nationality or origin of product or service. However, regulations introduced in late 1993 allow consideration of non-price factors, give preferences to telecommunications, computer, and digital electronics goods produced in Brazil, and condition eligibility for fiscal benefits on local content requirements. In March 1994, the government issued Decree 1070, which requires federal and parastatal entities to give preference to locally produced computer and telecommunications products and services based on a complicated and nontransparent price/technology matrix. Bidders that meet one or more of the criteria for preferential treatment are allowed a price differential of up to 12 percent over other bidders.

6. Export Subsidies Policies

In general, the government does not provide direct subsidies to exporters, but does offer a variety of tax and tariff incentives to encourage export production and encourage the use of Brazilian inputs in exported products. 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. Excise and sales tax exemptions have now been extended to agricultural and semimanufactured export products as well as to manufactured 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 is intended to equalize domestic and international interest rates for export financing. Revisions to the program were made in 1995 and 1997, affecting the size of the program and coverage of certain sectors. As of November 1997, $1.4 billion was budgeted. Capital goods, automobiles and auto parts, and consumer goods are eligible for financing under PROEX.

7. Protection of U.S. Intellectual Property

Brazil belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Madrid Agreement, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative removed Brazil from the "Special 301" Watch List after receiving commitments to process pending pharmaceutical "pipeline" patent applications and to present an enforcement action plan to address concerns about piracy and counterfeiting. Although Brazil has made progress toward improved protection for intellectual property rights, it must take further significant steps to combat piracy.

In the past two years, Brazil has passed revised copyright, software, patent, and trademark legislation. Brazil's new Industrial Property Law took effect in May 1997, bringing most respects of Brazil's patent and trademark regime up to the standards specified in the WTO TRIPs Agreement. However, the new law also includes compulsory licensing and local working requirements that appear to be TRIPs-inconsistent. The law permits the granting of a compulsory license if a patent owner has failed to "work" (manufacture locally) the patented invention in Brazil within three years of issuance. A product is recognized as "worked" in cases in which local production is found to be "economically unviable." Implementation of the new law remains to realize the benefits fully.

Patents: The new Industrial Property Law provides patent protection for chemical and pharmaceutical substances, chemical compounds, and processed food products not patentable under Brazil's 1971 law, and provides patent protection for genetically altered micro-organisms. The law also extends the term for product patents from 15 to 20 years, and provides "pipeline" protection for pharmaceutical products patented in other countries but not yet placed on the market. After a long delay, the large backlog of pipeline patents are being processed, although slowly. In April 1997, a Plant Variety Law was passed that provides protection to producers of new varieties of seeds.

Trade Secrets: The new Industrial Property Law specifically allows criminal prosecution for revealing trade secrets of patented items, with a penalty of imprisonment for three months to a year or a fine. The regulations as written are narrower than the TRIPs Agreement. However, the government argues that since it incorporated Article 39 of the Agreement into law when the Uruguay Round agreements were ratified, in effect it provides a level of protection consistent with the TRIPs Agreement.

Trademarks: The new Industrial Property Law improves Brazil's trademark laws, providing better protection for internationally known trademarks. Trademark licensing agreements must be registered with the National Institute of Industrial Property to be enforceable. However, failure to register licensing agreements will no longer result in cancellation of trademark registration for non-use.

Copyrights: In February 1998, in an effort to raise Brazil's copyright protection to the level of the TRIPs Agreement, President Cardoso signed a new copyright law that generally conforms to international standards. In the last two years, enforcement of Brazilian laws against video and software piracy has improved, and the government and the private sector have initiated action to reduce the importation of pirated sound recordings and videocassettes.

Semiconductor Chip Layout Design: In April 1996, a bill to protect layout designs of integrated circuits was introduced.

Impact on U.S. Trade: The U.S. pharmaceutical industry estimates that losses in Brazil due to piracy were $600 million. However, the passage of the new Industrial Property Law in May 1996 has brought more than $2 billion in pharmaceutical investment. U.S. copyright-based industries estimate that losses in Brazil due to piracy were $660.7 million in 1997. The U.S. software industry estimates losses of $356 million and that 68 percent of the business software in use in Brazil was illegally obtained. The Motion Picture Association of America (MPAA) estimates losses due to media piracy were $100 million in 1996.

8. Worker Rights

a. *The Right of Association:* Unions are free to organize in Brazil. Virtually all workers (except for the military, the military police and firemen) have the right to representation. The only significant limitation is unicidade (literally "one per city "), which restricts representation for any professional category to one union in a given geographical area. Both the government and the major labor confederations have argued in favor of removing this restriction, so it may be removed within the next year. Otherwise, unions remain independent of the government and (at least nominally) the political parties.

b. *The Right to Organize and Bargain Collectively:* The Constitution provides for the right to organize, and virtually all enterprises of any size have unions. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. For now, however, many issues normally resolved by collective bargaining come under the purview of Brazil's labor courts, which have the power to intervene in wage bargaining and impose settlements. The new Minister of Labor, however, has emphasized that expansion of the role of collective bargaining is one of the objectives of his administration.

c. *Prohibition of Forced or Compulsory Labor:* Although the Constitution prohibits forced labor, credible sources continue to report cases of forced labor in Brazil. The Catholic Church's Pastoral Land Commission (CPT) has documented cases of forced labor in some states, and forced labor continues on farms producing charcoal for use in the iron and steel industries, and on sugar plantations. The federal government has created a task force, comprising five different ministries, to combat forced labor, and the Ministry of Labor has augmented the task force with mobile inspection teams. These have efforts have improved the situation considerably, though all concerned concede that forced labor continues to be a problem.

d. *Minimum Age for Employment of Children:* The Brazilian Constitution prohibits work by children under the age of 14. Despite this prohibition, the Ministry of Labor estimates that nearly three million children in the age category 10 to 14 years work. Sectors which have child labor include charcoal production, sugar cultivation, citrus fruit plantations, hemp-growing, and mining and logging, among others. The Ministry of Labor has made concerted efforts to limit child labor by increasing inspections and by programs of education for employers. The problem, however, persists.

e. *Acceptable Conditions of Work:* Brazil has a minimum wage of approximately 111 dollars (130 reals) a month. Many workers, particularly those outside the regulated economy and in the northeastern part of Brazil, reportedly earn less than the minimum wage. The 1988 Constitution limits the workweek to 44 hours and specifies a weekly rest period of 24 consecutive hours, preferably on Sundays. The Constitution expanded pay and fringe benefits and established new protections for agricultural and domestic workers, thought not all provisions are enforced. All workers in the formal sector receive overtime pay for work beyond 44 hours and there are prohibitions against excessive use of overtime. Unsafe working conditions exist throughout Brazil, though Brazilian occupational health and safety standards are consistent with international norms. The Ministry of Labor, responsible for monitoring working conditions, has insufficient resources for adequate inspection and enforcement of these standards.

f. *Rights in Sectors with U.S. Investment:* U.S. multinationals have invested in virtually all the productive sectors in Brazil. Nearly all of the Fortune 500 companies are represented in Brazil. In U.S.-linked enterprises, conditions usually do not differ significantly from the best Brazilian companies; at most U.S. multinationals, conditions are considerably better than the average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,769
Total Manufacturing		22,584
Food and Kindred Products	3,412	
Chemicals and Allied Products	4,867	
Primary and Fabricated Metals	1,240	
Industrial Machinery and Equipment	1,340	
Electric and Electronic Equipment	1,936	
Transportation Equipment	3,603	
Other Manufacturing	6,186	
Wholesale Trade		656
Banking		1,489
Finance/Insurance/Real Estate		4,711
Services		1,602
Other Industries		2,915
TOTAL ALL INDUSTRIES		35,727

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

CANADA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	601.6	617.6	600.9
Real GDP Growth (pct)	1.2	3.8	2.7
GDP by Sector (pct):			
Goods	34	33	34

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Services	66	67	66
Agriculture	2	2	2
Government	24	23	20
Per Capita GDP (US$)	20,875	20,495	19,077
Labor Force (000s)	15,149	15,346	15,601
Unemployment Rate (pct)	9.7	9.2	8.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [3]	2.2	−1.5	−0.9
Consumer Price Inflation	1.6	1.6	1.0
Exchange Rate (CD/US$) [4]	1.3635	1.3844	1.4076
Balance of Payments and Trade:			
Global Merchandise Exports	205.1	217.5	212.2
Exports to United States	158.7	171.8	169.5
Global Merchandise Imports	174.4	200.0	200.0
Imports from United States	134.5	152.0	152.0
Global Merchandise Trade Balance	30.7	17.5	12.2
Balance with United States	24.2	19.0	17.5
Current Account Balance/GDP (pct)	0.5	1.5	2.1
Net Public Debt [5]	427.7	421.2	396.0
Debt Service/GDP (pct) [5]	5.5	4.9	4.9
Federal Budget Deficit/GDP (pct)	1.0	0.4	0.0
Official Int'l Reserves [3]	20.6	17.9	20.1
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 data is embassy projection unless otherwise noted.
[2] Exchange rate conversion causes nominal C$ growth to be reflected as negative US$ growth.
[3] Actual as of October 31, 1998.
[4] January to October 1998 average.
[5] Canadian Government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that resembles the United States in its per capita output, market-oriented economic system, and pattern of production. While production and services are predominantly privately owned and operated, the federal and provincial governments provide a broad regulatory framework and redistribute incomes among individuals and provinces. Federal government economic policies since the mid-1980s have emphasized the reduction of public sector intervention in the economy and the promotion of private sector initiative and competition. Nevertheless, government regulatory regimes affect foreign investment, most notably U.S. firms operating in telecommunications, broadcasting, publishing, energy, mining and financial services.

In 1997, the Canadian economy grew by 3.8 percent, with growth fueled by domestic demand. By the second quarter of 1998, annualized growth had slowed to 1.6 percent; consumer spending remained strong, but production cutbacks caused inventory accumulation to drop sharply, while business investment and external demand weakened. The outlook for Canada in 1998 and 1999 has been revised down to 2.7 percent and 1.9 percent, respectively, largely because of the global impact of Asia's financial problems. In the fall of 1998, the Bank of Canada followed the Fed and cut short-term interest rates to help mitigate the negative impact of the global slowdown. Nevertheless, global economic conditions are expected to erode Canadian corporate profits, which will hinder business investment, employment growth, further reductions in Canada's average unemployment rate of 8.4 percent, as well as consumer spending.

In the first ten months of 1998, the Canadian Dollar averaged 68 U.S. Cents compared to 72.60 U.S. Cents for the same period in 1997. Low interest rate yields, a sharp decline in commodity prices and Asian economic problems have caused large purchases of U.S. Dollars and a sell-off in Canadian Dollar-denominated investments. Canada's inflation rate is at the lower end of the Bank of Canada's 1-3 percent target band, and is expected to remain there in 1998 and 1999 despite the negative impact the lower Canadian Dollar will have on import prices. Global disinflationary pressures, slackening domestic labor markets, and weakening economies are primary influences.

Canada continues to be the United States' foremost export market and single largest trading and investment partner. In 1997, total two-way trade in goods and services was approximately US$365 billion, or US$1 billion per day, comprising 80 percent of Canada's total global trade. The U.S. recorded a merchandise trade deficit with Canada in 1997 of US$19 billion. However, this was partly offset by a non-merchandise trade surplus, which should continue because there is a large stock of U.S. foreign direct investment in Canada that results in high dividend payments by Canadian subsidiaries to their U.S. parents. In addition, much of Canada's external debt is held by U.S. residents, giving rise to an outward flow of debt service payments to the United States.

The United States and Canada bilateral civil aviation market is the largest in the world. As a result of the 1995 U.S.-Canada Air Transport Agreement, U.S. and Canadian airlines now are free to decide routes, ticket prices, and flight frequencies without government interference. Over a three-year period, the new agreement essentially removed all restrictions on U.S.-Canada transborder air services. By all accounts, the economic benefits of this new agreement have been enormous. Since the agreement was signed, total U.S.-Canada passenger traffic has increased by 37 percent from 12.1 million passengers in 1994 to 16.6 million passengers in 1997. Fares have decreased significantly and over forty new city-pairs have received first time service. Work on outstanding civil aviation issues has continued. Negotiators eliminated restrictions on third country code-sharing in November 1997. U.S. and Canadian officials met in November 1998 to consider issues such as co-terminalizing all cargo courier services and opening fifth freedom or beyond rights. Canadian airport user charges were also discussed.

The U.S. and Canada share a 5,500-mile border. In 1995, President Clinton and Prime Minister Chretien announced the "Accord on Our Shared Border" (aka the Shared Border Accord). The agreement is a framework for better border management that calls for the development of creative new approaches to the border (such as shared inspection facilities), and seeks an appropriate balance between commercial facilitation and law enforcement. A key goal of the Shared Border Accord is to move from "parallel, but separate" approaches to much closer cooperation and common efforts. Officials from both countries are working to reassess the original priorities of the Shared Border Accord and develop new initiatives.

2. Exchange Rate Policy

The Canadian Dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada, which is the country's central bank, operates in the exchange market on almost a daily basis to try to maintain orderly trading conditions.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed and other agricultural products (including wheat, 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.

4. Debt Management Policies

Canadian federal and provincial governments have made great strides in reducing their respective budget deficits in a non-inflationary environment. Canada's fiscal year runs from April 1-March 31. In FY97-98, the federal government recorded a C$3.5 billion budget surplus, the first in 28 years, which was applied to Canada's national debt, reducing it to C$579.7 billion, or 67.8 percent of GDP. At the same time, the combined deficit of Canada's ten provincial governments was cut almost in half in FY97-98, to C$3.7 billion from C$7.3 billion in FY96-97. While foreigners are receptive to holding Canadian securities, the government launched initiatives to place more of the country's debt with Canadians and reduce international obligations. In FY97-98, the federal government had no new net borrowing requirements.

5. Significant Barriers to U.S. Exports

On January 1, 1989, Canada and the United States began to implement the US-CFTA, a free trade agreement to eliminate over a 10 year period virtually all tariff and non-tariff barriers to trade between the two countries. The US-CFTA was superseded on January 1, 1994, with the inauguration of the NAFTA, which extends the US-CFTA to Mexico and expands on it in the areas of services, investment and government procurement. As of January 1, 1998, Canada eliminated all tariffs between the U.S. and Canada, except for supply-managed products (like poultry and dairy products).

However, nontariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth. Canada maintains some restrictions on foreign investment and content in the so-called "cultural industries" and related sectors, including book and magazine publishing, broadcasting, and telecommunications. The United States objects to some of these restrictions and closely monitors new laws and regulations affecting these sectors.

Various restrictions limit U.S. access to the Canadian market for magazines. In 1997, a WTO panel supported U.S. complaints against these measures, including a ban on imports of magazines with advertising directed at Canadians, a special 80 percent excise tax on split-run magazines, and discriminatory postal rates on imported magazines (the Sports Illustrated case). In October 1998, Canada tabled legislation which will have effects similar to the previous measures, by making it a criminal offense for foreign publishers to supply advertising services directed at the Canadian market. The legislation is expected to be passed when parliament reconvenes in February, 1999. The U.S. continues to oppose the legislation.

Canada is a signatory to the GATS Agreement on Basic Telecommunications Services. Recent regulatory changes have opened both long-distance and local telephone services to competition. Canada's WTO obligations require a monopoly by Teleglobe Inc. on overseas calling to end in 1999. In September 1998, Canada eliminated third country routing restrictions for international traffic routed to and from Canada through the United States. 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. Canada retains a 46.7 percent limit on foreign ownership and a requirement for Canadian control of basic telecommunications facilities.

Foreign access to the Canadian financial services sector has improved as a result of the NAFTA and the GATS. The WTO Agreement Implementation Act removed long-standing limitations on non-Canadian ownership of federally regulated financial institutions; lifted a market share limitation on foreign banks; and extended NAFTA thresholds for investment review and control to all WTO members. Banking falls exclusively under federal jurisdiction, while the regulation of securities companies falls under provincial control.

The legislated five-year review of the Bank Act that took place in 1997 removed the requirement that foreign banks had to participate in the Canada Deposit Insurance Plan. In addition, the federal government has agreed to allow foreign bank branching, although legislation to bring branching into effect has been postponed. Nevertheless, Canada has a commitment to bring branching into effect by June 30, 1999 under the terms of the WTO Financial Services Agreement. In Canada's insurance market, companies can incorporate under provincial or federal law. Foreign ownership remains subject to investment review thresholds, and several provinces continue to subject foreign investments in existing, provincially incorporated companies to authorization. Insurance companies may supply their services either directly, through agents or through brokers.

Life insurance companies are not in general allowed to offer other services (except for health, accident and sickness insurance), but may be affiliated to, and distribute the products of, a property and casualty insurer. As in banking, commercial presence is required to offer insurance, reinsurance and retrocession services in Canada. However, companies may branch from abroad on condition that they maintain trustees assets equivalent to their liabilities in Canada. Insurance companies can own deposit-taking financial institutions, investment dealers, mutual fund dealers and securities firms. In addition, insurance companies may engage directly in lending activities on an equal footing with deposit-taking institutions. The car insurance industry is a publicly-owned monopoly in Quebec, British Columbia, Manitoba and Saskatchewan. All other provinces have regulated premiums.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally. With regard to Canada's policies on milk, the United States maintains that Canada (1) is providing export subsidies on dairy products without regard to its export subsidy reduction commitments in the Agreement on Agriculture (see also Export Subsidies Policies section), and (2) has failed to fulfill its WTO commitment to provide access for 64,500 metric tons of fluid milk imports annually. The U.S. is addressing these issues through the WTO dispute settlement process.

Provincial legislation and Liquor Board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

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.

The Canadian Special Import Measures Act (SIMA) governs the use of anti-dumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA. The Deputy Minister of National Revenue is responsible for initiating investigations and making preliminary and final determinations respecting dumping/subsidizing and preliminary determinations of injury. The Canadian International Trade Tribunal (CITT) is responsible for making final injury determinations. In most cases, the SIMA investigation process, from initiation to final order, is completed within 210 days. As the result of a 1996 Parliamentary Subcommittee Review of the SIMA, the Canadian Parliament is in the process of making some modest changes to Canadian trade remedy laws. When the SIMA investigation process has resulted in levies imposed on U.S. products, these duties become an impediment to U.S. trade opportunity.

Transboundary environmental issues continue as a major border preoccupation of direct interest to U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on watersheds, flooding, air pollution and other common concerns. Efficient management of this agenda is complicated because of shared federal, state/provincial and local jurisdiction, and by the fact that it is carried out not only through bilateral agreements but by unique institutions such as the International Joint Commission (IJC) and the still-evolving NAFTA Commission on Environmental Cooperation (CEC).

6. Export Subsidies Policies

Canada largely eliminated its export subsidies on western-grown wheat, barley, oats, canola and many other agricultural commodities in 1995. Export credit guarantees to support bulk and processed agricultural product exports are available through the Canadian Wheat Board and the Export Development Corporation, both crown corporations. Due to lack of transparency, data on the value and/or volume of commodities exported with credit guarantee support, destination countries, and terms are very limited.

In 1995 and 1996, Canada eliminated its producer levy-funded export subsidy program for dairy products. It then implemented a two-tiered pricing system that enables dairy product processors to acquire milk at a discount on the condition that the resulting products are exported or incorporated into certain further processed food products. By charging a higher price for milk and milk containing products for domestic consumption, the Canadian Dairy Commission is able to provide dairy product exporters with access to lower priced milk. Canada contends that by implementing these changes it has eliminated export subsidies for dairy and is in compliance with its WTO commitments on export subsidies. The United States maintains that Canada continues to provide export subsidies, and is addressing the issue through the WTO dispute settlement process.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Berne Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. On December 18, 1997, the Canadian Government committed itself to sign the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which deal with copyright and protection for performers and phonogram producers. In 1998, the U.S. Trade Representative maintained Canada on the "Special 301" Watch List because of provisions in the Canadian Copyright Act on "neighboring rights" and an audio cassette levy.

The government has long-standing legislation to protect intellectual property rights, and these laws are effectively enforced. A "Bilateral Cooperation Understanding" between the U.S. Patent and Trademark Office and the Canadian Intellectual Property Office stipulates that the respective department heads from both countries meet at least annually to consider where future joint activities, exchange of information, or other forms of cooperation are feasible and mutually beneficial.

Patents: In the late 1980s and early 1990s, Canada passed legislation to bring its patent drug regime into GATT compliance.

Copyright: The Canadian Copyright Act of 1924 was amended to reflect the state of modern technology and introduce adequate enforcement measures. The 1997 legislation includes, inter alia, "neighboring rights," which requires broadcasters to pay royalties to recording artists and record producers. The 1997 legislation also establishes a levy on recordable, blank audio media, such as cassettes and tapes. The United States has objected to the fact that "neighboring rights," which took effect January 1, 1998, and the audio cassette levy, which took effect March 12, 1998, deny benefits to U.S. producers and performers. However, neither of these Canadian actions has yet been implemented.

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 that vary from province to province. Over 37 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 more than 90 percent of the national workforce) vary, but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		12,738
Total Manufacturing		45,892
Food and Kindred Products	5,227	
Chemicals and Allied Products	7,783	
Primary and Fabricated Metals	3,986	
Industrial Machinery and Equipment	2,726	
Electric and Electronic Equipment	1,127	
Transportation Equipment	12,996	
Other Manufacturing	12,047	
Wholesale Trade		7,307
Banking		1,047
Finance/Insurance/Real Estate		19,050
Services		4,667
Other Industries		9,159
TOTAL ALL INDUSTRIES		99,859

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

CHILE

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	71.9	77.1	76.0
Real GDP Growth (pct)	7.2	7.1	4.0
GDP Growth by Sector (pct):			
Fishing	13.0	8.1	5.0
Agriculture	2.6	2.1	1.4
Mining	13.0	8.1	3.0
Manufacturing	11.2	9.5	4.0
Construction	9.4	8.2	3.0
Services	32.3	35.5	18.0
Government	1.7	1.9	1.4
Per Capita GDP (US$)[2]	5,100	5,300	5,100
Labor Force (000s)	5,522	5,380	5,500
Unemployment Rate (pct)[3]	5.5	5.3	6.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[4]	23.4	21.7	20.5
Consumer Price Inflation (pct)	6.6	5.6	4.5
Exchange Rate (Peso/US$)	412	419	465
Balance of Payments and Trade:			
Total Exports FOB[5]	15.4	16.9	15.8
Exports to United States	2.6	2.7	2.4
Total Imports CIF	17.4	18.2	19.0
Imports from United States	4.1	4.3	4.4
Trade Balance	−2.0	−1.3	−3.2
Balance with United States	−1.5	−1.6	−2.0
Current Account Deficit/GDP (pct)	−4.1	−5.2	−7.0
External Public Debt	23.0	26.7	30.0
Debt Service Payments/Exports (pct)	30.9	20.1	24.9
Fiscal Deficit/GDP (pct)[6]	N/A	N/A	N/A
Gold and Foreign Exchange Reserves (US$ billions)	15.5	17.8	15.3
Aid from United States (US$ millions)	0.3	0.3	0.3
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 estimates based on monthly data available in November.
[2] The declines in GDP and GDP per capita in 1998 as expressed in U.S. Dollars reflect a significant decrease in the dollar value of the Chilean Peso compared to previous years.
[3] Yearly average.
[4] For 1998, M2 growth through June only.
[5] All figures merchandise trade.
[6] The Government of Chile has run a fiscal surplus for more than a decade.
Source: Central Bank of Chile.

1. General Policy Framework

Chile's economy has grown for more than a decade, but the previous repid rate of economic expansion is slowing as the country absorbs the double impact of lower commodity prices and shrinking Asian markets. However, foreign investment—which is relatively long-term oriented—is still substantial. Copper remains the country's most important export product, accounting for about 36 percent of export earnings in the first nine months of 1998. Exports of fish, forestry products, fresh fruit, and manufactured products are also important. Chile's investment-grade credit rating (reconfirmed in late 1998) is the highest in Latin America (S&P A-, Moody's Baal), and Chilean firms finance investment by borrowing, issuing bonds, and selling stock abroad as well as in Chile. Many Chilean firms have expanded abroad.

The government of Eduardo Frei (1994-present) has continued Chile's emphasis on macroeconomic stability and the economy's export orientation. The government generated fiscal surpluses in each of the years 1988-1997, and it is projected to do so in 1998. The pace of privatization has slowed in the last few years. The independent central bank continued to gradually loosen foreign exchange restrictions on capital flows. The government remains concerned about the potential effects on the exchange rate of rapid foreign currency inflows. As of a result of legislation passed in December 1997, business opportunities for foreign banks in Chile and Chilean banks abroad have been enhanced substantially. Legislation is also now in place for privatizing Chile's ports, water and sewage companies.

The central bank's monetary policy adjusts interest rates to affect domestic spending. In this way, it has gradually reduced inflation while keeping the economy on a path of steady growth. It seeks to stabilize the exchange rate by buying or selling dollars to keep the exchange rate within a preannounced range and by controlling market liquidity.

Indicators for 1998 suggest that real GDP growth will fall short of the government's forecast of 5.0 percent. Inflation will be near the central bank's target of 4.5 percent. Unemployment for the year will average about 6.0 percent; some observers expect the rate to peak in the 8-10 percent range during 1999. Despite enhanced production volume, low world copper prices will mean that the proportional contribution of copper to export earnings will decline marginally over previous years. Chile will likely experience a substantial merchandise trade deficit of some $3.0 billion in 1998 due to the world commodity price decline, weak Asian markets and enhanced imports from Asia. The current account deficit will be on the order of 7.0 percent of GDP. Foreign investment flows continue to be healthy, helping to offset the negative performance of the current account, and although reserves declined through 1998, the balance in October 1998 of $15.3 billion was sufficient to cover some 11 months of imports.

2. Exchange Rate Policies

The central bank made technical modifications to Chile's exchange rate policy in 1998. At the end of 1998, the peso-dollar exchange rate was allowed to fluctuate within a five-percent band on either side of the reference rate. The reference exchange rate moves each day according to changes in the exchange rates of the dollar, mark, and yen. The central bank buys or sells dollars in the official inter-bank market when the peso threatens to move abruptly or outside of the established band. The central bank does this 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 adjusted the reference exchange rate as deemed necessary to reflect such market trends.

Over the last several years, the central bank gradually reduced restrictions on foreign exchange outflows. 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. Through much of the past decade, the peso appreciated in real terms against the dollar because of Chile's trade surpluses, strong inflows of foreign capital, and the dollar's weakness on international markets. Since the international market turmoil that began in late 1997, the peso has depreciated against the dollar; as of November 1998, the value of the Chilean Peso was some 9.5 percent lower than its 1997 average rate.

3. Structural Policies

Pricing Policies: The government rarely sets specific prices. Exceptions are urban public transport and some public utilities and port charges. State enterprises generally 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. Chile's free trade agreements with Mexico, Canada and MERCOSUR give exporters from those countries significant competitive advantages—virtually all Mexican and Canadian exports enter the Chilean market duty free. 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 virtually all imports originating in countries with which Chile does not have a free trade agreement. 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, securities markets, and pension funds. No government regulations explicitly limit the market for U.S. exports to

Chile (although other government programs, like the price band system for some agricultural commodities described below, displace U.S. exports). In recent years, the government has introduced rules permitting private investment in the construction and operation of public infrastructure projects such as toll roads. Most Chilean ports are administered by a state-owned firm, although legislation is in place to permit private concessions.

4. Debt Management Policies

Due to Chile's vigorous economic growth and careful debt management over the last decade, the magnitude of foreign debt no longer constitutes a major structural problem. As of late-1998, Chile's public and private foreign debt was about $30.1 billion, or around 38 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 (IMF).

5. Significant Barriers to U.S. Exports

Chile has few barriers to U.S. exports and is a member of the WTO. Nevertheless, treatment in some areas, especially agricultural commodities, diverges from international norms. Chile agreed in the GATT Uruguay Round not to raise its tariff rates above 25 percent. Beginning in January 1999, the uniform Chilean tariff rate will decline to 10 percent, and will be reduced by one percentage point per year before reaching a rate of six percent in 2003. The uniform rate applies to all goods except for used goods, which are subject to a 16.5-percent tariff. Chile has free trade agreements which will lead to duty-free trade in most products by the late 1990s with Mexico, Venezuela, Colombia, Ecuador, Peru, Bolivia and the MERCOSUR bloc. Tariffs also are lower than 10 percent for certain products from member countries of the Latin American Integration Association (ALADI) and products imported by diplomats and the Chilean military.

The 18-percent VAT is applied to the CIF value of imported products plus the 10-percent import duty. Duties may be deferred for seven years for capital goods imports purchased as inputs for products to be exported. Duties may be waived on capital goods to be used solely for production of exports. (See section six.) Automobiles are subject to additional taxes based on value and engine size. The engine tax, which is scheduled to be phased out by 1999, applies to vehicles with engines of over 1,500 cc, while the value tax is 85 percent of the CIF value over a certain price level (around $10,000 in 1999). 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.

Another tax that has the effect of discouraging U.S. exports is an excise tax on distilled spirits that competes with domestically produced liquors taxed at lower rates. In late 1997, the legislature passed a law that will gradually modify, but not eliminate, the discriminatory taxation faced by distilled spirits. At the same time, most other imported liquors will eventually face substantially increased tax discrimination. The European Union instigated the formation of a WTO panel to hear a complaint over this discriminatory practice; the U.S. is a third party to the panel.

Import Licenses: According to legislation governing the central bank since 1990, no legal restrictions are imposed on licensing. Import licenses are granted as a routine procedure. Imports of used automobiles and most used car parts are prohibited.

Investment Barriers: Chile's foreign investment statute, Decree Law 600, sets the standard of treatment of foreign investors in the same manner as Chilean investors. Foreign investors using DL 600 sign a contract with the government's Foreign Investment Committee guaranteeing the terms and tax treatment 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 either national tax treatment at 35 percent or a guaranteed rate for the first ten years of an investment at 42 percent. Approval by the Foreign Investment Committee is generally routine, but the committee has rejected some "speculative" investments. In late 1997, the government modified its DL 600 policy to restrict investment entering under the law's provisions to projects worth more than $1 million. In addition, projects of more than $15 million are now routinely vetted with the central bank to identify possible "speculative" flows. Associated external loan financing in excess of the value of direct foreign investment flows cannot enter under the provisions of DL 600 (i.e., to enter free of deposit provisions, foreign loan leveraging cannot exceed a ratio of 1:1).

Investment not entering Chile through DL 600 can enter under Chapter 14 of the Central Bank Regulations. Under Chapter 14, investors can be required to deposit a certain percentage of the value of capital inflows in a non-interest bearing central bank account (known as the "encaje") for as long as two years, or pay an equivalent fee to the central bank; through mid-1998, the rate was 30 percent for one year. Responding to increasing risk premiums charged by creditors and a substantial decline in foreign financial capital flows as a result of the global financial crisis, the central bank reduced the rate to 10 percent in June 1998 and then to zero two months later.

The government says it is not abandoning the encaje, adding that the currently low rates should be viewed as temporary. The purpose of the policy has been to limit short-term speculative investment seeking to take advantage of Chile's high interest rates and thus to help stabilize the value of the Chilean Peso, which had appreciated significantly in previous years. When in effect, the encaje applies to inflows of foreign capital into stock trading, bonds, bank deposits, as well as real estate, none of which in the view of local authorities increases the Chilean economy's productive capacity or improves technology. Exemption is given to stock and ADR purchases used to expand capacity. 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. Finally, there is generally a one-year waiting period before any capital can be repatriated abroad.

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.

There are also examples of less than national treatment. D.L. 600 allows the central bank to restrict the access of foreign investors to domestic borrowing in an emergency in order to prevent distortion of local financial markets. The central bank has never exercised this power.

Other examples of less than national treatment are certain sectoral restrictions on foreign investment. 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. The automobile and light truck industry is the subject of trade-related investment measures, although U.S. firms are among those helped as well as those harmed. Manufacturers based in the United States and France 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 auto market.

Oil and gas deposits are reserved for the state. Private investors are allowed concessions, however, and foreign and domestic nationals are accorded equal treatment.

Services Barriers: Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean. A freeze in force since the early 1980s on the issuance of new bank licenses meant that investors, foreign and domestic, had to acquire existing banks. The government promulgated banking reform legislation in December 1997 that, inter alia, established objective criteria for issuing new bank licenses.

Principal Nontariff Barriers: The main trade remedies available to the Chilean government are surcharges, minimum customs values, countervailing duties, antidumping duties, and import price bands. Chile's most significant nontariff barrier is the import price band system for wheat, wheat flour, vegetable oils, and sugar. When import prices are below a set threshold, surtaxes are levied on top of the across-the-board 10-percent tariff in order to bring import prices up to an average of international prices over previous years. Because of low international wheat prices this year, the price band system imposed import duties as high as 45-50 percent, well above Chile's WTO bound rate of 31.5 percent.

The 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. Some industry sources have claimed that surtaxes occasionally have been applied to agricultural imports without reasonable evidence of subsidies or dumping. In the past, these duties have been applied to items such as Argentine wheat flour and Chinese-made shoes. As of late 1998, none are in effect.

Animal Health and Phytosanitary Requirements: Chile has been slow to recognize pest-free areas in the United States that would facilitate the export of many U.S. fruits and vegetables to Chile. Most of Chile's regulations are unpublished, and when promulgating changes in its regulations, Chile does not allow the public a period for comment on the proposed rule. Most import permits are issued on a case-by-case basis, thereby lending to uncertainty and possible discriminatory treatment. Procedures and tolerances for testing imported chicken for the presence of salmonella present such a severe commercial risk that local importers are reluctant to import such products. Chile's unique beef grading and labeling requirements deter the importation of beef cuts from the United States.

Government Procurement Practices: The government buys locally produced goods only when the conditions of sale (price, delivery times, etc.) are equal to or better than those for 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.

6. Export Subsidies Policies

With minor exceptions, the government does not provide exporters with direct or indirect support such as preferential financing. It does, however, offer a few non-market 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. In 1997, alleged Chilean subsidies became the focus of a countervailing duty investigation by the Department of Commerce of Chilean salmon exports to the United States; the Department of Commerce determined that such subsidies were minimal.

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). All Chilean exporters may also defer tariff payments on capital imports for a period of seven years. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

In 1998, the Chilean Congress replaced earlier forestry sector subsidy legislation with a new law that will be directed mainly toward assisting small farmers. Planting costs will be subsidized by as much as 90 percent for the first 15 hectares and 75 percent for the remainder in the case of small farmers. A maximum of $15 million dollars yearly will be destined for this purpose. Special land tax exemptions will also be part of the program. Under the previous law, the combined subsidy costs incurred during 1997 totaled $7.7 million, down from $15.3 million in 1996. The government paid subsidies totaling $174.6 million from 1974 through 1997.

7. Protection of U.S. Intellectual Property

Chile belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, and the Film Register Treaty. In 1998, the U.S. Trade Representative maintained Chile on the "Special 301" Watch List. Although Chile's IP laws are more advanced than those found in several of its neighbors, shortcomings remain both legally and regarding enforcement, notably in Chile's failure to approve pending patent applications. Chile has stated its intention to fully meet its TRIPS obligation by the January 1, 2000 deadline.

Chile's intellectual property regime is generally compatible with international norms, and industry representatives welcome government enforcement efforts. However, continuing deficiencies in patent protection have kept Chile on the "Special 301" Watch List since 1989. Efforts to enforce intellectual property rights in Chilean courts have generally been successful. However, 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 use of trade secrets and proprietary processes are usually limited to 3 percent.

Patents: Although the Industrial Property Law promulgated in September 1991 improved Chile's protection for patents, it still falls short of international standards. The law provides a patent term of 15 years from the date of grant. (The WTO TRIPS Agreement requires Chile to adopt a 20-year standard by 2000.) The law does not consider plant and animal varieties or surgical methods to be patentable. In addition, the registration procedures required by the Ministry of Health to market new drugs are more onerous for first-to-file firms, which tend to be foreign firms. Finally, payments for use of patents may not exceed 5 percent of sales.

Copyrights: Piracy of video and audio tapes has been subject to criminal penalties since 1985. The government has taken aggressive enforcement measures in recent years, resulting in declining piracy rates. In the mid-1980s, the software piracy rate was estimated to be 90 percent, and now it is currently estimated to be 55 percent. The decline is in part the result of a campaign by U.S. and international industry, with the cooperation of Chile's courts and government, to suppress the use of pirated software. Greater access to authorized dealers and service has also helped to reduce the rate of piracy. Industry sources note that penalties remain low compared with the potential earnings from piracy and that stiffer penalties would help deter potential pirates. Copyright protection is 50 years. U.S. recording industry officials have noted that Chile's copyright law grants producers less favorable treatment vis-a-vis authors than the international norm.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of a trademark is not required for registration. Payments for use of trademarks may not exceed one percent of sales.

Impact on U.S. Trade: Although damages are difficult to estimate accurately, most observers believe that the U.S. pharmaceutical industry has suffered most from infringement of its intellectual property rights in Chile. The local association of U.S. research-based pharmaceutical companies estimates that losses in Chile due to piracy were $68 million from 1992-1996. Chile's software developers association estimates that losses due to piracy were $80-100 million in 1998.

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 13 percent of the work force belongs to unions. Government employee associations benefited from legislation in 1995 that gave them the same rights as unions. Reforms to the labor code in 1990 removed significant restrictions on the right to strike. Those reforms require that a labor inspector or notary be present when union members vote for a strike.

b. *The Right to Organize and Bargain Collectively:* The climate for collective bargaining has improved, though public sector unions still face difficulties. Sector-wide collective bargaining is not allowed. 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.

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 be legally 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. In 1998, the government estimated that roughly 50,000 children between the ages of 6 and 14 worked. Most of these children worked in the countryside, and many of them worked with their parents.

e. *Acceptable Conditions of Work:* Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The legal workweek is 48 hours. The minimum wage, currently around $170 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 46 percent of the population in 1987 to 23 percent in 1996. Currently 11 percent of salaried workers earn the minimum wage.

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—1997

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)
Total Manufacturing	743

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount	
Food and Kindred Products	141	
Chemicals and Allied Products	385	
Primary and Fabricated Metals	−143	
Industrial Machinery and Equipment	2	
Electric and Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	203	
Wholesale Trade		437
Banking		639
Finance/Insurance/Real Estate		2,480
Services		218
Other Industries		(1)
TOTAL ALL INDUSTRIES		7,767

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

COLOMBIA

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:[2,3]			
Nominal GDP	88.2	96.2	96.9
Real GDP Growth (pct)	2.1	3.1	3.0
GDP by Sector:			
Agriculture	19	17.6	17.4
Manufacturing	18	17.3	17.5
Services (includes financial)	30	30	29.5
Commerce	11	11.1	11.2
Government[4]	24.2	27	27.5
Per Capita GDP (US$)	2,285	2,440	2,422
Labor Force (000s)[5]	16,433	16,908	17,212
Unemployment Rate (pct)	11.4	13.3	16.0
Money and Prices (annual percentage growth):[6]			
Money Supply Growth (M2)	16.5	24.6	20.5
Consumer Price Inflation	21.6	17.7	18.0
Exchange Rate (Peso/US$ annual average)			
Official	1,037.72	1,141.1	1,411.5
Balance of Payments and Trade:[7]			
Total Exports FOB	10.6	11.6	11.5
Exports to United States	4.3	4.2	4.1
Total Imports CIF	12.8	15.3	14.7
Imports from United States	4.7	5.8	6.6
Trade Balance	−2.2	−3.7	−3.2
Balance with United States	−0.4	−1.6	−2.5
Current Account Deficit/GDP (pct)	−5.0	−5.8	−6.0
External Public Debt	15.9	16.1	17.5
Debt Service Payments/GDP (pct)	3.2	3.5	3.7
Fiscal Deficit/GDP (pct)	−4.1	−4.4	−4.8
Gold and Foreign Exchange Reserves	9.9	9.9	8.4
Aid from United States (US$ millions)[8]	0.1	0.1	0.5

54-067 99 - 9

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are estimates based on available monthly data in October.
[2] Percentage changes calculated in local currency.
[3] Sources for all figures in section except government spending are National Department of Statistics (DANE). For government spending: Ministry of Finance.
[4] Approved national budget. Source: Ministry of Finance.
[5] Economically active population for the whole country.
[6] Source: Banco de la Republica (BDR).
[7] Source: Ministry of Foreign Trade.
[8] Aid reflects U.S. AID program only.

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 trading partner, receiving 38 percent of Colombia's exports and providing 41.5 percent of Colombia's imports in 1997. More than 70 percent of Colombian exports to the U.S. are primary products like food (mainly coffee, bananas, flowers, tuna fish, shrimp, and sugar), fuel (petroleum, coal), and live animals. The U.S. is also the dominant source of foreign investment in Colombia, holding by far the largest individual country share of foreign direct investment: $4.2 billion, or 38 percent of the estimated total direct foreign investment of $11.2 billion.

Colombia's "apertura" (economic liberalization) program, was a two-stage plan for tariff reduction, financial deregulation and privatization initiated during the 1990-1994 administration of Caesar Gaviria. It eliminated import licenses for most products of the Colombian economy, except for agricultural imports, for which it created a price-band system to determine tariffs. An anti-dumping statute and a more flexible foreign-exchange regime were also adopted. Labor-reform laws aimed to provide easier contracting mechanisms, and foreign investment was deregulated for almost all sectors of the Colombian economy except national defense. To compensate for the lower tariff levels, the Value-Added Tax (VAT) was increased from 10 to 14 percent after 1991 and again to 16 percent after 1994, and a restrictive monetary policy was applied to control inflation. In the second stage of apertura, after 1993, the average tariff level was further reduced from 26.78 to 11.79 percent in a one-year period, and some surviving import licenses (on e.g., pharmaceuticals, food, and communications products) were eliminated.

Apertura also involved the privatization of state enterprises, ports, railroads, and banks. This process slowed during the first two years of Ernesto Samper's administration (1994-98), but improved in 1996-97 with the privatization of electricity generation plants, the state coal company, Carbocol, and the nation's seventh-largest bank, Banco Popular. Each privatization project requires prior approval from congress.

The Samper administration did not reject apertura, but attempted to reduce some of the economic dislocation caused by the rapid economic change which apertura entailed. A safety-net approach known as the "salto social" (targeting Colombia's poor, who constitute over a third of the population) was initiated in 1994. Its programs involved increased spending for infrastructure projects in the areas of health, education and housing, which aimed at both job creation and increasing public services over the period 1994-1998. The "salto social" was under-mined, however, by failure to achieve the 6 percent GDP growth for 1996 targeted in the plan, and was all but abandoned in 1997. Official growth in real GDP for 1997 was 3.1 percent; as of November 1998 the official projections for 1998 growth range between 3.0 and 3.5 percent. Projections for 1999 are pessimistic, ranging from zero to 2.0 percent.

Agriculture (which has been particularly hard hit by apertura policies) benefits from absorption agreements, which require domestic food processors to purchase the total production of certain domestic crops at higher than "normal" prices. If processors can show that domestic crops were purchased at support prices established in absorption agreements, the government then grants them reductions in import duties paid on equivalent imported commodities. During 1997, important competitiveness agreements between the private sector and the government resulted in a new policy to improve commercialization of agricultural products, by eliminating the Institute of Agricultural Marketing ("Idema") and providing direct compensation to producers instead.

Inflation has steadily if modestly decreased most years since 1991. In 1997, inflation for the first time finished under the central bank target (18 percent). For 1998, the central bank target is 16 percent. This target will not be met, since inflation up to September 1998 (largely due to food-price effects of "El Nino") was already 15.3 percent, but as of November it looked as if the end-year figure would at least not exceed that for 1997. The peso, for years subject to revaluationary pressures due to large inflows of foreign capital, began after July 1997 to devalue sharply against the U.S. Dollar. In January 1998, the peso reached the top of its exchange-rate band, where it has remained for most of the time since.

The government has been operating with burgeoning budget deficits over the last years, caused principally by efforts to fund the national economic development plan and increased by constitutionally mandated transfers of central government funds to local governments. According to the general comptroller's office, public spending increased by 6 percentage points of the GDP between 1990 and 1998, while the government's income grew only by two percentage points of GDP during that same period. This policy of deficit spending, along with the attempt to reduce inflation, has kept interest rates high and contributed to the current economic slowdown which started mid-1996. The government fiscal deficit was 3.9 percent of GDP for 1997, and is projected to be as high as 5 percent of GDP for 1998.

Colombia formally ratified the World Trade Organization treaty on March 30, 1995.

2. Exchange Rate Policy

Colombia's exchange-rate system operates on a free-market basis and is administered by the central bank. The central bank has a set "price band" within which the daily quotation of the peso's dollar price may move; the bank intervenes in the market (buying or selling pesos) to keep the peso's value within the band. Each day the banking superintendency reports an inter-bank market rate based on commercial bank and financial corporation transactions. For 1998, the central bank set the width of the band at plus/minus 7 percentage points, with a 15 percent slope. The band was shifted upward by 9 percentage points in September 2, 1998, without any change in its slope or width.

The peso's strength through mid-1997 improved the price competitiveness of U.S. exports to Colombia and resulted in a significant shift in the balance of bilateral trade. According to Ministry of Foreign Trade statistics, Colombia's trade deficit with the U.S. grew from $0.7 billion in 1991 to $1.6 billion in 1997 (Colombia's worldwide trade deficit in 1997 was $3.8 billion.) In May 1997, the central bank imposed a deposit requirement on most types of foreign borrowing, trying to reduce revaluationary pressures on the peso. With various specific exceptions, 30 percent of all new foreign loan proceeds were to be kept in a special non-interest bearing account for 18 months. The deposit requirement was reduced to 25 percent in February 1998 in an attempt to stimulate dollar liquidity as the weakening peso threatened to surpass the bottom of the band. It was reduced further, to 10 percent in September 1998. Strikingly, the peso's depreciation by nearly 45 percent since summer 1997 has not so far been reflected in its trade balance with the U.S.

3. Structural Policies

Pricing Policies: As a member of the Andean Pact, Colombia has price regulations related to some agricultural imports. The so-called "price band" system affects products such as wheat, sorghum, corn, sugar, rice, barley, milk, and chicken parts. The government also regulates or establishes prices of gasoline, electricity, water, sewage and telephone services, public transportation, rents, education tuition, and pharmaceutical products.

Tax Policies: There is no corporate or individual tax paid on income from dividends, provided that the money stays in Colombia; if the money is subsequently transferred out of the country, a "remittance tax" of 7 percent is levied. Income derived as capital gains is taxed at 35 percent. All consumers in Colombia pay a value-added tax of 16 percent on many products, with exceptions like food, basic medicines, air tickets and books.

Colombia has had several tax reforms over the last few years and the new administration of President Andres Pastrana is already proving itself no exception. With a fiscal deficit at levels of around 5 percent of GDP and rising, fiscal adjustment is a must. As part of a package of deficit-reduction measures to be applied from January 1999, congress is currently studying a proposal to reduce the value-added tax from 16 to 15 percent and to increase the number of taxed goods, as well as measures to control evasion by providing the Colombian customs with police and military law enforcement tools.

Uncertainty created by the constant changes in the tax regime negatively affects investment flows. To help mitigate this problem, in December 1995 the Colombian Congress passed legislation authorizing the government to enter into contracts with taxpayers guaranteeing the tax rate up to a maximum of ten years. In return for this guarantee, corporations pay an additional two percentage points in corporate taxes.

Regulatory Policies: All foreign investment in petroleum exploration and development in Colombia must be carried out under a stringent profit-sharing association contract between the investor and the state petroleum company, "Ecopetrol." U.S. oil companies voice interest in increasing exploration and development in Colombia if contract and tax requirements are made more flexible. The Pastrana administration has shown early signs of recognizing world oil market realities, and a readiness to adjust the terms of new association-contracts.

Under the current Andean Pact automotive policy, Colombia and Venezuela impose strict regional content requirements in the automotive assembly industry. They also require auto assemblers to satisfy a minimum percentage foreign exchange contribution to offset foreign exchange spent on auto imports.

4. Debt Management Policies

Colombia's debt-management strategy has aimed at accessing new sources of credit in the external and domestic capital markets and on improving the debt profile of the country, generally with the objective of providing priority financing for social programs and infrastructure improvements that are key elements of the national development plan.

The government has in recent years made approximately $1.8 billion in advance debt repayments. As of June 1998, total external indebtedness (public and private) was $33 billion, approximately 35 percent of GDP.

5. Significant Barriers to U.S. Exports

Import Licenses: Prior import licenses are still required for various commodities, drug-precursor chemicals, armaments and munitions, donations, and some imports by government entities. Though the government abolished most import licensing requirements in 1991, it has continued to use prior import licensing to restrict importation of certain agricultural products, such as powered milk during Colombia's high milk production season, and chicken parts.

In addition, the Ministry of Agriculture must approve import licenses for products which, if imported, would compete with domestic products purchased under "absorption agreements." Some of these products, which include important U.S. exports to Colombia, are wheat, malting barley, corn, rice, sorghum, and wheat flour.

Services Barriers: The provision of legal services is limited to those licensed under Colombian law. Foreign law firms can operate in Colombia only by forming a joint venture with a Colombian law firm and operating under the licenses of the Colombian lawyers in the firm.

Insurance: A commercial presence is required in order to sell policies other than those for international travel or reinsurance. Colombia permits the establishment of 100 percent-owned subsidiaries, but not branch offices, of foreign insurance companies. Colombia denies market access to foreign marine insurers.

Mining and Hydrocarbons: Colombian law requires that at least 80 percent of employees of companies in this sector be Colombian nationals.

Information Processing: A commercial presence is required to provide this service.

Advertising: At least 50 percent of programmed advertising broadcast on television must have local content.

Standards, Testing, Labeling, and Certification: 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). Certificates of conformity must be obtained from the Superintendency of Industry and Commerce before importing products which are subject to standards.

Investment Barriers: Foreign and national investors receive equal treatment in Colombia. One hundred percent foreign ownership is permitted in virtually all sectors of the Colombian economy. Exceptions include activities related to national security and the disposal of hazardous waste. As a measure against money laundering, Foreign Direct Investment (FDI) in real estate is prohibited except in connection with other investment activities.

All foreign investments must be registered with the central bank's foreign-exchange office within three months in order to assure the right to repatriate profits and remittances. All foreign investors, like domestic investors, must obtain a license from the superintendent of companies and register with the local chamber of commerce. The Ministry of Communications must approve applications in that sector.

Government Procurement Practices: Government procurement regulations, although guaranteeing national treatment to all investors, do require that foreign firms without an active local headquarters in Colombia certify that Colombian companies enjoy reciprocity in similar bids under their countries' procurement legislation. The U.S. Embassy in Bogota should be contacted for details. A local agent or legal representative is required for all government contracts, and Colombian bidders get preferential conditions under Law 80 of 1993. Given equal contracting conditions, the offer of goods and services of domestic origin is preferred. When foreign firms bid under equal conditions, the contract is usually awarded to the one that incorporates a greater number of domestic workers, that involves more domestic content, or that provides better conditions for transfer of new technology. Several road construction and airport contracts for U.S. companies have been approved with little ado; on the other hand, some U.S. companies have complained of corruption in contract processes. Colombia is not a party to the WTO agreement on government procurement.

Customs Procedures: Imported merchandise inspection can be prearranged through preshipment inspection entry, and duties can be prepaid through commercial banks. For certain items, preshipment inspection is mandatory.

6. Export Subsidies Policies

Colombia has sharply reduced its export subsidies, and its subsidy practices are generally compatible with WTO standards. At present, the government manages only two export subsidy programs. One, the "cert" (certificado de reembolso tributario), refunds a percentage of the FOB value of an export. Under a 1990 bilateral agreement, the "cert" does not apply to goods exported to the U.S. The other export subsidy, known as 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

Colombia has made improvements in its intellectual property right protection, but does not yet provide adequate, effective protection. Principally because of IPR reasons, for the last five years the USTR has placed Colombia on the "Watch List" under the Special 301 provision of the 1988 Omnibus Trade Act. As of the end of 1998, Colombia was at risk of being elevated to the "Special Watch List" because of failure to address TV piracy issues. Colombia, which is a WTO member, has ratified its Uruguay Round implementing legislation. It is a member of the World Intellectual Property Organization (WIPO) and has negotiated to join the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Union for the Protection of New Plant Varieties. Colombia belongs to the Berne and Universal Copyright Conventions, the Buenos Aires and Washington Conventions, the Rome Convention on Copyrights, and the Geneva Convention for Phonograms. It is not a member of the Brussels Convention on Satellite Signals.

Patent and Trademarks: 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 registration has a 10-year duration and may be renewed for successive 10-year periods. Although Colombian law provides, for example, 20-year protection for patents and reversal of burden of proof in cases of alleged patent infringement, it is deficient in the areas of compulsory licensing provisions, working requirements, biotechnology inventions, transitional ("pipeline") protection, and protection from parallel imports. Enforcement of trademark legislation in Colombia is making some progress, but contraband and counterfeiting are widespread.

Copyrights: Colombia's 1993 Copyright Law increased penalties for copyright piracy. Enforcement problems consistently arise, however, not only at the police level, but also in the judicial system, where there have been complaints about the lack of respect for preservation of evidence and frequent perjury.

New Technologies: Colombia has a modern Copyright Law which gives protection for computer software for 50 years and defines computer software as copyrightable subject matter but does not classify it as a literary work. Colombia's recently passed Television Broadcast Law potentially increased protection for all copyrighted programming by regulating satellite dishes, but its enforcement has hardly begun. Semiconductor design layouts are not protected under Colombian law.

U.S. industry estimates that videocassette piracy represents over 75 percent of the video market; sound recording piracy, 66 percent of the market; and business software piracy, 67 percent of the market. Satellite programmers estimate there are about 3.6 million Colombian households that receive satellite signals, of which only 200,000 are legally subscribed.

8. Worker Rights

a. *The Right of Association:* Colombian law recognizes the rights of workers to organize unions and to strike. The labor code provides for automatic recognition of unions that obtain at least 25 signatures from the potential members and that comply with a simple registration process at the Labor Ministry. The law penalizes interference with freedom of association. It allows unions to freely determine internal rules, elect officials and manage activities, and forbids the dissolution of trade unions by administrative fiat. Unions are free to join international confederations without government restrictions.

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 the most successful in organizing, but these organized workers represent only a small portion of the economically active population. According to Labor Ministry figures, approximately seven percent of Colombia's workers are organized into 2,235 unions. High unemployment (over 15 percent as of September 1998), traditional anti-union attitudes, and weak union organization and leadership limits workers' bargaining power in all sectors.

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 the granting of work permits to youths under the age of 18. This provision is respected in large enterprises and in major cities. Nevertheless, Colombia's extensive and expanding informal economy remains effectively outside government control. Statistics vary: according to different studies (Labor Ministry and Los Andes University among the most reliable), there are between 1.5 and 2 million working children between the ages of 12 and 17. These children work—often under substandard conditions—in agriculture or in the informal sector, as street vendors, in leather tanning, and in small family-operated mines. According to these studies, 80 percent of the working children work in the informal sector, and 90 percent of the working children perform risky or dangerous activities.

e. *Acceptable Conditions of Work:* The government sets a uniform minimum wage for workers every January to serve as a benchmark for wage bargaining. The minimum wage for 1998 is approximately $150 (203,826 pesos) per month. Because the minimum wage is based on the government's target inflation rate, which has been exceeded during 1995 and 1996, the minimum wage has not kept up with inflation in recent years. By government estimates, the price of the family shopping basket ("canasta familiar") is 2.4 times the minimum wage. The law provides for a standard 8-hour workday and 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:* 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 of the enterprises.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,120
Total Manufacturing		1,210
Food and Kindred Products	356	
Chemicals and Allied Products	297	
Primary and Fabricated Metals	49	
Industrial Machinery and Equipment	1	
Electric and Electronic Equipment	29	
Transportation Equipment	(1)	
Other Manufacturing	(1)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount
Wholesale Trade	135
Banking	(1)
Finance/Insurance/Real Estate	529
Services	84
Other Industries	(1)
TOTAL ALL INDUSTRIES	3,727

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	8,995.8	9,502.0	9,900
Real GDP Growth (pct)[3]	−0.6	3.8	4.5
GDP by Sector (pct):			
Agriculture	18.7	18.0	18.0
Industry	21.3	21.5	21.5
Services	52.4	53.1	53.3
General Government	7.6	7.4	7.2
Per Capita GDP (US$)	2,809	2,905	2,960
Labor Force (000s)	1,278	1,330	1,400
Unemployment Rate (pct)	6.2	5.7	5.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	11	21	15
Consumer Price Inflation	13.9	12.0	12.0
Exchange Rate (Colones/US$ annual average)			
Official	208.37	233.28	260
Parallel	208.37	233.28	260
Balance of Payments and Trade:			
Total Exports FOB[4]	3,013.8	3,280.5	3,600.0
Exports to United States[4]	1,056.4	1,370.8	1,500.0
Total Imports CIF[4]	3,479.4	3,919.1	4,400.0
Imports from United States[4]	1,559.3	1,718.0	1,750.0
Trade Balance[4]	−465.6	−638.6	−800.0
Balance with United States[4]	−502.9	−347.2	−250.0
External Public Debt	2,859	3,200	3,500
Fiscal Deficit/GDP (pct)	6.3	4.0	4.0
Current Account Deficit/GDP (pct)	3.5	3.0	4.5
Debt Service Payments/GDP (pct)	6.3	6.1	6.1
Gold and Foreign Exchange Reserves	925.7	1,141.3	1,000
Aid from United States	10.5	18	18[5]
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Estimate for FY 1998.

1. General Policy Framework

The Costa Rican economy is based on a free market system and open trading regime. There are, however, several large public sector monopolies in electricity distribution, telecommunications, petroleum distillation and distribution, and insurance. The economy is performing well, having recovered from the contraction of 1996. The government forecasts GDP growth of 4.5 percent for 1998, improving on 3.8 percent growth in 1997. The administration of President Miguel Angel Rodriguez took office in May 1998, and has declared its intention to bring private investment and competition into those parts of the economy that have been reserved for the public sector.

1998 is witnessing a significant renewal of construction of tourist facilities and increasing exports of traditional and nontraditional products. Investment and aggregate consumption have picked up considerably, but so have balance of payments anxieties, as imports continue to outpace merchandise exports by a significant amount. Despite rapidly growing tourism income, Costa Rica runs a chronic deficit on current account that, in recent years, has been financed by inflows of direct foreign investment. As international reserves began to decline somewhat in the second half of 1998, the central bank raised interest rates to encourage the repatriation of Costa Rican funds held offshore and to rein in consumption, much of which is satisfied by imports.

Years of fiscal deficits have left the government saddled with a large public sector debt, mostly financed in the domestic capital market. The government spends over 30 percent of its revenues servicing this debt. The Finance Ministry has sought to cut expenses and improve tax collection, with only limited success. Over the medium term, the government anticipates that capital raised through the sale or concession of public enterprises, along with more robust economic growth, will serve to reduce the debt and its associated servicing burden.

The new government shares its predecessor's eagerness to attract high quality foreign investment. Several high technology companies, most notably U.S. electronics giant INTEL, have set up shop in Costa Rica during the past two years, attracted by a well-educated technical work force. On the trade front, Costa Rica has publicly expressed its impatience with the pace of market opening initiatives such as the Free Trade Area of the Americas, enhancement of the Caribbean Basin Initiative, or the negotiations underway between the Central American nations as a group and other nations of the hemisphere. Exceptions to this general trend continue, however, resulting from such factors as domestic pressure to restrict foreign competition, constitutional protection of state-owned monopoly enterprises, and domestic political pressure favoring interventionist and redistributive government.

2. Exchange Rate Policy

The current exchange rate policy, originally devised in 1993, is of the "crawling peg" variety employing daily mini-devaluations. The rate of devaluation is driven by the market and is adjusted as necessary. The exchange rate is set indirectly every morning by the central bank through its sale or purchase of foreign currency, and virtually all private business is subsequently transacted at that rate. Additionally, all foreign transactions by state institutions are channeled through the central bank. Commercial banks are free to negotiate foreign exchange prices but must liquidate their foreign exchange positions daily with the central bank.

During 1997, the colon was devalued by 11.4 percent against the U.S. Dollar in line with the central bank policy of maintaining a "neutral" exchange rate policy (a rate of devaluation similar to internal price increases). The rate was increased slightly in 1998 to adjust for the appreciation of the dollar against other world currencies, with the expectation that devaluation for the year will approximate 13 percent. 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 continues to be a significant factor in increasing imports during 1997 and 1998.

3. Structural Policies

On January 19, 1995, new legislation eliminated most "consumer protection" regulations that controlled prices and profit margins and prohibited price speculation. Simultaneously, antitrust legislation and rules protecting consumers against product misrepresentation and price fixing were enacted.

Purchases by state institutions must follow very detailed laws and regulations on public bidding. Local suppliers are not subsidized and enjoy no special advantages over foreign suppliers. U.S. companies often succeed in supplying pharmaceuticals, machinery, electrical and transportation equipment to public sector purchasers. There have been no recent tax modifications that affect the import of U.S. goods.

Corruption was a major theme in the recent political campaign, and several important cases are being tried in the courts.

4. Debt Management Policies

Costa Rica's foreign debt totaled $2,655 million on December 31, 1997 (equivalent to 27.9 percent of GDP), a decrease of $204 million from year-end 1996. However, in order to take advantage of lower interest rates, the government is attempting to refinance about $300 million of its more costly colon-denominated internal debt with dollar-denominated foreign debt. It conducted a similar operation earlier in 1998 with $200 million of debt.

In 1997, Costa Rica paid $583 million in foreign official debt service, equivalent to 6.1 percent of GDP and 17.8 percent of merchandise exports. Costa Rica undertook several adjustment programs with the IMF and the World Bank during the past decade, as well as five Paris Club arrangements and a Brady debt buy-back scheme in 1989. Largely because of these past programs, foreign currency reserves, balance of payments considerations, and exchange rates do not currently raise serious concerns for the multilateral lending institutions. These are more concerned with the problem of the large internal public debt, which amounted to 810 billion colones ($3.3 billion) at the end of 1997. The government spends almost a third of its budget paying interest on outstanding bonds, more than it spends on salaries of public employees. The problem is compounded by the central bank's monetary policy, which results in high interest rates which boost debt service costs for the Finance Ministry.

5. Aid

U.S. Government agencies provided an estimated $18 million of assistance during fiscal year 1998, of which $13 million was for the Screwworm Eradication Program. Total military assistance was $3.2 million. Although Costa Rica abolished its military forces in 1948, the United States provides assistance to Costa Rica's civilian security forces.

6. Significant Barriers to U.S. Exports

As a condition of joining the WTO in 1994, Costa Rica replaced all import licenses or permits with tariffs. The central bank now monitors imports for statistical purposes only. Currently, the tariff on most goods is 15 percent of the CIF price, with a few items such as poultry and automobiles paying in excess of 100 percent. Solvents and chemical precursors used in the elaboration of illegal drugs are carefully regulated. Surgical and dental instruments and machinery can be sold only to licensed importers and health professionals. All food products, medicines, toxic substances, chemicals, insecticides, pesticides and agricultural inputs must be registered and certified by the Ministry of Health prior to sale.

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 mineral extraction and refining, and the operation of ports and airports. Also, representatives or distributors of foreign products must have resided in Costa Rica for at least ten years. Customs brokers must be Costa Rican citizens. 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 cannot be met by newcomers.

Legislation approved in October 1995 allowed private banks to offer demand deposits. However, private banks must be incorporated locally; branches of foreign banks are not permitted. At the end of 1998, the three state owned commercial banks still accounted for close to 90 percent of country's demand deposits. An electricity co-generation law enacted in 1996 allows some private-sector participation in the production of energy but not in its transmission. This law has since been modified to permit the private construction and operation of plants under BOT (build-operate-transfer) and BLT (build-lease-transfer) mechanism, but the operator must have at least 35 percent Costa Rican equity. There are several initiatives to open the power, telecommunications, and insurance sectors to foreign investment and competition, but it is not possible to predict when implementing legislation might be passed.

Documentation and labeling of U.S. exports to Costa Rica must use the metric system and contain specific information in Spanish. Car bumpers are subject to strength requirements. Phytosanitary and zoosanitary restrictions on the import of fresh produce, and high tariffs on certain agricultural products, significantly constrain imports of some U.S. agricultural products. The Ministry of Health must approve imports of pharmaceuticals, veterinary drugs and chemicals, and chemicals and pesticides must be legally available in the exporting country.

The law encourages the development of nontraditional exports and tourism and provides incentives for foreign investment. With very few exceptions as noted above, it does not restrict foreign equity participation. However, it limits the percentage of foreign workers that can work in an enterprise. Permits for foreign participation in management are routinely granted. No requirements exist for foreign owners to work in their own companies. There are no restrictions on the repatriation of profits and capital.

The government and other state institutions procure through open public bidding, but the law allows private tenders and direct contracting of goods and services in relatively small quantities or in case of emergency with the consent of the Comptroller General. Public bidding is complicated and highly regulated, with the result that foreign bidders are frequently disqualified for failure to comply exactly with the detailed procedures. Appeals of contract awards are common, lengthy, and costly, sometimes leading to losses when market prices change but bid prices remain fixed. 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. Foreign companies must have a legal representative in Costa Rica in order to sell goods or services to public entities. A 1996 law simplified somewhat government procurement procedures, but the process is still relatively convoluted.

Customs procedures are often costly and complex, but they do not discriminate between Costa Ricans and foreign traders. Most large firms have customs specialists on the payroll, in addition to contracting the mandatory services of customs brokers. Customs brokers must be Costa Rican nationals. The government is automating and simplifying the system and has established a one-stop window to speed up the system.

The government's expropriation policy has caused problems for U.S. investors. The government has expropriated large amounts of land for national parks and for ecological and indigenous reserves, but compensation is rarely, if ever, prompt. Some unpaid U.S. expropriation claims date back over 25 years. While it is possible to obtain compensation through the court system, the time, effort, and costs involved can greatly diminish the net value of any settlement. Claimants also have, since 1993, recourse to international arbitration through the International Center for the Settlement of Investment Disputes (ICSID). Submission of the first expropriation case to ICSID continues in a case involving the government 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 sometimes violent. In November 1997, a U.S. citizen and long-term resident of Costa Rica was killed in a dispute over an ocean front land concession granted by a municipal government. Squatters enjoy certain rights under Costa Rican land tenure laws and can eventually receive title to the land they occupy. Police protection of landowners in rural areas is often inadequate. In some cases, the government has expropriated property taken over by squatters.

7. Export Subsidies Policies

Under the 1972 Export Promotion Law, nontraditional exports to destinations outside of Central America and Panama qualified for negotiable tax rebate certificates (CATS). This program is being phased out and will be completely terminated in 1999. The Export Processing Law of 1981 permits companies in designated free trade zones to be exempted from paying duties on imported inputs incorporated into exported products. It also provides holidays on income and remittance taxes.

8. The Protection of U.S. Intellectual Property

Costa Rica belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Costa Rica is also a signatory to the Paris Convention, Berne Convention, Lisbon Agreement, Rome Convention, Phonograms Convention, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative placed Costa Rica on the "Special 301" Watch List because of deficient patent legislation and widespread copyright and trademark piracy.

Significant weaknesses exist in copyright and trademark enforcement and in the duration of patent protection. The government has charged the Costa Rican Investment and Trade Development Board (CINDE) with coordinating domestic legislative and regulatory changes required to ensure that the country is in compliance with its IPR obligations under the WTO TRIPs Agreement by the January 1, 2000 deadline.

Patents: Costa Rican patent laws are deficient in several areas. Patents are granted for non-extendible 12-year terms, less than the 20 years required by the TRIPs Agreement. In the case of products deemed "in the public interest," such as pharmaceuticals, chemicals and agrochemicals, and all beverage and food products, coverage is for only one year. Although no patent protection is currently available for plant or animal varieties, or for any biological or microbiological process or products, 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 not produced locally. All of these issues are to be reviewed by CINDE as it seeks to bring domestic patent law into compliance with the TRIPs Agreement.

Trademarks: Trademarks, service marks, trade names, and slogans can be registered in Costa Rica. Registration is for renewable for 10-year periods. However, enforcement problems are similar to those encountered with copyrights, particularly in the area of designer clothing (e.g., jeans). Another problem is the registration of famous marks by speculators, who demand to be bought out when the legitimate trademark owner comes to Costa Rica. Litigation to establish ownership can be expensive.

Copyright: Costa Rica's copyright laws are generally adequate, and market access for legitimate copyrighted goods is not restricted by anything other than the unfair price advantage enjoyed by pirated goods. On May 24, 1994, the government issued regulations that provide better protection and mandate police participation in developing criminal cases against pirates. The main problem is enforcement. The cable television industry now operates almost entirely under quitclaim agreements with foreign producers. Additionally, the major public universities recently contracted to use copyrighted materials. However, some hotels continue to pirate satellite transmission signals. Pirated videocassettes, usually duplicated domestically, are widely available and constitute at least 90 percent of the market. An authorized distributor of videocassettes has begun enforcement efforts to regularize the videocassette market.

Existing laws protect trade secrets, and Article 24 of the Constitution protects the confidentiality of communications. The penal code stipulates prison sentences for divulging trade, employment, or other secrets, and doubles the punishment for public servants. Some existing laws also stipulate criminal and civil penalties for divulging trade secrets. The burden of proof is on the affected party.

9. Worker Rights

a. *The Right of Association:* The law specifies the right of workers to join labor unions of their choosing without prior authorization, although some barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Costa Rica has no restrictions on the right of private sector employees to strike. In 1998, the Constitutional Chamber of the Supreme Court ruled that public sector workers, except those performing essential services, have the right to strike. Many workers in Costa Rica join solidarity associations, under which employers provide easy access to saving plans, loans, recreation centers, and other benefits in return for their agreement to employ nonconfrontational methods to settle disputes. Both solidarity associations and labor unions coexist at some workplaces, primarily in the public sector.

b. *The Right to Organize and Bargain Collectively:* The constitution protects the right to organize. Reforms to the labor code enacted in 1993 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. Unions in the private sector have the right to engage in collective bargaining. Nonetheless, workers in the public sector cannot engage in collective bargaining because the 1978 Public Administration Act makes labor law inapplicable in relations between the government and its employees.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor and requires employers to provide adequate wages to workers in accordance with minimum wage standards. Laws prohibit forced and bonded labor by children. The government enforces this prohibition effectively.

d. *Minimum Age for Employment of Children:* The 1992 Children's Code prohibits the employment of children under 15 years of age. The Ministry of Labor issued some waivers to this provision, with the goal of working gradually toward elimination of child labor. The constitution provides special employment protection for women and youth. Children between 15 and 18 can work a maximum of seven hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of five hours daily and 30 hours weekly. The National Children's Institute, in cooperation with the Labor Ministry, enforces these regulations in the formal sector, but child labor remains an integral part of the 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 of the private and public sectors every six months. Workers may work a maximum of eight hours during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Industrial, agricultural, and commercial firms with ten or more workers must establish management-labor committees and allow government workplace inspections. Workplace enforcement is less effective outside the San Jose area.

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 investors based outside the United States.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		342
Food and Kindred Products	68	
Chemicals and Allied Products	124	
Primary and Fabricated Metals	15	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	56	
Transportation Equipment	0	
Other Manufacturing	78	
Wholesale Trade		1,057
Banking		0
Finance/Insurance/Real Estate		(1)
Services		1
Other Industries		56
TOTAL ALL INDUSTRIES		1,580

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

DOMINICAN REPUBLIC

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	13.5	15.0	16.2
Real GDP Growth (pct) [3]	7.3	8.2	7.0
GDP by Sector:			
Agriculture	1.6	1.9	2.1
Manufacturing	2.4	2.7	2.9
Services	3.7	4.7	5.2
Government	1.0	1.0	1.1
Per Capita GDP (US$)	1,572	1,882	2,000
Labor Force (000s)	3,522	3,614	3,697
Unemployment Rate (pct)	16.5	15.7	14.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	20	24	18
Consumer Price Inflation	4.0	8.3	9.0

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Exchange Rate (DR Peso/US$ annual average)			
Official	12.90	14.01	14.71
Parallel	13.63	14.27	15.14
Balance of Payments and Trade:			
Total Exports FOB (US$ millions) [4]	4.1	4.8	4.8
Exports to United States [5]	3.6	4.4	4.4
Total Imports CIF (US$ millions) [4]	5.7	6.6	7.0
Imports from United States [5]	3.2	3.9	4.0
Trade Balance (US$ millions) [4]	−1.5	−1.8	−2.2
Trade Balance with United States [5]	0.4	0.5	0.4
External Public Debt	3.7	3.5	3.4
Fiscal Surplus/GDP (pct)	0.1	1.6	−1.7
Current Account Deficit/GDP (pct)	−1.8	−1.5	−1.0
Debt Service Payments/GDP (pct)	3.0	1.5	1.5
Gold and Foreign Exchange Reserves [6]	0.5	0.5	0.5
Aid from United States (US$ millions) [7]	13.3	11.6	13.3
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data through June.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Central Bank.
[5] U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through August.
[6] U.S. Embassy calculations of gross reserves including certain illiquid assets.
[7] Calculation based on U.S. fiscal year. 1998 figure does not include relief specifically related to Hurricane Georges.
Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated.

1. General Policy Framework

The economy of the Dominican Republic continued its excellent rate of growth in the first three quarters of 1998, with the central bank predicting GDP growth of at least seven percent for the third year in a row. On September 22, Hurricane Georges hit the Dominican Republic causing extensive infrastructure and other damage. Early assessments put the damage in excess of $1 billion. Although it is still difficult at this time (November 1998) to evaluate the impact of the Hurricane on the overall economy, the central bank believes that GDP growth will be near seven percent and inflation will again be held to the single digit level. The official exchange rate was devalued nine percent from 14.02 to 15.33 pesos to the dollar in July 1998. It has continued to devalue slowly since then.

Because of the Dominican Republic's 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.

According to the central bank, the money supply grew 18 percent from June 1997 to June 1998. The central bank regulates the money supply by issuance of new money through the banking system and by the purchase or issuance of debt instruments of the central bank itself. Since there is no secondary market for government securities and no liquid security market, the tools available to the central bank are limited. The central bank can modify bank reserve requirements but rarely does so. Banks resort to the discount window of the central bank only rarely. The Superintendency of Banks has continued its work to improve banking regulation. Although the Dominican Republic has no deposit insurance, the central bank guaranteed deposits at Bancomercio, the country's third largest bank, when it failed in early 1996, and subsequently supervised its sale to another Dominican bank. There have been no significant bank failures since then.

Gross foreign exchange reserves were approximately $521 million in June 1998. The reserve figures include some central bank assets, which are not actually available for use in payments. According to its latest report, the central bank calculates that its net liquid reserves are approximately $150 million. The government continued timely payments of foreign private bank debt and payments on renegotiated

Paris Club debt. In late 1997, the Dominican Republic came to an agreement with the U.S. Department of Agriculture's Commodity Credit Corporation (CCC) for the payment of arrearages to that institution. In the aftermath of Hurricane Georges, however, the central bank has approached the Paris Club to request a six-month payment moratorium.

The government continues to compensate the central bank for foreign debt payments carried out on its behalf. In the past, the central bank obtained the dollars needed for debt service by monetary expansion and compensated for this expansion by issuing Certificados de Participacion, which are short-term debt instruments. While this helps absorb excess liquidity, interest payments on these certificates may also be covered by net money creation.

Prior to Hurricane Georges, government cash flows were in surplus according to the central bank. Relief and reconstruction expenditures will probably cause the government to run a minor deficit, but these expenditures may yet be offset by flows from the multilateral financial institutions. On an accrual basis, however, there is probably a significant deficit. The government has accumulated large arrears to domestic suppliers and contractors, although the Fernandez administration is moving slowly to repay some portion of this. The central government continues to provide subsidies to profligate state enterprises without regard to efficiency or production targets. The exact size of this debt is unknown, but has been variously put at the peso equivalent of 150 to 600 million dollars. This domestic debt is owed to foreign firms now or previously operating in the Dominican Republic, as well as to purely local firms. Current government financial flows leave substantial doubt about the ability of the Dominican Government to pay this debt. The government has considered covering this debt by the issuance of bonds.

The Dominican Republic has ratified the GATT 94 and participates in WTO meetings. The government has not yet fully implemented the Uruguay Round agreements, although it has taken important steps this year toward adopting the rectification agreement negotiated with the U.S. in 1996. Agricultural products continue to be imported based on a discretionary licensing system.

2. Exchange Rate Policy

The official exchange rate is set by the central bank. On July 2, 1998, the peso was devalued nine percent from 14.02 pesos/dollar to 15.33 pesos/dollar. It has continued to devalue slowly since then with the most recent official rate (November 1998) set at 15.46 pesos/dollar. The unofficial rate has also devalued and is currently in the range of 15.65-15.85 pesos to the dollar. Traditional exporters such as sugar, cocoa, and coffee producers, credit card companies, and airlines are still required by law to sell foreign exchange to the central bank at the official rate, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial bank system. The market rate is influenced by central bank activities such as dollar sales and the use of its considerable regulatory discretion to "jawbone" banks.

3. Structural Policies

Most domestic prices are determined by market forces, although distortionary government policies sometimes limit the operation of these forces. High tariff and non-tariff barriers also increase the cost of doing business in the Dominican Republic. Since tariff reform enacted by presidential decree in 1990 and modified by law in 1993, no further reform has affected U.S. exporters. In December 1996, President Fernandez submitted a proposal to Congress to decrease all tariffs. This proposal was not acted upon. Following the negotiation of a free trade pact with Central America, however, the Fernandez administration is expected to submit a new proposal to the Congress to decrease tariff levels to Central American levels (i.e. top tariff of 20 percent).

The 1990 tariff regime reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 3 to 35 percent. It also replaced some quantitative import restrictions with tariffs and transformed all tariffs to ad valorem rates. While it marked an improvement over the previous tariff regime, this reform still left the Dominican Republic with high trade barriers. Few imports actually enter at the maximum 35 percent tariff rate, however, since together with other taxes and fees, it acts as an effective barrier to trade. Since nearly 40 percent of government revenues come from duties, taxes and fees collected on imports, the government's flexibility in trade policy is limited.

The government has continued to implement 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. The government is expected to submit proposals for changes in the tax system as part of a reform package in late 1998. In May 1992, a new labor code was promulgated with provisions which increased a variety of employee benefits. After an increase of 25 percent in 1997, public sector minimum wages have not increased in 1998.

Government policy prohibits new foreign investment in a number of areas including public utilities, national defense production, forest exploitation and domestic air, surface and water transportation. Government regulations, such as the process required to obtain the permits to open new businesses, choke economic growth and innovation. The difficulties of protecting intellectual property rights have slowed the use of modern medicines. Investment in modern agricultural techniques is impeded by a chaotic land tenure system, and the unwillingness of large landowners to modernize.

4. Debt Management Policies

The total external debt of the government is now approximately $3.4 billion. A significant portion of the official debt was rescheduled under the terms of Paris Club negotiations concluded in November 1991. In August 1994, the government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and U.S. Treasury-backed rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then, particularly since the agreement noted above with the CCC.

Government payments to foreign non-financial institutions are notoriously slow. Some debts are ten years old. The Fernandez government continues to express its desire to resolve these debts, but progress has been limited.

5. Significant Barriers to U.S. Exports

Trade Barriers: Tariffs on most products fall within the 5 to 35 percent range. In addition, the government imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles.

The Dominican Republic requires a consular invoice and "legalization" of documents, which must be performed by a Dominican Consulate in the U.S. Fees for this service vary by consulate but can be quite substantial. Some importers now pay the consular invoice fee in Santo Domingo directly to customs. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

There are food and drug testing and certification requirements, but these are not burdensome.

Customs Procedures: In the past, bringing goods through Dominican Customs was a slow and arduous process, but there is anecdotal evidence that this situation has improved. Customs Department interpretation of exonerated materials being brought into the country still provokes complaints, however, and businesspersons here sometimes spend considerable time and money to get items through customs.

Arbitrary customs clearance procedures sometimes cause problems for business. The use of "negotiated fee" practices to gain faster customs clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market. Customs officials routinely reject invoice prices as a basis for computing duties and customs fees and use their own assumed value database. This applies to virtually all non-free trade zone imports.

Government Procurement Practices: 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 government's general office work. In practice, each public sector entity has its own procurement office, both for transactions in the domestic market and for imports. Provisions of the U.S. Foreign Corrupt Practices Act often put U.S. bidders on government contracts at a serious disadvantage in what are sometimes non-transparent bidding procedures.

Prohibitions on Land Ownership: A long-standing requirement that foreigners wishing to purchase land first obtain permission from the presidency was lifted in early 1998.

Investment Barriers: Legislation designed to improve the investment climate passed in November 1995. Its implementing regulations were issued by the Fernandez administration in September 1996. The legislation does not contain procedures for settling disputes arising from Dominican Government actions. The seizures of foreign investors' property by past governments which are still unresolved, refusal to honor customs exoneration commitments, and the government's slowness in resolving claims for payment reduce the attractiveness of the investment climate, notwithstanding passage of the 1995 legislation.

Foreign investment must receive approval from the Foreign Investment Directorate of the central bank to qualify for repatriation of profits (the new law provides for repatriation of 100 percent of profits and capital and nearly automatic approval of investments).

The electricity sector is a weak link in the Dominican economy. Businesses operating in the DR cannot depend on the public electric utility (CDE) to be a reliable source of electricity. Legislation governing the privatization/capitalization of CDE as well as of other state enterprises was passed by the Congress in June 1997. The capitalization of CDE is likely to occur in early 1999.

Foreign employees may not exceed 20 percent of a firm's work force. This is not applicable when foreign employees perform managerial or administration functions only.

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 Fernandez government continues to maintain that it wishes to resolve these issues although progress has been slow. The Dominican Republic does not recognize the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Private investment has been permitted in selected sites. Currently, foreign investors are exploring for gold, natural gas, and copper. The process of choosing and contracting such areas has not been transparent.

Investors operating in the Dominican Republic's Free Trade Zones (FTZ's) 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.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: the Free Trade Zone Law (Law no. 8-90, passed in 1990) and the Export Incentive Law (Law no. 69, passed in 1979). The Free Trade Zone Law provides 100 percent exemption on all taxes, duties, and charges affecting the productive and trade operations at free trade zones. These incentives are provided to specific beneficiaries for up to 20 years, depending on the location of the zone. This legislation is managed jointly by the Foreign Trade Zone National Council and the Dominican Customs Service.

The Export Incentive Law provides for tax and duty free treatment of inputs from overseas that are to be processed and re-exported as final products. This legislation is managed by the Dominican Export Promotion Center and the Customs Service. In practice, use of the export incentive law to import raw materials for process and re-export is cumbersome and delays in clearing customs can take anywhere from 20-60 days. This customs clearance process has made completion of production contracts with specific deadlines difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal customs procedures which, although more costly, are more rapid and predictable.

There is no preferential financing for local exporters nor is there a government fund for export promotion.

7. Protection of U.S. Intellectual Property

The Dominican Republic belongs to the World Trade Organization (WTO), and is a signatory to the Paris Convention, Berne Convention, Madrid Agreement, and the Rome Convention. In 1998, the U.S. Trade Representative placed the Dominican Republic on the "Special 301" Priority Watch List because it continues to have inadequate enforcement of its existing laws and a legal regime that does not meet international standards. The government's actions to date to enforce the copyright law have not been sufficient to stem widespread piracy of video and audio tapes, compact discs, and software. While larger cable TV systems generally pay royalties to U.S. right holders, smaller ones continue to pirate satellite signals, and the government has not responded to requests from U.S. industry for more effective enforcement. Trademarks, particularly of apparel and athletic shoes, are commonly counterfeited and sold locally. The patent law still contains broad exceptions from patentability, and provides an inadequate term of protection.

Patents: Patents are difficult to receive and enforce against a determined intellectual property thief. In a local pharmaceutical market worth approximately $110 million per year, 70 percent of the total is locally produced or packaged. A significant percentage of that total is believed to be pirated. Resolutions issued by the government at year end 1996 and early 1997 further encourage the violation of pharmaceutical patents in the Dominican Republic. However, the Supreme Court recently upheld the rights of a foreign patent holder against a local laboratory.

Trademarks: Apparel and other trademarked products are counterfeited and sold in the local market. Although the Dominican Government is taking a more activist stance toward remedying shortcomings in this area, including seizure of pirated goods, protection remains problematic.

Copyright: Although copyright laws are generally adequate, enforcement is not, resulting in widespread piracy. Video and audio recordings and software are being counterfeited. Some television and cable operators are re-broadcasting signals without compensating either the original broadcaster or the originator of the recording. The Motion Picture Association of America (MPAA) estimates that losses in the Dominican Republic due to theft of satellite-carried programming are one million dollars per year.

Impact on U.S. Trade: Infringement of intellectual property rights is so widespread that quantifying its impact on U.S.-Dominican trade is virtually impossible.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the freedom to organize labor unions and also for the right of workers to strike (and for private sector employers to lock out workers). All workers, except military and police, are free to organize, and workers in all sectors exercise this right. The government respects association rights and places no obstacles to union registration, affiliation or the ability to engage in legal strikes. Organized labor represents little more than 10 percent of the work force and is divided among three major confederations, four minor confederations and a number of independent unions.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is lawful and may take place in firms in which a union has gained the support of an absolute majority of the workers. Only a minority of companies has collective bargaining pacts. The Labor Code stipulates that workers cannot be dismissed because of their trade union membership or activities.

The Labor Code applies in the 40 established Free Trade Zones (FTZs). The FTZ companies, over sixty percent of which are U.S.-owned or associated, employ approximately 172,000 workers, mostly women. Some FTZ companies have allegedly discharged workers who attempt to organize unions, but these allegations have primarily been made against non-U.S. companies.

c. *Prohibition of Forced or Compulsory Labor:* There were numerous reports of forced overtime in factories. Employers, particularly in the FTZs, sometimes locked the exit doors of factories after normal closing time so that workers could not leave. There have been reports of workers being fired for refusing to work overtime and both employers and workers state that new hires are not informed that overtime is optional.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits employment of youth under 14 years of age and places restrictions on the employment of youth under the age of 16. These restrictions include a limitation of no more than six hours of daily work, no employment in dangerous occupations or establishments serving alcohol and limitations on nighttime work. Dominican law requires six years of formal education.

The high level of unemployment and lack of a social safety net create pressures on families to allow children to earn supplemental income. Tens of thousands of children work selling newspapers, shining shoes or cleaning cars, often during school hours. The government has proposed a fine for the parents of truant children.

e. *Acceptable Conditions of Work:* The Constitution provides the government with legal authority to set minimum wage levels and the Labor Code assigns this task to a National Salary Committee. Congress may also enact minimum wage legislation. The Labor Code establishes a standard work period of eight hours per day and 44 hours per week. The Code also stipulates that all workers are entitled to 36 hours of uninterrupted rest each week. The Code grants workers a 35 percent differential for work over 44 hours up to 68 hours per week and double time for any hours above 68 hours per week.

The Dominican Social Security Institute (IDSS) sets workplace safety and health conditions. The existing social security system does not apply to all workers and is underfunded.

Workplace regulations and their enforcement in the FTZs do not differ from those in the country at large, although working conditions are sometimes better. Conditions for agricultural workers are in general much worse, especially in the sugar industry.

f. *Rights in Sectors with U.S. Investments:* U.S.-based multinationals active in the FTZs represent one of the principal sources of U.S. investment in the Dominican

Republic. Some companies in the FTZs adhere to significantly higher worker safety and health standards than do non-FTZ companies. In other categories of worker rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		321
Food and Kindred Products	21	
Chemicals and Allied Products	26	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	274	
Wholesale Trade		19
Banking		34
Finance/Insurance/Real Estate		(2)
Services		20
Other Industries		(1)
TOTAL ALL INDUSTRIES		476

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

ECUADOR

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP	19.0	19.8	19.9
Real GDP Growth (pct)	2.0	3.4	1.0
GDP by Sector:			
Agriculture, Fishing	3.5	4.1	0.4
Petroleum, Mining	−1.9	3.5	0.1
Manufacturing	3.3	3.5	2.7
Commerce, Hotels	4.4	3.3	2.1
Finance, Business Services	1.9	1.9	2.5
Government, Other Services	0.5	1.3	1.7
Per Capita GDP (US$)	1,638	1,665	1,618
Labor Force (estimate—000s)	3,220	3,374	3,441
Urban Unemployment (pct)	10.0	9.3	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [2]	43.9	35.0	22.3
Consumer Price Inflation	26.0	30.7	45.0
Exchange Rate (Sucres/US$ annual average)			
Central Bank	3,190	4,000	5,700
Market	3,190	4,070	5,800
Balance of Payments and Trade:			
Total Exports FOB [3]	4.9	5.3	2.8
Exports to United States [3]	1.9	2.0	1.1
Total Imports CIF [3]	3.9	2.2	3.7

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Imports from United States [3]	1.2	1.5	1.1
Trade Balance [3]	1.2	3.1	−0.9
Balance with United States [3]	2.7	0.5	0.0
External Public Debt	12.6	12.6	12.7
Debt Service Payments/GDP (pct)	22.3	27.7	21.0
Current Account Deficit/GDP (pct)	0.6	−3.8	−2.4
Fiscal Balance/GDP (pct)	−4.0	−2.5	−5.9
Gold and Foreign Exchange Reserves	1.8	2.1	1.8
Aid from United States (FY-US$ millions)	13.5	11.5	12.5
Aid from Other Sources	N/A	N/A	N/A

[1] 1998 figures are estimates based on data available in August.
[2] 1998 figure is for August 1997-August 1998.
[3] All 1998 figures are for the period January-August.
Source: Ecuadorian Government and Central Bank of Ecuador data.

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 1970s, the 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 1980s.

The 1992-1996 government of Sixto Duran-Ballen sought to stabilize the economy, modernize the state, and expand the role of the free market. By 1994, a sound macroeconomic program had resulted in a balanced budget and reduced inflation. Those accomplishments were undermined by a series of shocks during 1995, including the outbreak of fighting on the border with Peru, a corruption scandal and political crisis involving the then-Vice President, and several months of electricity rationing. The problems resulted in skyrocketing interest rates, a growing number of past-due loans, and the failure of a major financial institution. GDP growth slowed during 1995, increasing by only 2.3 percent instead of a projected 4 percent. The uncertainty associated with the 1996 elections, the rise of the populist Abdala Bucaram to the presidency, poor treatment of foreign investors, and delays in the announcement of the new government's economic program helped prevent an economic recovery. Economic reform stalled under Bucaram's six-month government (August 1996-February 1997) which was characterized by increased corruption and decreased investment.

The interim government of Fabian Alarcon (February 1997-August 1998) was faced with a number of challenges, including implementing the Duran-Ballen era reforms, falling oil prices, and coastal devastation from El Niño. However, the Alarcon government failed to privatize the state-owned telephone company, reduce the inflation rate to international levels, or improve the electricity generating sector. The current administration of Jamil Mahuad has moved quickly to secure a peace treaty with Peru, allowing the government to begin concentrating on Ecuador's economic problems. In September 1998, President Mahuad cut politically sensitive subsidies on cooking gas and electricity as a first step toward reducing Ecuador's large fiscal deficit. In addition to cutting the fiscal deficit, the Mahuad administration also hopes to increase foreign investment, sell off state-owned enterprises, increase private investment in the oil sector, and rebuild much of the country's infrastructure.

The government estimates that the fiscal deficit for 1998 will reach between 5.5 and 6.0 percent of GDP. Significant revenue and expenditure measures will be needed to reduce the deficit to what the government believes is a sustainable figure of 2.5 percent of GDP in 1999. Public sector expenditures (including state enterprises but excluding the military's capital budget, which is funded by a direct off-budget allocation of oil revenues) accounted for 18.6 percent of GDP in 1997. Debt service is the largest area of government spending (accounting for about half of central government expenditures), followed by education, defense and agriculture. The government remains highly dependent on revenue from oil exports and customs charges.

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. Annual M2 percentage growth in 1996 increased from 42 percent to 44 percent. The August 1996 - August 1997 growth rate was 28 percent. The Duran-Ballen policy of depreciating the currency at a rate slower than inflation helped reduce the annual increase in consumer prices from 60 percent in 1992 to 23 percent in 1995. However, the inflation rate rose to 26 percent in 1996, 30 percent in 1997, and will likely reach 45 percent in 1998. In late Fall of 1998, the effects of the international financial crisis and local U.S. Dollar illiquidity (combined with efforts to protect the local currency) pushed nominal interest rates on sucre loans toward 90 percent.

2. Exchange Rate Policy

The monetary authorities introduced a narrow, pre-announced exchange rate band in December 1994. As a result of market pressures, the band has been adjusted periodically. The central bank devalued the sucre by 7.5 percent in March 1998 and again by 10 percent in September 1998 (while substantially broadening the band itself by 15 percent).

Foreign currency is readily available on the free market, trading at 6,600 sucres to the dollar by November 1998. Although some government officials have criticized currency speculators, there are no restrictions on the movement of foreign currencies into or out of Ecuador. By the end of October 1998, foreign exchange reserves amounted to about $1.65 billion (down 25 percent from January 1998), enough to cover imports for approximately four months.

3. Structural Policies

Recent administrations have enjoyed only partial success in carrying out structural reforms designed to promote investment and economic growth. Progress has been made on budget reform, reduction of public employment levels, and elimination of some unnecessary and market-distorting regulations. With exceptions for pharmaceuticals, some foodstuffs and fuels, prices are now set by the free market. New laws have established 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 agribusiness. In most cases, however, implementation has lagged behind legislation. The Mahuad government has placed great emphasis on structural reforms, including revamping the tax system and privatizing state-owned enterprises, such as telecommunications and power generation.

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 shares in commercial enterprises to the private sector. In the past, the armed forces have expressed interest in selling some shares in military-owned companies to private sector partners, though Ecuador's recent economic problems may delay any such sales. The Mahuad administration has put forth an ambitious plan to privatize much of the state-owned companies by the year 2000. Of key importance in the schedule is the sale of the two state-owned telephone companies (Andinatel and Pacifictel) in the third quarter of 1999. The Mahuad administration has asked foreign oil companies operating in Ecuador to build, own, and operate a second oil pipeline from the Amazon jungle to the Pacific Ocean. If the companies agree, construction could begin in April 1999. Steps have been taken toward granting private concessions for public works, the civil registry, airports, ports, and postal and railroad services. The government will also need to address the need for major reform of public education and the social security system's insolvent pension program.

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 with the United States that provides for free transfers and a binding arbitration dispute settlement procedure entered into force in May 1997. A value-added tax of 10 percent applies to imports and sales of goods and services in the formal sector. An excise tax on certain products continues to be applied to imports in a discriminatory manner. Also, congress recently passed legislation that replaces the income tax with a one percent tax on financial transactions. Although the hydrocarbons law is relatively investor-friendly, recent administrations have failed to respect many existing contracts with foreign investors in the oil sector.

4. Debt Management Policies

As of mid-1998, Ecuador's external public debt was $12.7 billion, roughly the same level as the previous year. While expressing a desire to reduce the debt burden, President Mahuad has promised to honor Ecuador's obligations.

In February 1995 Ecuador completed a comprehensive restructuring of its $7.1 billion external commercial bank debt and associated arrears. 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 concluded bilateral rescheduling agreements with most of its official creditors under a 1994 Paris Club agreement but again ran substantial bilateral arrears in 1995-1998 and has stated its intention to seek another Paris Club rescheduling. During 1996 Ecuador failed to meet the targets of the IMF-monitored program that replaced the 1994 standby arrangement, with which Ecuador had quickly fallen out of compliance. As of November 1998, Ecuador is seeking another IMF program in order to reschedule Paris Club debt and unlock conditioned loans from international financial institutions.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990's, resulting in a reduction of tariffs, 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. After two years of negotiations with its major trading partners, Ecuador joined the World Trade Organization (WTO) in January 1996.

Duties and fees for most imports into Ecuador fall in the 5 to 20 percent range. Ecuador agreed to an Andean Common External Tariff in February 1995. Special exemptions allow Ecuador to continue to charge higher rates for about half of the items on the common tariff schedule.

Customs procedures can be difficult but are not normally used to discriminate against U.S. products. The Mahuad administration is moving to repair damage done to customs services that occurred under previous administrations by focusing on corruption and improving efficiency. The government has yet to implement its commitment not to use sanitary and phytosanitary restrictions to block the entry of certain imports of consumption products and agricultural goods from the United States, but has increased the number of Ecuadorian institutions that are authorized to issue sanitary and phytosanitary permits. Import bans on used clothing, used cars and used tires have yet to be eliminated, despite Ecuador's promise in its WTO accession protocol to do so by July 1996. Andean Pact price bands that result in high effective tariffs for a variety of agricultural products are to be phased out. The government no longer sets minimum prices for assessing customs duties on certain imports.

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 that prevented U.S. and other foreign suppliers, but not domestic suppliers, from terminating existing exclusive distributorship arrangements without paying compensation was repealed in September 1997. However, the U.S. Government is concerned that the discriminatory law will continue to be applied in pending court cases or against U.S. companies that have existing contracts that were in force prior to the repeal. 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 are not sufficiently transparent but do not usually discriminate against U.S. or other foreign suppliers. However, bidding for government contracts can be cumbersome and time-consuming. Bids for public contracts are often delayed or canceled. Many bidders object to the requirement for a bank-issued guarantee to ensure execution of the contract.

6. Export Subsidies Policies

Ecuador does not have any explicit export subsidy programs.

7. Protection of U.S. Intellectual Property

Ecuador belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention, Rome Convention, and the Phonograms Convention. In 1998, the U.S. Trade Representative maintained Ecuador on the "Special 301" Priority Watch List.

Ecuador's protection of intellectual property is based primarily on the 1998 Intellectual Property Law, which protect patents, trademarks, copyrights, and plant varieties. The law generally meets the standards specified in the WTO TRIPs Agreement. Although a November 1996 Andean Pact court decision overturned Ecuadorian regulations that provided transitional or "pipeline" protection for previously unpatentable products, in 1998, the Alarcon government approved 12 "pipeline" patents. Approximately 37 such patents held by U.S. firms still await final resolution under the Mahuad government.

In October 1993, Ecuador and the United States signed a bilateral Intellectual Property Rights Agreement (IPRA) that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs, and trade secrets. Although the Ecuadorian Congress has not yet ratified the IPRA, in 1998, it enacted legislation that generally harmonizes local law with the agreement's provisions (except "pipeline" patents).

Although enforcement of intellectual property rights has improved in Ecuador, copyright infringement occurs, and there is widespread local trade in pirated audio and video recordings, as well as computer software. However, companies can seek preliminary injunctive relief under the 1998 IP law. Local registration of unauthorized copies of well-known trademarks has been a problem in the past, but monitoring and control of such registrations have improved. Some local pharmaceutical companies produce or import patented drugs without licenses and have sought to block improvements in patent protection.

8. Worker Rights

a. *The Right of Association:* Under the Ecuadorian Constitution and labor code, most workers in the parastatal sector and private companies enjoy the right to form trade unions. Public sector workers in non-revenue earning entities, as well as security workers and military officials, are not permitted to form trade unions. Less than 12 percent of the labor force, mostly skilled workers in parastatal and 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. Sit-down strikes are allowed, but there are restrictions on solidarity strikes. 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:* Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The labor code prohibits discrimination against unions and requires that employers provide space for union activities. The labor code provides for resolution of conflicts through a tripartite arbitration and conciliation board process. Employers are not permitted to dismiss permanent workers without the express permission of the Ministry of Labor. The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector. Employers consider the labor code to be unfavorable to their interests.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is prohibited by both the constitution and the labor code, and is not practiced.

d. *Minimum Age for Employment of Children:* Persons less than 14 years old are prohibited by law from working, except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their parents 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 workweek, two weeks of 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 $137. 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 sector enterprises earn substantially more than the general minimum wage. The labor code also provides for general protection of workers' health and safety on the job, and occupational health and safety is not a major problem in the formal sector. However, there are no enforced safety rules in the agriculture sector and informal mining.

f. *Worker Rights in Sectors with U.S. Investment:* The economic sectors with U.S. investment include petroleum, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large, multinational companies which abide by the Ecuadorian Labor Code. In 1996 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		730
Total Manufacturing		193
Food and Kindred Products	62	
Chemicals and Allied Products	55	
Primary and Fabricated Metals	3	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	1	
Transportation Equipment	15	
Other Manufacturing	57	
Wholesale Trade		67
Banking		(1)
Finance/Insurance/Real Estate		23
Services		3
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,175

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	10,358	11,264	12,500
Real GDP Growth (pct)	2.1	4.0	4.0
GDP by Sector:			
Agriculture	1,340	1,450	1,400
Manufacturing	2,156.3	2,391.0	2,686.0
Services	5,088.1	5,576.0	6,025.0
Government	698	747	800
Per Capita GDP (US$)[2]	1,789	1,906	2,050
Labor Force (000s)[3]	2,219	2,260	2,305
Unemployment Rate (pct)[4]	7.6	7.6	6.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	14.0	9.4	12.0
Consumer Price Inflation	7.8	2.0	4.0
Exchange Rate (Colon/US$)	8.75	8.75	8.75
Balance of Payments and Trade:			
Total Exports FOB[5]	1,790.3	2,425.0	2,705.0
Exports to United States[5]	955	1,312	1,527
Total Imports CIF[5]	3,222.4	3,740.0	3,940.0
Imports from United States[5]	1,606	1,975	2,077
Trade Balance	−1,432	−1,325	−1,235
Balance with United States	−651	−633	−550
External Public Debt	2,524	2,680	2,500
Fiscal Deficit/GDP (pct)	2.3	2.0	2.0
Current Account Deficit/GDP (pct)	−1.7	−1.9	−1.6
Debt Service Payments/GDP (pct)	4.2	3.0	3.0
Gold and Foreign Exchange Reserves	1,100	1,462	1,860
Aid from United States	57	38	38

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Aid from All Other Sources[6]	78	38	38

[1] 1998 Figures are central bank estimates based on August data.
[2] Per capita growth based on 1992 census data.
[3] Economically active population, i.e. all those over age 15.
[4] Figures do not include underemployment.
[5] Including gross maquila.
[6] Grants only; figures do not reflect NGO assistance and bilateral loan programs.

1. General Policy Framework

In 1997, El Salvador's economy grew by 4 percent, compared to the meager 2.1 percent growth posted in 1996.

Data from the first eight months of 1998 indicate that the economy continues on a 4-5 percent growth path, in line with 1997. As of September 1998, the twelve months moving average of the index of economic activity, IVAE, increased to 4.5 percent from 4.2 percent in June. Growth has been led by strong performances in the external and financial sectors, as well as a resurgence in manufacturing, transport, and energy. Economic growth has taken place within the context of a low inflation rate which is expected to be 3 to 4 percent in 1998, compared to 2.0 percent in 1997 and 7.8 percent in 1996. The economic outlook for 1999 is somewhat clouded due to the significant damage wreaked by Hurricane Mitch (at the end of October and early November) on the country's infrastructure and on agricultural production. However, at this juncture, modest growth of about 4 percent is expected in 1999 within the framework of continued price stability.

The central bank continues to pursue a conservative monetary policy, increasingly independent from central government policies. The money supply expanded only 9.4 percent in 1997, versus 14 percent in 1996. The money supply is expected to expand 12 percent in 1998. Interest rates on loans for less than a year have declined to 15 to 16 percent in mid-1998, compared to 18 percent two years ago. Medium and long-term interest rates also went down from 20 to 18 percent.

In 1998, the government successfully privatized the state telephone company, the electricity distribution companies, pension funds, and sugar mills. The budget reflects the continued shift away from military spending to social investments, with about one third of the central budget dedicated to social development including health, education and public works. The expansionary 1998 budget is likely to produce a fiscal deficit no greater than 2 percent of GDP due to improved tax collection. The modest deficit has been financed with official domestic and external bonds. By law, the central bank is not allowed to finance government deficits.

1997 brought an increase in both imports (16 percent) and exports (35 percent). As in the previous years, the large structural trade deficit in El Salvador has been offset by family remittances and external aid. Remittances continue to be the second most important source of foreign exchange after exports and a major factor in El Salvador's macroeconomic stability. Remittances are increasing at an annual rate of 6.5 percent, and an estimated 1.3 billion dollars will enter the national economy during 1998.

2. Exchange Rate Policy

The colon has been informally pegged at 8.75 per dollar since 1994. Large inflows of dollars from Salvadorans working in the United States offset a significant trade deficit. At the end of September 1998, the net international reserves at the central bank were 1.84 billion dollars, the highest level in history.

3. Structural Policies

The United States is El Salvador's main trade partner. Imports from the U.S. have increased an average of 16 percent per year since 1993. Imports from the U.S., which constitute about 50 percent of all El Salvador's imports, are projected to reach $2.01 billion in 1998, up from $1.97 billion in 1997. Key to this trend is the multi-year program, currently under way, to radically lower tariff barriers. Under this program, tariffs for most capital goods and raw materials have been reduced to zero or one percent, and tariffs on intermediate and final goods are scheduled to fall to a maximum rate of 15 percent by July 1999.

In September 1997, the government launched a new, simplified customs procedure system which reduces the former cumbersome 20 step import process to seven steps. A second stage of this customs modernization program, consisting of processing import/export papers via computer/satellite from the user's office, was implemented in

November 1998, and a final stage to facilitate electronic payment of import duties will be launched in February 1999. Close to 80 percent of all Salvadoran imports consist of capital and intermediate products. The government has an open procurement policy in practice, and U.S. companies compete actively for contracts.

El Salvador has liberal legislation under which it has privatized the state owned telephone company (ANTEL), four electricity distribution companies, pension funds administrators, and sugar mills. The privatization of thermal and geothermal electricity generating plants is expected for 1999. All of these projects represent good opportunities for U.S. suppliers and investors.

Prices, with the exception of bus fares and utilities, which are moving toward market prices, are unregulated. Companion legislation to the telecommunications and electric privatization bills set up a commission to monitor the telecommunications and electrical sectors.

The 13 percent Value-Added Tax (VAT) is applied to all goods and services, domestic and imported, with a few limited exceptions for basics like dairy products, fresh fruits and vegetables, and medicines. At the end of 1994, the government replaced a price band mechanism, introduced in 1990 to regulate the tariffs on basic grains. The government policy on basic grain tariffs is set by seasonal supply and demand conditions in the local market. Currently, yellow corn is imported duty free; white corn enters duty free from February 1 through July 31, and is subject to 15 percent ad-valorem rate from August 1 to January 31.

4. Debt Management Policies

El Salvador has traditionally pursued a conservative debt policy. External debt stood at $2.430 billion at December 1997, a 6.7 percent increase over the previous year. In the first quarter of 1998, the government used $300 million from the sale of the electricity distributors to pay off short term external debt. Later in the year it contracted new loans, and total external debt is expected to return to the $2.4 billion level by the end of 1998. Almost 70 percent of this debt has been contracted with international financing institutions, and 30 percent with bilateral organizations and other sources. The debt service in 1997 amounted to $338 million or 3.0 percent of the GDP, and is considered moderate. El Salvador's prudent debt policies have been recognized by improved risk ratings on its official debt instruments by organizations such as Moody's and Standard and Poor's.

El Salvador has succeeded in obtaining significant new credits from diverse international sources over the last two years. Some $300 million has been contracted from international institutions and governments (Spain, Germany, Japan) for infrastructure works and social programs to be undertaken over the next few years. The debt picture might change in the years to come due the need to finance reconstruction projects to repair infrastructure damaged by Hurricane Mitch.

5. Aid

Aid grants from the U.S. totaled an estimated $38 million in 1997. Military assistance from the U.S. totaled $450,000 in 1997 and $500,000 in 1998.

6. Significant Barriers to U.S. Exports

There are no legal barriers to U.S. exports of manufactured goods or bulk, non-agricultural products to El Salvador. Most U.S. goods face tariffs from 0 to 18 percent. Current tariffs are scheduled to fall to 15 percent for final goods, and 5 to 10 percent for intermediate products, by mid 1999. Higher tariffs are applied to automobiles, alcoholic beverages, textiles and some luxury items, but the Salvadoran Government also plans to gradually reduce these tariffs before 2000.

Generally, standards have not been a barrier for the importation of U.S. consumer-ready food products. Poultry is the notable exception; since 1992, the government has imposed a zero tolerance requirement for several common avian diseases such as salmonella, effectively blocking all imports of U.S. poultry. The Ministry of Agriculture requires a salmonella-free certificate showing that the product has been approved by U.S. health authorities for public sale. Importers may also be required to deliver samples for laboratory testing, but this requirement has not been enforced. All fresh food, 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.

El Salvador is a member of the WTO and expects to implement a full range of its Uruguay Round commitments on schedule. The government is an active participant in the Summit of the Americas/Free Trade of the Americas process. The country is a member of the Central American common market, and together with Guatemala and Honduras, is negotiating a free trade agreement with Mexico. Free trade agreements are also being negotiated with the Dominican Republic and Chile.

El Salvador officially promotes foreign investment in virtually all sectors of the economy. Foreign investment laws allow unlimited remittance of net profits, except for services where the law allows 50 percent. No restrictions exist on establishing foreign banks or branches of foreign banks in El Salvador.

7. 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 difficult to collect. Free trade zone operations are not eligible for the rebate but enjoy a 10-year exemption from income tax as well as duty-free import privileges.

8. Protection of U.S. Intellectual Property

El Salvador belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty.

In July 1996, the U.S. Trade Representative removed El Salvador from the "Special 301" Watch List after a newly created enforcement unit began a series of raids on copyright and trademark violators. Initial raids centered on cassette and video vendors, but also included books and trademark clothing items. In 1997 and 1998, enforcement efforts continued. Government officials have begun working with local representatives of pharmaceutical manufacturers to identify and seize pirated medicines. In addition, starting in 1998, officials have targeted software piracy as a priority.

El Salvador's current law protecting intellectual property rights took effect in October 1994. This law, along with El Salvador's acceptance of TRIPs disciplines, addresses several weak areas. Patent terms were extended to 20 years, and the definition of patentability was broadened. Compulsory licensing applies only in cases of a national emergency. Computer software is protected, as are trade secrets.

Trademarks 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. According to Salvadoran Government officials, they are working on a draft for a separate semiconductor chip law.

With international funding, the government is completing a two-year comprehensive reorganization of its antiquated National Registry Office. The registration process has been simplified and computerized, and significant progress is being made in reducing backlogs and adjudicating disputes.

9. Worker Rights

a. *Right of Association:* The constitution prohibits the government from engaging in antiunion actions against workers trying to organize and the 1994 Labor Code streamlined the process required to form a union in the private sector. Unions and strikes are legal only in the private sector. Employees of autonomous public agencies may form unions but not strike. Nevertheless, many workers including those in the public sector form employee associations that frequently carried out strikes that, while technically illegal, were treated as legitimate. Approximately 20 percent of the workforce are members of unions, public employees associations, or peasant organizations.

b. *The Right to Organize and Bargain Collectively:* The constitution prohibits the government from using nationality, race, sex, creed, or political philosophy as a means to prevent workers or employees from organizing themselves into unions or associations. In practice, the government has generally respected this right. El Salvador has a small organized labor sector with approximately 150 active unions, public employee associations, and peasant organizations, representing over 300,000 citizens, or 20 percent of the total work force. By law, only private sector workers have the right to organize unions and strike. Some employees of autonomous public agencies may form unions if they don't deal with essential services. Public employees may form employee associations, but are prohibited from striking. In fact, some of El Salvador's most powerful labor groups are public employees associations, which take on the same responsibility as unions—including calling technically illegal strikes and collective bargaining. The government negotiates with these associations and generally treat strikes as legitimate, although the labor code mandates arbitration of public sector disputes. The constitution and the labor code provide for collective bargaining rights, but only to employees in the private sector and in autonomous government agencies. In fact, both private sector unions (by law) and public sector employee associations (in practice) use collective bargaining.

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 provision is followed in practice. Although not specifically prohibited, forced and bonded labor by children are covered by the general prohibition, and there were no reports of its use in the formal sector. However, there is strong evidence that minors are forced into prostitution.

d. *Minimum Age for Employment of Children:* The constitution prohibits the employment of children under the age of fourteen. The labor code specifically prohibits forced and bonded labor in general, but does not specifically cover children. Minors fourteen or older may receive special Labor Ministry permission to work, but only where such employment is absolutely indispensable to the sustenance of the minor and his family. This is most often the case with children of peasant families who traditionally work during planting and harvesting seasons. Child labor is not usually found in the industrial sector. Those legal workers under the age of eighteen have special additional rules governing conditions of work.

e. *Acceptable Conditions of Work:* The minimum wage was increased by 10 percent in 1998. Effective April 1998, the minimum wage is $4.80 (42 colones) per day, for commercial, industrial, and service employees. It had remained at $4.40 (38.50 colones) per day since 1995. For agricultural workers, it was raised to $2.47 from $2.26, plus a food allowance, per day. Minimum wage for workers at coffee mills was increased to $3.56 from $3.30 per day, and for sugar mill workers to $2.60 from $2.26 per day. The law limits the workday to 6 hours for youths between fourteen and eighteen years of age and 8 hours for adults, and it mandates premium pay for longer hours. The labor code sets a maximum normal workweek of 36 hours for youths and 44 hours for adults.

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 Trade Zones (FTZs). The labor laws apply equally to all sectors, including the FTZs. During the last few years, most FTZ companies have accepted the provisions of voluntary codes of conduct from their parent corporations or U.S. purchasers. These codes include worker rights protection clauses. In April 1997, the Salvadoran Apparel Industry Association (ASIC) announced an industry wide code of conduct, currently being implemented, with worker rights protection. The great majority of companies in the FTZs provide much better salaries and working conditions than are offered elsewhere in the private sector. Nevertheless, there were credible reports of factories dismissing union organizers. In addition, accusations persist of companies abusing their workers. This year, the Labor Ministry increased the number of inspectors and inspections, improved the professional training of the inspector corps, and made a better effort to follow up on such complaints.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		135
Total Manufacturing		31
Food and Kindred Products	10	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	10	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	5	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		17
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		8
Other Industries		(1)
TOTAL ALL INDUSTRIES		221

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	15,803	17,633	18,945
Real GDP Growth (pct)	3.1	4.0	5.2
GDP by Sector (pct):			
Agriculture	24	24	24
Manufacturing	21	21	21
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$)	1,446	1,603	1,644
Labor Force (000s)	3,200	3,320	3,416
Unemployment Rate (pct)[2]	5.2	5.2	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	N/A	N/A	N/A
Consumer Price Inflation	10.8	7.3	7.0
Exchange Rate (Quetzal/US$ annual average)			
Financial Market Rate	6.1	6.1	6.4
Balance of Payments and Trade:[1]			
Total Exports FOB[3]	2,061	2,344	3,100
Exports to United States	744	840	1,000
Total Imports CIF	3,146	3,852	4,040
Imports from United States	1,380	1,585	1,650
Trade Balance[3]	-1,100	-1,508	-1,060
Balance with United States[3]	-636	-745	-650
External Public Debt[4]	2,130	2,200	2,300
Fiscal Deficit/GDP (pct)[4]	0.1	1.0	2.1
Current Account Deficit/GDP (pct)[4]	N/A	N/A	0.2
Debt Service Payments/GDP (pct)[4]	2.2	2.4	3.0
Gold and Foreign Exchange Reserves (Millions net)	828	1100	1,400
Aid from United States	30	64	77
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available data in October.
[2] Does not reflect estimated 40 to 50 percent underemployment.
[3] Merchandise trade data from Guatemalan customs and central bank. Trade data does not include approximately $250 million in value added by the apparel assembly industry.
[4] Data from the Guatemalan Government's preliminary 1999 budget projection and Guatemala's Central Bank.

1. General Policy Framework

Since assuming office in January 1996, the Arzu administration and the National Advancement Party (PAN), which has a majority in the legislature, have worked to implement a program of economic liberalization and to modernize the state. Signing of the final Peace Accord in December 1996, which ended Guatemala's 36-year armed internal conflict, removed a major obstacle to foreign investment. Among the government's remaining challenges, however, are the elimination of bureaucratic inefficiency as well as private and government corruption, and the improvement of internal security.

Guatemala's economy, the largest in Central America, is generally open, though a lack of transparency and bureaucratic complexity often make it difficult for foreigners to compete on an equal footing. For the last two years, real GDP growth has averaged at least 4 percent, and population growth about 2.9 percent annually. Infrastructure deficiencies, particularly in education, electricity service, telecommunications, and transportation, constrain more rapid development of Guatemala's economy. The telecommunications sector and key elements of the electricity industry have been privatized and the government has awarded concessions for operation of the railroad and the postal service. In July 1995, Guatemala became a member of the WTO.

Agriculture and commerce are the dominant economic activities, each contributing approximately 25 percent of GDP; manufacturing accounts for 15 percent of GDP and government about 13 percent. The agricultural sector accounts for two thirds of exports and about half of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. Remittances from family members abroad, which the Guatemalan Government estimates at between $450-500 million per year, are a significant source of foreign exchange.

Though tax revenues have historically been less than 8 percent of GDP, the government is committed to increasing tax revenues to 12 percent of GDP to fund social and economic development projects related to the Peace Accords. Tax revenues in 1999 are projected to exceed 10 percent of GDP. Beginning in 1994, the central bank (Bank of Guatemala) was prohibited from financing the government's budget deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996, the government began issuing securities for longer terms (up to 5 and 10 years), including several dollar-denominated issues placed on the international market at lower rates of interest. Despite the lower interest rates on government paper, debt service costs will increase slightly in 1998 because of increased borrowing to finance Peace Accords related public spending. The central bank's restrictive monetary policies have helped keep inflation at an average of less than 10 percent, but the result is relatively high commercial bank lending rates that are cited as a disincentive for productive investment.

2. Exchange Rate Policy

Guatemala's trade imbalance and capital flight have put pressure on the foreign exchange market. Guatemala sold significant foreign reserves in 1998—as much as U.S. $300 million—to prevent depreciation of the local currency. Nonetheless, the Quetzal has declined from a rate of exchange of US$=Q6.00 in January 1998 to a rate of US$=Q6.60 in November 1998, a nominal depreciation of 10 percent. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages. Though the foreign exchange market is nominally an open market, monetary authorities in 1998 imposed trading restrictions and other administrative requirements on foreign exchange traders to manage the exchange rate.

The government passed legislation to permit banks and financial institutions to offer dollar-denominated accounts, but enabling regulations have not been issued. A number of local banks currently offer dollar denominated accounts in which the funds are actually held in offshore accounts.

3. Structural Policies

As part of the Peace Process, the government is committed to increasing spending on social, infrastructure expansion, and economic development programs. Most of the financing for this additional spending will come from grants and loans provided by the international donor community, but Guatemala will have to generate an additional $700 million in internal resources through increased tax collections. The recently created Tax Administration Superintendency (SAT) will come on stream in early 1999 and should improve tax compliance. Guatemala received over $500 million from the sale of the state-owned electricity company and will receive $700 million over three years from the recent sale of the public telephone company. The majority of these proceeds are earmarked for retirement of public debt and for energy and communications projects.

4. Debt Management Policies

Guatemala's 1999 budget projects a deficit of approximately $600 million, or 2.8 percent of GDP. This deficit will be financed through a combination of internal borrowing and loans from foreign governments and international lending agencies. Guatemala's total public debt at the end of 1998 will be approximately $2.5 billion, of which $877 million is internally held and $1.6 billion is foreign debt.

Guatemala has successfully converted most of its domestic debt from short term, high-interest instruments to longer-term, lower interest debt. The 1999 budget calls for appropriation of $334 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

5. Aid

Total foreign donations anticipated in the 1999 budget are approximately $72 million, of which $14 million is U.S. assistance. (Note: Official data does not accurately reflect programmed assistance. For example, actual disbursements of U.S. assistance by USAID for 1999 will be approximately $70 million.)

6. Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which has a range of from zero to 17 percent for nearly all agricultural and industrial goods. Imports are not generally subject to non-tariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Guatemala, in compliance with its WTO obligations, created Tariff Rate Quotas (TRQs) for rice, corn, wheat and wheat flour, apples, pears, poultry and beef. The Ministry of Economy has implemented a new import policy for poultry that enlarges the TRQ to the level of Guatemala's final WTO commitment and reduces the in-quota tariff. However, all poultry parts are valued at a minimum of 56 cents/pound for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings.

Imported processed foods must be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Full enforcement could significantly impact imports from the United States.

Sanitary and phytosanitary licenses are required for all imports of animal origin, and plants and vegetables. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license; however, implementation has been uneven, limiting trade disruption.

Importers should be aware that manifests require consular certification, an administrative process that can be time consuming. Delays in obtaining certification have resulted in some losses to shipments of perishables. Guatemala has also contracted with a private import verification service to assess the value of exports to Guatemala, a process that will impose additional administrative procedures on U.S. exporters.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-sharing contracts.

Surface transportation is limited to companies with at least 51 percent Guatemalan ownership. 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 major U.S. accounting firms are represented through one of these methods.

7. Export Subsidies Policies

There are no export subsidies.

8. Protection of U.S. Intellectual Property

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. In 1998, the U.S. Trade Representative maintained Guatemala on the "Special 301" Watch List.

The protection provided to intellectual property rights holders is inadequate. Enforcement mechanisms are generally lacking, a poorly trained judiciary is slow to provide relief, and penalties are insufficient to dissuade IPR infringement. Although Guatemala passed a new Copyright Law in 1998, there have been no prosecutions. Local cable television companies have reduced their broadcasts of unauthorized programming considerably, and video piracy has diminished. However, U.S. industry still suffers significant losses. Piracy, reproduction, and sale of computer software programs are also common.

Patents: Guatemala's Patent Law is outdated. It 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 is 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.

Trademarks: 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. Firms whose trademarks have been registered by third parties often complain that legal remedies are slow and inadequate. Businesses whose trademark has been registered by another party are often forced either to buy out that party or pay a royalty.

The lack of protection of intellectual property rights is a significant barrier to trade and investment. Industry estimates that 85 percent of all software used in Guatemala, including applications used by government agencies, are unlicensed or unauthorized copies. The lack of protection for well-known trademarks denies access to the Guatemalan market by legitimate rights-holders and is a disincentive to investment.

9. Worker Rights

a. *The Right of Association:* This right is guaranteed by the constitution, though less than eight percent of the labor force is unionized. There are more than 1300 unions, the majority of which are private sector unions. The Ministry of Labor has significantly simplified and accelerated the process of obtaining legal authorization to form a union. This procedure now takes 23 working days. Significant changes were made in 1993 to modernize the Labor Code. In addition, the process for resolving "workplace" disputes has been decentralized with the opening of 21 branch offices of labor inspectors.

b. *The Right to Organize and Bargain Collectively:* The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Antiunion practices, including discharging workers for attempting to organize a union, are legally forbidden. However, despite a major increase in the number of labor inspectors and inspections, enforcement of labor laws depends on an overloaded and inefficient labor court system. The labor movement remains fractious. A widespread, historical distrust of unions by both employers and many workers, as well high rates of unemployment and underemployment, combine to make organizing and collective bargaining difficult.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

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. Though there are currently fewer than 5,000 such permits, tens of thousands of children under 14 work in both the formal sector, including agriculture, and the informal sector, generally in family enterprises. 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 normal work week and the average number of hours worked is close to 45. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four, though many urban workers earn two or three times this amount; however, not all workers are paid the legally-mandated minimum wage.

f. *Rights in Sectors with U.S. Investment:* Generally, international corporations adhere to the labor code and respect worker rights. There have been some complaints about treatment of workers in garment assembly factories (maquilas), especially in some of those operated by Koreans. However, observation of and respect for worker rights has improved in this sector recently, due both to increased publicity and also to cooperation between the Ministry of Labor and the Republic of Korea's Ambassador.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		137
Total Manufacturing		160
Food and Kindred Products	69	
Chemicals and Allied Products	50	
Primary and Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	38	
Wholesale Trade		20
Banking		4
Finance/Insurance/Real Estate		8
Services		5
Other Industries		22
TOTAL ALL INDUSTRIES		357

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

HAITI

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	2955	3429	3800
Real GDP Growth (pct)[3]	2.8	1.1	2.9
GDP by Sector:			
Agriculture	1.8	−2.4	0.5
Manufacturing	2.6	0.6	5.5
Services	1.8	0.5	1.2
Government	1.2	−0.2	N/A
Per Capita GDP (US$)	422	458	497
Labor Force (000s)	4,000	4,100	4,290
Unemployment Rate (pct)	65	65	70
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	9.1	21.7	7.0
Consumer Price Inflation	20.5	17.0	8.2
Exchange Rate (Gourde/US$ annual average)			
Market	15.6	16.9	16.8
Balance of Payments and Trade:[4]			
Total Exports FOB[5]	150	200	220
Exports to United States[6]	145	188	210
Total Imports FOB[5]	645	520	520
Imports from United States[6]	475	512	515
Trade Balance[5]	−395	−320	−300
Balance with United States[6]	−330	−324	−305
Current Account Deficit/GDP (pct)	3.4	2.9	N/A
External Public Debt	912	1025	1086
Debt Service Payments/GDP (pct)	1.1	0.9	1.2
Fiscal Deficit/GDP (pct)	3.2	0.5	1.1
Gold and Foreign Exchange Reserves (net)	134	162	190
Aid from United States[7]	115	145	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Aid from All Other Sources	268	428	N/A

[1] 1998 figures are all estimates based on available monthly data in November. Fiscal year is October-September. Fiscal year data used because calendar year data is unavailable in many cases.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] US and Haitian import/export data may vary as a result of different statistical practices. Data in Haiti are not reliable. Technical assistance is being provided to the Haitian Government to improve data collection procedures.
[5] Merchandise trade for calendar year; does not include U.S. goods imported for processing and re-exported under the Caribbean Basin Initiative.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through November. Figures include substantial amounts of U.S. goods imported for processing and re-exported under Caribbean Basin Initiative.
[7] New commitments; USAID includes program assistance, budget support, and support for peacekeeping operations and police.
Sources: Various, including IMF. Where several data sets existed we have used those numbers provided by USAID.

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, civil service reform, and decentralization. The government slashed tariffs to a maximum of 15 percent.

In 1995, the Aristide government began to slip on its commitments to international financial institutions. Inadequate implementation of privatization, civil service reform, and other structural reforms tied to loans from the IMF and World Bank thwarted a scheduled signing of the Structural Adjustment Credit and the Enhanced Structural Adjustment Facility, and prompted the resignation of Prime Minister Smarck Michel.

President Rene Preval took office in March 1996 and immediately moved to implement the structural adjustment program. The government proceeded to control expenditures and eliminate some 1,500 "ghost employees." By September, parliament passed civil service reform legislation and a modernization law to enable the government to proceed with privatization through the granting of management contracts, concessions, or "recapitalizations" (the forming of joint ventures with private investors through partial divestitures of state-owned enterprises). By mid-September of 1998, a total of nearly 2,250 "ghost" employees had been removed from the government payroll, saving the Haitian treasury $5.9 million per year. A further 2,000 people have been processed by the government for early retirement or voluntary departure.

The government's medium term macroeconomic goal called for real GDP growth of 4 to 5 percent, but growth in FY 1997/98 will probably be closer to 3.0 percent. FY 1997's twelve-month rate of inflation was 18 percent, but inflation has now declined to single digits in FY 98. The unprecedented amount of aid ($2 billion over the next three years) 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 economic reform.

Haiti's fiscal record is weak. Tax collection historically has been quite poor and fiscal restraint equally lacking. Government deficits, caused by a bloated public sector, central government support for inefficient state-owned enterprises, and significant unbudgeted expenses, were all financed through central bank credit and/or foreign borrowing or grants. In April 1996, the Ministry of Finance and central bank put the government on a day-to-day cash basis. This was discontinued in FY 97. The government showed greater cash management system restraint in fiscal disbursements, and central bank credit to the government sharply declined. These actions, along with a successful effort to improve tax collection in FY 96, allowed the government to meet IMF performance benchmarks and to negotiate an ESAF agreement, which was approved by the IMF board on October 18, 1996. In FY 97, the government realized a 34 percent increase in customs and tax revenues. Collections have increased again in FY 98, but revenues as a percentage of GDP remain low by international comparisons. Strong pressure for greater expenditure on wage increases, rehabilitation of political and economic infrastructures, and social programs will heighten the need to maximize revenue collection. The ESAF program was discontinued in FY 98 due to delays in approving a FY 97 budget and the continuing inability to select a Prime Minister and form a government.

Reserve requirements (which currently stand at 30 percent for primary reserves) have been 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. Since November 1996, the central bank has successfully conducted bond auctions to control liquidity in the economy, which allow for lower reserve requirements. The central bank has a rediscount facility and a lending facility for commercial banks. Use of the rediscount facility has been limited by a lack of eligible financial paper to rediscount. Use of the lending facility has been limited by the relatively high interest rate charged (usually the legal maximum), and low legal limits relative to bank capital on the amounts commercial banks can borrow. An interbank market also exists.

2. Exchange Rate Policy

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. In April 1995, the central bank abolished the 40 percent surrender requirement of export earnings. Haiti now has no exchange controls or restrictions on capital movements. Dollar accounts are available at local commercial banks. The gourde is allowed to float freely relative to the dollar and other currencies. The exchange rate gently declined from 15.5 to 17 gourdes per dollar during FY 97 and since then has remained between 16 and 17 gourdes per dollar. Some critics of tight central bank monetary policy, particularly in the banking and export sectors, feel the gourde has become overvalued and might face swifter depreciation in the future.

3. Structural Policies

The government's role in Haiti's market-oriented economy has been sharply reduced since 1994-95. 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. Consumer prices are governed by supply and demand, though the small Haitian market is imperfect for determining some prices. Gasoline pump prices and utility rates are more effectively regulated, and are probably the only exceptions to market prices. By law, gasoline pump prices are adjusted to reflect changes in world petroleum prices and exchange rate movements.

Haiti's tax system is inefficient. Direct taxes on salary and wages represent only about 25 percent of receipts. Moreover, tax evasion is widespread and taxpayers were previously not registered with the tax bureau, Direction Generale des Impots (DGI). Not surprisingly, the government has made improved revenue collection a top priority. The DGI has organized a large taxpayers' unit which focuses on identifying and collecting the tax liabilities of the 200 largest corporate and individual taxpayers in the Port au Prince area, which are estimated to represent over 80 percent of potential income tax revenue. Efforts were also made to identify and register all taxpayers through the issuance of a citizen taxpayer ID card. In addition, the value added tax has been extended to include sectors previously exempt (banking services, agribusiness, and the supply of water and electricity). However, collection remains weak and inefficient.

4. Debt Management Policies

Following the 1991 coup which ousted President Aristide, Haiti suspended all payments on its foreign debt. When President Aristide returned to office in October 1994, Haiti's arrears with the International Financial Institutions (IFIs) totaled some $84 million. The international community made it an immediate priority to clear Haiti's arrears with IFIs so that new lending could begin.

On May 30, 1995, the Paris Club agreed to reschedule all of Haiti's bilateral 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. An overwhelming percentage (91 percent in FY 1995, 85 percent in FY 1996) of Haiti's debt is in concessional loans from IFIs. These loans typically have 10 year grace periods, 40 year payback periods, and below-market interest rates.

Haiti's external public debt rose to about 40 percent of GDP in FY 98 (from 34 percent at the end of FY 96). Haiti's external debt service has risen to about 19 percent of exports of goods and services in 1998 from 17 percent. With continued progress on economic reform and a modest debt service burden, the country should be able to meet all its obligations in a timely manner.

5. Significant Barriers to U.S. Exports

With the lifting of all economic sanctions against Haiti, the sharp reduction in tariffs, and the government's decision to remove all import licenses and the 40 percent foreign exchange surrender requirement on export earnings, there are few significant barriers to U.S. exports. The resumption of normal trade in October 1995 unleashed tremendous pent-up demand for U.S. goods. The import of firearms and other weapons into Haiti is controlled for foreign policy reasons. Haitian importers must obtain a license to purchase such goods from U.S. suppliers. Haiti, through the Presidential Commission for Growth and Modernization, is actively working to facilitate foreign trade and investment.

6. Export Subsidies Policies

Haiti has no export subsidy programs.

7. Protection of U.S. Intellectual Property

While infringement of intellectual property rights occurs in Haiti, the economy only produces a small variety of products, most of which are for export to the United States and other countries that do not tolerate open infringement. Most manufactured goods sold here are imported. The most recent example of intellectual property rights infringement was the broadcast of a recently released U.S. film on a Haitian cable TV station. This was taken up with the Haitian authorities and has not happened again. Pirated video and audio cassettes are widely available and of poor quality.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and poor judicial 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 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, and is a member of the World Intellectual Property Organization. However, Haiti is not a signatory to the Berne Convention.

8. Worker Rights

a. *The Right of Association:* The constitution and the labor code guarantee the right of association and provide workers, including those in the public sector, the right to form and join unions without prior government authorization. The law protects union activities, while prohibiting closed "union shops." The law also requires unions, which must have a minimum of ten members, to register with the Ministry of Social Affairs within 60 days of their formation.

Six principal labor federations represent about five percent of the total labor force, including about two to three percent of labor in the industrial sector. Each maintains some fraternal relations with various international labor organizations.

b. *The Right to Organize and Bargain Collectively:* The labor code protects trade union organizing activities and stipulates fines for those who interfere with this right. Unions are theoretically free to pursue their goals, although government efforts to enforce the law are non-existent. Unions complain that employers do not allow unions access to workers, and individuals who attempt to join unions risk being fired. Organized labor activity is concentrated in the Port-au-Prince area, in state enterprises, the civil service, and the assembly sector. The high unemployment rate and anti-union sentiment among some factory workers has limited the success of union organizing efforts. Collective bargaining is nearly nonexistent, especially in the private sector. Employers can generally set wages unilaterally, in compliance with minimum wage (currently approximately $2 per day) and overtime standards.

Haiti has no export processing zones, and the labor code does not distinguish between industries producing for the local market and those producing for export. Employees in the export-oriented assembly sector enjoy wages and benefits above the legal minimums, largely through piece-work . Wages appear to be somewhat higher in the more capital-intensive industries producing for the local market.

c. *Prohibition of Forced or Compulsory Labor:* The labor code prohibits forced or compulsory labor. However, some children continue to be subjected to unremunerated labor as domestic servants. Rural families are often too large for the adult members to support, and children are sometimes sent to work for urban families in exchange for room, board and schooling. Reports of abuse are common, but the Ministry of Social Affairs rarely exercises its authority to remove children from abusive situations.

d. *Minimum Age for Employment of Children:* The minimum employment age in all sectors is 15 years. Fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. As in other developing countries, rural families in Haiti often rely on their children's contribution of labor in subsistence agriculture. Children under 15 commonly work at informal sector jobs to supplement family income. The International Labor Organization has criticized the Ministry of Social Affairs' enforcement of child labor laws as inadequate and is in the process of creating a project to address this situation using funding from the U.S. Department of Labor.

e. *Acceptable Conditions of Work:* Annually, a minimum wage worker earns about $670, an income considerably above the per capita gross domestic product, but sufficient only to permit the family to live in very poor conditions. The majority of Haitians work in subsistence agriculture, a sector where minimum wage legislation does not apply.

The labor code governs individual employment contracts. It sets the standard workday at 8 hours, and the workweek at 48 hours, with 24 hours of rest on Sunday.

The code also establishes minimum health and safety regulations. The industrial and assembly sectors largely observe these guidelines. The Ministry of Social Affairs does not, however, effectively enforce work hours or health and safety regulations.

With more than 50 percent and possibly 75 percent of the active population unemployed or underemployed, workers are often not able to exercise the right to remove themselves from dangerous work situations without jeopardy to continued employment.

f. *Rights in Sectors with U.S. Investment:* U.S. direct investment in goods-producing sectors in Haiti is limited, consisting of ownership of two garment factories and a very few joint ventures. In general, conditions differ little from other sectors of the economy. Wages paid in these industries tend to be above the legal minimum, and in the case of industries producing for the local market, often a multiple of the legal minimum. Employers in these sectors frequently offer more benefits than the average Haitian worker receives, including free medical care and basic medications at cost.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		6
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		2
Finance/Insurance/Real Estate		9
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		18

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

HONDURAS

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP (US$) [2]	3,738.0	4,666.9	4,806.5
Real GDP Growth (pct)	3.7	4.5	3.0
GDP by Sector:			
Agriculture	665.0	920.8	948.8
Manufacturing	630.0	733.5	770.2
Services	205.8	399.7	411.7
Government	195.0	222.7	225.0
Per Capita GDP (US$) [3]	652.0	790.0	809.9
Labor Force (000s)	1,873.5	1,955.0	2,033.2
Unemployment Rate (pct) [4]	6.3	6.3	6.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	37.4	42.9	N/A
Consumer Price Inflation	25.4	12.8	16.3
Exchange Rate (LP/US$ annual average)			
Official	11.84	13.0	13.4
Parallel	11.83	13.0	13.4
Balance of Payments and Trade:			
Total Exports FOB [5]	1,422.5	1,535.6	1,613.5
Exports to United States [6]	N/A	N/A	N/A
Total Imports CIF [5]	1,758.9	2,060.2	2,428.4
Imports from United States [6]	N/A	N/A	N/A
Trade Balance [5]	N/A	N/A	N/A
Trade Balance with United States [6]	N/A	N/A	N/A
Current Account Deficit/GDP (pct) [7]	5.0	2.1	21.8
External Public Debt	3,815.8	3,847.3	N/A
Debt Service Payments/GDP (pct)	11.0	N/A	N/A
Fiscal Deficit/GDP (pct)	3.4	2.6	1.5
Gold and Foreign Exchange Reserves	283	440	N/A
Aid from United States [8]	43.0	36.1	36.0
Aid from Other Countries [8]	96	116	N/A

[1] 1998 figures are estimates based on data available in October.
[2] GDP at factor cost.
[3] Using GDP at factor cost results in a lower measure of per capita GDP income.
[4] Represents urban unemployment. Underemployment approaches 30 percent.
[5] Merchandise trade; does not include re-exports under the Caribbean Basin Initiative.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
[7] (−) Indicates a surplus current account.
[8] See section five.

1. General Policy Framework

Despite abundant natural resources and substantial U.S. (and other bilateral and multilateral) economic assistance, Honduras remains one of the poorest countries in the hemisphere, with low per capita income and low health and education indicators. Since 1990, successive governments have embarked on economic reform programs, dismantling price controls, lowering import tariff duties, removing many nontariff barriers to trade, adopting a free market exchange rate regime, removing interest rate controls, and passing legislation favorable to foreign investment. The biggest success story is the growth of the Maquila industry from virtually no production in 1990 to the generation of over $300 million in foreign exchange and employment of 100,000 workers in 1998. The government's fiscal deficit (as a percentage of GDP) has been reduced from 10 percent in 1990 to 1.5 percent in 1998. GDP growth was projected to be five percent and inflation a manageable 14 percent in 1998.

However, during the last week of October 1998, an unprecedented disaster struck every region of Honduras when Hurricane Mitch dumped a huge amount of rain on the country. The result was massive flooding and landslides that killed over 5,000 people (thousands more are still missing), left hundreds of thousands homeless, caused over $3 billion in destruction, seriously damaged the road network, virtually wiped out the banana crop and deprived tens of thousands of their livelihoods. Massive international humanitarian assistance—led by the U.S.—saved many lives, provided for basic needs, and temporarily reopened the road network. Substantial international aid will be needed over the medium term to help rebuild Honduras' infrastructure and productive economic capacity. The government's macroeconomic goals for 1999 have been revised downward, with growth sharply reduced and the budget deficit and unemployment sharply increased.

Since the disaster, Honduras has redoubled its efforts to provide a favorable climate for foreign investment. In the last two months of 1998, congress passed legislation reforming the Mining Code, allowing concessional operation of airports and seaports, providing incentives for renewable energy projects (many by U.S. investors), and allowing foreign tourism development in coastal areas. Congress earlier passed a law authorizing the sale of fifty percent of the state-owned telephone company to a foreign partner and the auctioning of Band B cellular service. The government also pledged to accelerate the privatization of the electric company's distribution system.

The central bank remains committed to anti-inflationary monetary policies, though liquidity problems that were exacerbated by the disaster have led to a slight relaxation. The reserve requirement (reduced four points to 25 percent in the aftermath of the hurricane) continues to be the favored policy tool to control money supply growth and inflation, although open market operations have been taking on an increasing role.

Honduras became a founding member of the World Trade Organization (WTO) on January 1, 1995. Honduras also concluded negotiations with the U.S. on a Bilateral Investment Treaty (BIT), which was signed on July 1, 1995. The BIT was ratified by the Honduran Congress and is expected to be presented to the U.S. Senate for ratification early in 1999. Honduras actively participates in the Free Trade Area of the Americas (FTAA) negotiation process.

2. Exchange Rate Policy

The central bank sets the weekly base exchange rate by calculating the difference between the expected monthly rate of domestic inflation and estimated inflation among Honduras's 12 major trading partners. The central bank allows buyers to bid at prices up to five percent above or below the base rate.

The Foreign Exchange Repatriation Law passed in September 1990 requires all Honduran exporters, except those operating in free trade zones and export processing zones, to repatriate 100 percent of their export earnings through the commercial banking system. Presently, commercial banks are required to sell 100 percent of these repatriated earnings to the central bank, which in turn auctions up to 60 percent in the open market.

3. Structural Policies

Trade Policy: In an effort to increase trade and maintain competitiveness with its Central American neighbors, in recent years Honduras has cut its import duties to between zero and 20 percent for most items. In 1995, Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff ranging between zero and 15 percent for most products, but allowed each country to determine the timing of changes. In 1997, tariff rates were reduced to one percent on capital goods, medicines and agricultural inputs, and on raw materials and inputs produced outside of the Central American region. Honduras also intends to reduce its extra-regional tariffs for other goods (intermediate and finished) over the next several years to between 10 and 17 percent.

Honduras has sought to expand trade by negotiating, together with its Central American neighbors, free trade agreements with other Latin American countries. In late 1998, negotiations were nearing conclusion with both Mexico and the Dominican Republic, although disagreement on exempt product lists has delayed final agreement.

Pricing Policy: Before Hurricane Mitch, the only products under consumer price controls were bread, coffee, medicines and petroleum products (gasoline, diesel and liquid propane gas). In the aftermath of the disaster, temporary price controls were placed on staple food products.

Tax Policies: In order to increase Honduras' competitiveness and attract foreign investment beyond tax exempt free trade zones and industrial parks, newly-inaugurated President Flores persuaded congress in April 1998 to reduce the corporate tax rate from 40 percent to 25 percent. In order to compensate for lost revenue, the basic sales tax was increased from 7 to 12 percent. Sales taxes were increased to 15 percent on liquor and tobacco products, and are even higher on new car purchases. Export taxes on bananas are being reduced in stages from 50 cents to four cents a box by the year 2000.

4. Debt Management Policies

Debt service on Honduras' approximately $4 billion external debt is a major constraint on growth and represents about 35 percent of the government budget. Since early 1990, the government has been working to restore the country's creditworthiness, reschedule its external debt and regain support from the multilateral development banks. Despite Paris Club debt rescheduling agreements in July 1995 and March 1996, and over $500 million in bilateral debt forgiveness (including $430 million by the U.S. in 1991), Honduras has been unable to comply with the goals of an Enhanced Structural Adjustment Facility (ESAF), first negotiated with the IMF in 1992 and re-negotiated several times.

In September 1998, congress passed a bill authorizing the privatization of the telephone company, a key requirement of the 1997 IMF Staff Monitored Program (SMP). In the aftermath of Hurricane Mitch, Honduras has received pledges from both bilateral and multilateral creditors to reduce the debt service burden by suspension of bilateral debt interest and/or principal payments for three years, and contributions to a fund to help pay multilateral debt payments. The government has pledged to maintain responsible fiscal and monetary policies and accelerate the privatization of the state-owned electric company's distribution system. Congress passed legislation in November 1998 authorizing concessional operation of public infrastructure such as airports, seaports, and highways. These IMF-recommended actions mean a new ESAF with the Fund will likely be negotiated in January 1999.

5. Aid

Over the last three fiscal years, USAID/Honduras has disbursed approximately $115.1 million, including $4.8 million in PL-480 Title II funds in FY 1998. The annual distribution of these disbursements have averaged around $38.3 million. The annual disbursements are expected to more than double in FY 99 as a result of the disaster assistance and new aid provided for the reconstruction effort. Prior to the hurricane, assistance expenditures were used for development activities in the areas of health, education, economic growth and policy, democracy, natural resources, and the environment.

In 1998, Honduras received $500,000 for International Military Education and Training (IMET). Currently there remains approximately $12.2 million in residual foreign military sales (FMS) monies to support construction and maintenance of equipment. These funds are expected to be exhausted over the next few years. In fiscal year 1998, the U.S. also provided Honduras with $195,000 to support anti-narcotics efforts and $1.7 million for the Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP) to provide technical assistance and training to professionalize civilian police institutions. Honduras received approximately $116 million in transfers from other official donors in 1997, and expects to double this in 1998, primarily because of Hurricane Mitch. Honduras also receives substantial assistance from the international financial institutions in the form of soft loans.

6. Significant Barriers to U.S. Exports

Import Policy: While reforms have gone far to open up Honduras to U.S. exports and investment, some protectionist policies remain. For example, although all import licensing requirements have been eliminated, Honduras has resorted to the imposition of sanitary regulations that effectively deny market access to U.S. chicken parts.

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. In addition, foreigners may not hold a seat in Honduras' two stock exchanges or provide direct brokerage services in these exchanges.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labeled in Spanish and registered with the Ministry of Health. The laws are inconsistently enforced at present. However, these requirements may discourage some suppliers.

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 the following sectors: forestry, telecommunications, basic health services, air transport, fishing and aquaculture, exploration of sub-surface resources, insurance and financial services, private education services, and agriculture and agro-industrial activities exceeding land tenancy limits established by the Agricultural Modernization Law of 1992 and the Land Reform Law of 1974. The law also requires Honduran majority ownership in certain types of investment, including beneficiaries of the National Agrarian Reform Law, commercial fishing and direct exploitation of forest resources and local transportation.

Honduran law also prohibits foreigners from establishing businesses capitalized at under 150,000 lempiras (about $11,000). In all investments, at least 90 percent of a company's labor force must be national, and at least 80 percent of the payroll must be paid to Hondurans. Finally, while a one-stop investment window has been instituted in the Ministry of Industry and Trade to facilitate investment, the ministry has not provided complete information or assistance to the foreign investor. The newly-formed Tourism Ministry has tried to facilitate foreign investment, and in December 1998 congress passed the first vote (of two required) of a constitutional amendment to allow foreign ownership of coastal land for tourism development purposes.

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, although they are required to act through a local agent. In practice, U.S. firms complain about the mismanagement and lack of transparency of government bid processes. After Hurricane Mitch, congress passed an emergency law allowing the government to dispense with the normal bidding process and execute direct purchases in reconstruction-related projects. The government has taken pains to reassure the public and the international community that reconstruction projects will be carefully audited to prevent corruption.

Customs Procedures: Customs administrative procedures are burdensome. There are extensive documentary requirements and other red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, and warehouse levies.

7. Export Subsidies Policies

With the exception of free trade zones and industrial parks, almost all export subsidies have been eliminated. The Temporary Import Law, passed in 1984, allows exporters to bring raw materials and capital equipment into Honduran territory exempt from customs duties 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 (ZIPS) exempt the payment of import duties and other charges on goods and capital equipment. In addition, the production and sale of goods within the ZIPS are exempt from state and municipal taxes. Firms operating in ZIPS are exempt from income taxes for 20 years, and from municipal taxes for 10 years. In May 1998, the Honduran Government passed legislation allowing the establishment of ZIPS throughout the country.

8. Protection of U.S. Intellectual Property

In 1998, Honduras was identified in the "Watch List" category of the U.S. Government's annual "Special 301" review. A report prepared by the International Intellectual Property Alliance (IIPA) estimates that losses in Honduras due to copyright infringements cost U.S. firms $8.3 million in 1997. There is widespread piracy of many forms of copyrighted works—movies, sound recordings, and software—and the illegitimate registration of well-known trademarks has been a problem. Honduras saw a portion of its trade preferences under the Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) suspended on April 20, 1998 because of its failure to control broadcast television piracy. However, these benefits were restored on June 30, 1998 following government action to suspend and fine the offending stations.

In December 1998, the government reaffirmed its commitment to comply fully with the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement January 1, 2000 deadline. Progress is being made in the negotiation of a bilateral IPR agreement with the United States.

Patents: The Patent Law enacted in September 1993 provides patent protection for pharmaceuticals, although the patent term of seventeen years from the date of application must be extended by at least three years to meet international standards. Honduran law contains overly broad compulsory licensing provisions and provides no protection for products in the pipeline. A TRIPS-compliant Central American patent and trademark treaty is pending before the congress.

Trademarks: The illegitimate registration of well-known trademarks is a problem in Honduras, in spite of modifications to the Trademark Law made in 1993.

Copyrights: The piracy of books, sound and video recordings, compact discs, computer software, and television programs is widespread in Honduras. Despite some progress, copyright protection remains problematic. A TRIPS-compliant reformed copyright law should be presented to congress in early 1999.

9. Worker Rights

a. *The Right of Association:* Workers have the legal right to form and join labor unions; the unions are independent of government and political parties. Three large peasant organizations are affiliated directly with the labor movement. Unions participate in public rallies against government policies, and make extensive use of the news media to advance their views. Since only about fourteen percent of the work force is unionized, however, the economic and political influence of organized labor has diminished in recent years. The Constitution provides for the right to strike, along with a wide range of other basic labor rights, which the authorities honor in practice. The Civil Service Code, however, denies the right to strike to government workers, other than employees of state-owned enterprises. There were illegal work stoppages during the year, conducted by public sector employees in health and related industries.

b. *The Right to Organize and Bargain Collectively:* The law protects workers' rights to organize and to bargain collectively; collective bargaining agreements are the norm for companies in which workers are organized. However, although the Labor Code prohibits retribution by employers for trade union activity, it is a common occurrence. Employers actually dismiss relatively few workers for union activity once a union is recognized; such cases, however, serve to discourage workers elsewhere 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. Over the past year the Ministry of Labor took action in several cases, pressuring employers to observe the code. Labor or civil courts can require employers to rehire employees fired for union activity, but such rulings are uncommon. Labor leaders criticize the ministry for not enforcing the Labor Code, for taking too long to make decisions, and for being timid and indifferent to workers' needs. The ministry has increased inspections and the training of its inspectors; it needs to do more, however, to adhere completely to international labor standards.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution and the law prohibit forced or compulsory labor. Although over the past year there were no official reports of such practices in the area of child labor, there were credible allegations of compulsory overtime at plants in export processing zones, in particular for women, who constitute an estimated eighty percent of the work force in the Maquiladora sector.

d. *Minimum Age for Employment of Children:* According to government and human rights groups, an estimated 350,000 children work illegally. The Constitution and the Labor Code prohibit the employment of minors under the age of sixteen, except that a child who is fifteen years of age is permitted to work with the permission of his parents and the Ministry of Labor. The Children's Code prohibits a child of fourteen years of age or less from working, even with parental permission, and establishes prison sentences of three to five years for individuals who allow children to work illegally. An employer who legally hires a fifteen-year-old must certify that the child has finished or is finishing his compulsory schooling. The Ministry of Labor grants a number of work permits to fifteen-year-olds each year. It is common, however, for younger children to obtain these documents, or to purchase forged permits. The Ministry of Labor cannot effectively enforce child labor laws, except in the Maquiladora sector, and violations of the Labor Code occur frequently in rural areas and in small companies. Many children work on small family farms, as street vendors, or in small workshops to supplement the family income. In September 1998, the government created the National Commission for the Gradual and Progressive Eradication of Child Labor.

e. *Acceptable Conditions of Work:* In 1998, the government decreed a median 17 percent increase in the minimum wage. Daily pay rates vary by geographic zone and the sector of the economy affected; urban workers earn slightly more than workers in the countryside. The lowest minimum wage occurs in the agricultural sector, where it ranges from $2.07 to $2.20 (28.65 to 30.40 lempiras) per day, depending on whether the employer has more than fifteen employees; the highest minimum wage is $3.39 (46.80 lempiras) per day in the export sector. All workers are entitled to the equivalent of an additional one month's salary in June and December of each year. The law prescribes a maximum eight-hour day and a 44-hour workweek. There is a requirement of at least one 24-hour rest period every eight days. The Labor Code provides for a paid vacation of ten workdays after one year, and of twenty workdays after four years. However, employers frequently ignore these regulations due to the high level of unemployment and underemployment and the lack of effective enforcement by the Ministry of Labor.

f. *Rights In Sectors With U.S. Investment:* The worker rights enumerated above are respected more fully in sectors with sizable U.S. investment than in sectors of the economy lacking substantive U.S. participation. For example, in a number of U.S.-owned Maquila plants, workers have shown little enthusiasm for unionizing, since they consider their treatment, salary, and working conditions to be as good as, or better than, those in unionized plants. In establishing new investments in Honduras, U.S. businesses in recent years consciously have constructed their plants to meet more stringent U.S. Government laws and regulations.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		21
Total Manufacturing		159
Food and Kindred Products	152	
Chemicals and Allied Products	3	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	3	
Wholesale Trade		2
Banking		(2)
Finance/Insurance/Real Estate		21
Services		0
Other Industries		(2)
TOTAL ALL INDUSTRIES		183

(1) Less than $500,000 (+/−).
(2) 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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	5,486.5	6,198.9	6,646.9
Real GDP Growth Rate[2]	−1.8	−2.4	0.5
GDP (at Current Prices) by Sector:			
Agriculture, Forestry, and Fishing	456.3	495.7	N/A
Mining and Quarrying	321.8	345.2	N/A
Manufacturing	917.8	1009.2	N/A
Construction and Installation	637.4	697.9	N/A
Electricity and Water	124.2	123.7	N/A
Transportaion, Storage and Communication	590.9	695.4	N/A
Retail Trade	1,237.5	1,424.2	N/A
Real Estate Services	255.7	314.1	N/A
Government Services	622.7	750.3	N/A
Finance	70.3	43.6	N/A
Other	251.6	299.6	N/A
Per Capita GDP (US$)	2,177.2	2,459.9	2,681.3
Labor Force (000s)	1,142.7	1,133.8	N/A
Unemployment Rate (pct)	16.0	16.5	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) Dec.-Dec.	15.4	12.5	10.7 [3]
Consumer Price Inflation	15.8	9.2	10.0
Exchange Rate (JD/US$)	37.02	35.58	37.05
Balance of Payments and Trade:			
Total Exports FOB	1,387.2	1,385.9	1,317.0
Exports to United States	510.8	461.9	440.0
Total Imports CIF	2,933.7	3,101.3	3,194.3
Imports from United States	1,531.3	1,482.2	1,500.0
Trade Balance	−1,546.5	−1,715.4	−1,877.3
Balance with United States	−1,020.5	−1,020.3	−1,060.0
External Public Debt [4]	3,231.9	3,277.6	3,303.0
Fiscal Balance/GDP (pct) [5]	−7.2	−8.9	−4.6
Current Account Deficit/GDP	2.5	5.3	N/A
Debt Service Payments/GDP	26	25	N/A
Net Official Reserves [6]	706.6	545.3	616.9
Aid from United States [7]	26.4	24.7	22.0
Aid from Other Countries [8]	279.5	149.7	N/A

[1] 1998 figures are all estimates based on available monthly data as of October.
[2] Growth rate is based on Jamaican dollars, whereas nominal GDP is shown in U.S. dollars.
[3] September 1997 to September 1998.
[4] Figure as of September 1998.
[5] Jamaican Fiscal Year (April-March) deficit.
[6] Figure based on July 1998.
[7] Estimates include Development, Food, and Military Assistance for FY 96, FY 97 and FY 98.
[8] Estimated commitments for development assistance from Jamaica's Cooperation Partners.

General Policy Framework

Jamaica is an import-oriented economy with imports of goods and services totaling two-thirds of GDP. In 1997, imports of raw material amounted to $1,551 million, while imports of consumer goods and capital goods amounted to $894 million and $656 million respectively. Tourism (13 percent of GDP), bauxite/alumina (10 percent of GDP), and manufacturing (18 percent of GDP) are the major pillars sustaining the economy. In 1997, these three sectors accounted for 75 percent ($2.35 billion) of the country's foreign exchange earnings. Remittances are also a significant source of income and bring in over $600 million annually. Both GDP and foreign exchange inflows are sensitive to external economic factors, particularly with respect to commodity prices and the services/tourism sector.

Jamaica has a work force of 1.13 million people, representing 66.3 percent of total population (14 years and over). About half of the labor force are age 35 and above. Sixty percent of Jamaica's workforce is employed in the services sector, contributing about 66 percent of GDP. Agriculture, which accounts for 8 percent of GDP, employs 22 percent of the workforce. The primary products are sugar, bananas, coffee and cocoa. The small size of the Jamaican economy and relatively high production costs (e.g., domestic interest rates) have reduced the contribution of the manufacturing sector over the last several years to about 18.1 percent of GDP in 1997. Although apparel still accounts for nearly three-quarters of non-traditional exports, the industry is contracting. Several factories closed in 1997 and in early 1998, following more than a dozen factory closures in 1996. Consequently, current employment in the apparel industry is down to approximately 20,000, a decline of 42 percent from peak employment in 1994.

The Jamaican economy suffered negative growth of 2.4 percent in 1997, following negative growth of 1.8 percent in 1996. Very little economic growth is expected during 1998. While there was some growth in bauxite/alumina, energy, construction, certain manufacturing sub sectors, and the tourism industry, other economic sectors such as agriculture, apparel, financial and other services continued along a recessionary path. Sustained high real interest rates, along with increasing uncertainty about the stability of the exchange rate, weakness in the financial sector, and lower levels of investment, continue to erode confidence in the productive sector. There has been growing unemployment/underemployment as a result of lower exports, falling domestic demand, and the restructuring of companies. Major cash crops (e.g.

sugar and bananas) have been affected by both the high cost of production and prolonged, adverse weather conditions.

The government has introduced two initiatives, the National Poverty Eradication Policy and Program (NPEP) and the National Industrial Policy (NIP), to address the economic slowdown, high levels of underemployment and growing social tension. The NPEP seeks to reduce the number of persons in absolute poverty, with special emphasis on youth, who experience high levels of unemployment. The NPEP includes programs to facilitate skill acquisition and entrepreneurial training which will be backed by appropriate credit and business support services. These programs are intended to contribute to overall employment generation through self employment activities. The NIP was adopted by the government in March 1996 as a long-term strategy to achieve sustained economic growth and development. During the first year, the NIP's target was to achieve macro-economic stability by maintaining a stable exchange rate and reducing inflation and interest rates. These objectives were substantially achieved during the course of the year. The NIP's second phase, a three-year period beginning in 1997, aims at achieving stable growth with stability by stimulating investment and export diversification.

Since the end of 1995, the banking and insurance sector has experienced serious difficulties caused by a mismatch of assets and liabilities. The financial sector found itself holding real estate and other long term assets that could not be easily disposed of to meet short term obligations. Diversification away from core business interests, along with high costs of operation and interlocking ownership of insurance companies and banks also contributed to the collapse of many Jamaican-owned financial institutions.

FINSAC (the Financial Sector Adjustment Company) is a government agency established in February 1997 to provide funding and to reorganize illiquid financial institutions. FINSAC is now in the second and third phases of restructuring and divesting the assets of these institutions. In the first phase, the government acquired control of a large number of financial institutions by injecting capital through preference or ordinary shares or the payoff of deposit liabilities through new deposit accounts. These interventions have amounted to J$73.5 billion or about $2 billion so far. In the process, FINSAC acquired a large share of equity in four of the island's nine commercial banks, five of the 12 life insurance companies, a portfolio of real estate (including 11 hotels) and a portfolio of nonperforming loans with a face value of J$20 billion or $548 million.

Other support programs to bolster the economy include equity funding from the public sector financial institutions through the National Investment Bank of Jamaica (NIBJ). The government has provided both financial and technical assistance to the export apparel sector and the coffee industry in order to prevent the collapse of these industries. The government recently took control over the island's failing sugar industry, which was divested in 1996, from the private sector.

The Jamaican Fiscal Year (JFY) April 1998/March 99 budget calls for J$130.1 billion in outlays. This reflects a 13 percent increase over the revised 1997/98 budget. For JFY 1998/99, recurrent expenditure is estimated at J$85.1 billion and capital expenditure at J$45 billion. Debt servicing accounts for 52 percent of the total budget, followed by: social and community services (22.2 percent); general government services (8.4 percent); economic development (7.5 percent); defense affairs, public order and safety (6.5 percent); with the balance applied to unallocated expenditures (3.6 percent).

The Bank of Jamaica (BOJ) expects to finance 62 percent of the J$130.1 billion budget with the expected total revenue of J$80.9 billion which includes: recurrent revenue, tax and non-tax; capital revenue (royalties, land sales, loan repayments, divestments); and, transfers from the capital development fund (including the bauxite levy). The balance will come from debt: external, J$19.1 billion (or 41.4 percent of the total deficit) and internal, J$27 billion. The stated goal of the FY98/99 budget (April-March) was to reduce the deficit from 9.2 percent of gross domestic product in FY 1997/98 to 4.6 percent of GDP in FY 1998/99. The fiscal strategy called for a combination of improved revenue collection as well as expenditure containment. However, during the quarter in review, the fiscal deficit grew to J$7.6 billion, which was 1.3 billion more than projected. Although total expenditure declined by 6 percent, J$1.56 billion less than projected, revenue inflows also fell as a result of a lower rate of tax compliance, a slowdown in overall economic activity, and lower than expected income from new taxes. The key challenge to the government now is to find a critical balance between monetary and fiscal policies that will create economic growth and reduce social tension.

The BOJ continued its tight monetary policy to absorb excess liquidity by issuing long term securities (local registered stock) and short-term treasury bills. After reaching a peak of 44.8 percent in April 1996, interest on government obligations fell to 17.7 percent in August 1997. After spiking again to 29.7 percent in January 1998, the rate inched down to 24.3 percent in October 1998. However, another increase is predicted by the end of the year. Increases in T-Bill rates have affected commercial bank lending rates. In September 1998, the lending rates averaged about 44 percent. Lending rates are expected to rise in step with T-Bill rates. Interest payments on maturing securities have served to increase liquidity, necessitating additional debt offerings.

The BOJ lowered the cash reserve requirement of commercial banks in August 1998 from 25 percent to 23 percent. The rate is expected to be lowered further by at least one percentage point every three months to an eventual 17 percent. Approximately 45 percent of commercial banks deposits are left with the central bank as a reserve (23 percent is a cash reserve requirement which earns no interest and the balance in liquid assets). Other institutions, such as merchant banks and trust companies, also have deposit and cash reserve requirements at lower levels. In response to the reduction of the cash reserve requirement, Jamaica's second largest bank (Scotia Bank) recently announced a new loan offer of up to J$1.3 billion (about $35 million) for the productive sector at 8.5 percent interest in order to bolster the productive sector. This sum, however, constitutes only about two percent of the loan portfolio of the commercial banks. Loan default rates at commercial banks are estimated at about 25 percent.

The government raised $250 million on the international capital market in early 1998, and expects to raise a further $150 million locally to support the fiscal deficit and balance of payment needs.

Net International Reserves are approximately $617 million, the equivalent of 17 weeks of imports, down from a peak of $716 million in January 1997.

2. Exchange Rate Policy

On September 26, 1991, exchange controls were eliminated to allow for free competition in the foreign exchange market. The principal remaining restriction is that foreign exchange transactions must be done through an authorized dealer. Licenses are regulated. Any company or person required to make payments to the government by agreement or law (such as the levy and royalty due on bauxite) will continue to make such payments directly to the BOJ. Five percent of foreign exchange purchases by authorized dealers (commercial banks and cambios) must be paid directly to the BOJ. In addition, according to an agreement between the Petroleum Company of Jamaica (PETROJAM) and the commercial banks, 10 percent of foreign exchange purchases go to PETROJAM.

As of October 30, 1998, the exchange rate was J$37.05 to $1.00.

3. Structural Policies

The Fair Competition Act was introduced in 1993 in order to create an environment of free and fair competition and to provide consumer protection. Prices are generally determined by free market forces; however, certain public utility charges such as bus fares, water, electricity, and telecommunications are still subject to price controls and can be changed only with government approval.

Taxation accounts for 93 percent of total recurrent and capital revenue. Major sources of tax revenue include: personal income tax (39.6 percent of tax revenue), value-added tax (29.5 percent) and import duties (11.1 percent). Based on the first quarter results of the budget, this year's budget deficit could turn out to be larger than forecast, since the projected budget is based on assumptions (substantial returns from tougher tax collection efforts, a sharp drop in public employee wage increases, returns on sales of assets by financial institutions which the government has taken over, a resumption of economic growth), which have not yet materialized, at least to the extent the government hoped.

Jamaica implemented the Caribbean Economic Community (CARICOM) Common External Tariff (CET) on February 15, 1991. Under the CET, goods produced in CARICOM states are not subject to import duty. Third-country imports are subject to import duties ranging between 0 percent and 25 percent, with higher rates applicable to certain agricultural items (for example, a maximum of 75 percent applied to milk). In addition to the CET, all items (except certain basic foods) carry a 15 percent general consumption tax; alcoholic beverages and tobacco imports carry an additional stamp duty of 34-56 percent, and a special consumption tax of 5.0-39.9 percent. Non-basic, finished goods, and goods competing with those produced in CARICOM states carry higher duty rates. The tariff rate that was scheduled to be phased down to a range of 0 to 20 percent by January 1998 has not yet been implemented. The government offers incentives to approved foreign investors that eliminate or reduce taxes, including income-tax holidays and duty-free importation of capital goods and raw materials.

All monopoly rights of the Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991, but it retains responsibility for the procurement of commodities under government to government agreements such as the P.L. 480 program. The embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

Jamaica's stock of external (foreign) debt was $3.3 billion (50 percent of GDP) in September, 1998. About 47 percent of this debt is owed to bilateral donors (the United States is the largest bilateral creditor), 36 percent to multilateral institutions (down due to a policy decision to reduce dependence on the IMF), 10 percent to private creditors (8 percent to commercial banks; 2 percent to other commercial institutions), and the remaining 7 percent to bond holders.

Actual debt-servicing during 1997 accounted for 16.76 percent ($523.07 million) of exports of goods and services, of which 34.1 percent represents interest payments. The ratio of total outstanding external debt to exports of goods and services decreased from 177.6 percent in 1990, to 100.3 percent in 1996 as a result of debt reduction efforts and improvements in exports, but has since climbed to 105.04 percent in 1997. The 1997 external debt per capita was $1,300, an increase of 1.3 percent over 1996.

Debt-servicing continues to be a major burden on the government's budget, accounting for some 52 percent of total outlays. In 1995 Jamaica ended its borrowing relationship with the IMF, but it continues repayment to the IMF thus contributing to the reduction of the debt burden. In 1995 Jamaica also completed its multi-year rescheduling arrangement with the Paris Club, negotiated in 1992. The arrangement provided for rescheduling of $281.2 million of principal and interest for the period October 1992 to September 1995.

Jamaica's internal debt has ballooned in recent years from J$23.4 billion in 1993 to J$49.1 billion in 1994, to J $59.5 billion in 1995, to J$77.7 billion in 1996 and to J$101.6 billion in 1997. As of August 1998, the internal debt stood at J$110.1 billion. The main factors contributing to the increased internal debt were: (a) neutralizing the effect of increased domestic liquidity from the net international reserve accumulation; (b) budgetary financing; (c) liquidity support to commercial banks; and (d) intervening to absorb excess liquidity to maintain a stable exchange rate of the Jamaican Dollar. Domestic debt is composed of government securities such as: T-Bills (10.9 percent), local registered stock (71.9 percent), bonds (10.4 percent), and loans from commercial banks and other entities (6.7 percent).

5. Aid

In 1997, Jamaica received $174.4 million of official development assistance from multilateral agencies and other countries on a bilateral basis reflecting a decline of 43 percent over 1996. Bilateral sources contributed $59.2 million, while multilateral financial institutions contributed loans and grants valued at $115.2 million.

The United States is a major aid contributor. In FY 1998, $11.34 million was disbursed as development assistance, $5 million was provided under the P.L. 480 program, and another $5.63 million as military aid. In addition, there were 100 Peace Corps personnel who provided technical assistance in the areas of health, education, environment and small business development.

6. Significant Barriers to U.S. Exports

Import Licenses: Although considerable headway has been made in the area of trade liberalization, some items still require an import license, including: milk powder, plants and parts of plants for perfume or pharmaceutical purposes, gum-resins, vegetable saps and extracts, certain chemicals, motor vehicles, arms and ammunition, certain toys, such as water pistols, and gaming machines.

Services Barriers: Foreign investors are now encouraged to invest in almost any area of the economy. However, there are still certain restrictions in the communications field. Under an agreement with the government, the British firm Cable and Wireless enjoys monopoly rights until 2013. Under the new cable television policy, preference is given in granting licenses to companies that are incorporated in Jamaica and in which majority ownership and controlling interest are held by Jamaican or CARICOM nationals. In most other areas, there do not appear to be any economic or industrial strategies that have discriminatory effects on foreign-owned investments.

Standards, Testing, Labeling, and Certification: The Jamaican Bureau of Standards administers the Standards Act, the Processed Food Act and the Weights and Measures Act. Products imported into Jamaica must meet the requirements of these acts. These include requirements for labeling. Items sold in Jamaica must conform to recognized international quality specifications. In most cases, Jamaica follows

U.S. standards. In recent years, the bureau has become increasingly vigilant in terms of monitoring the quality of products sold on the local market. The quarantine division inspects and determines standards in the case of live animals. Meat imports may be inspected by the Ministry of Health. In 1995, an amendment to the Weights and Measures Act was passed aimed at enforcing compliance with the metric system of measurement. Imported goods are expected to conform to the metric system.

Investment Barriers: The government welcomes foreign investment and there are no policies or regulations reserving areas exclusively to Jamaicans. Although foreigners are not excluded from participation in privatization/divestment activities, the government appears to favor the sale of such assets to national investors. While each investment proposal is assessed on its own merits, investments are preferred in areas which may increase productive output, use domestic raw materials, earn or save foreign exchange, generate employment, or introduce new technology. The screening mechanisms are standard and nondiscriminatory. The main criterion is the credit-worthiness of the company. Environmental impact assessments are required for new developments. Although both foreign and domestic companies have complained that "red tape" is a hindrance in doing business, foreign investors are treated the same as domestic investors before and after investment.

Government Procurement Practices: Government procurement is generally done through open tenders. U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of foreign goods competing with domestic manufacturers are very few. According to recent reports a new procurement regulation is currently being developed by the government which will supersede existing guidelines on how goods and supplies, services and civil works are acquired with public funds. A procurement policy implementation unit is being proposed to be established in the Ministry of Finance and Planning. In addition, the role of the Contractor General will be extended from auditing the award of contracts to supporting the evaluation and award of contracts.

Customs Procedures: The customs department has recently been computerized. As of November 1, all customs entries will be processed electronically in order to facilitate brokers and other customers. However, domestic and foreign business are likely to face some difficulties until the customs procedures are streamlined.

Anti-Dumping Laws: A draft bill upgrading anti-dumping laws was recently submitted to the parliament for approval. The bill provides for the establishment of an Anti-Dumping and Subsidies Commission. Other provisions include the imposition of anti-dumping and countervailing duties on goods which are found to have been dumped or subsidized and the exemption of goods from the application of the act.

7. 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 discounting of export receivables (to the extent of 80 percent of export value at 12 percent), lines of credit, and export credit insurance.

In December 1996, the government launched phase one of a special assistance program for the export apparel industry. The objective was to improve competitiveness by encouraging companies to make structural changes and implement operational efficiencies. The program targeted the reduction of operational costs, specifically in the areas of rent, security and financing. During phase one, a grant of J$40 million ($1.1 million) was made available to cover five percent of the companies' costs. Phase two of the program (August 1997 to March 1998), which has now been extended to March 1999, provides an additional J$160 million ($4.4 million) to encourage the broader development of the industry, particularly in those areas which will enhance long-term competitiveness. Benefits include loan financing (working capital) through the EXIM bank at 12 percent, debt restructuring for local companies through the national investment BOJ at 18 percent, and financing for retooling of factories for expansion through National Development Bank at 13 percent.

8. Protection of U.S. Intellectual Property

Jamaica belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. In 1998, the U.S. Trade Representative placed Jamaica on the "Special 301" Watch List.

The Jamaican Parliament is considering legislation to protect and facilitate the acquisition and disposition of all property rights, including intellectual property. This legislation would bring Jamaica into conformity with WTO requirements for the protection of intellectual property. In March 1994, Jamaica and the United

States signed a Bilateral Intellectual Property Rights (IPR) Agreement. A Bilateral Investment Treaty (BIT), which took effect in March 1997, also contains obligations to respect intellectual property.

Jamaican law addresses major areas of intellectual property rights protection. However, while amended laws on copyright and trademarks have reached an advanced stage, patent laws require further review to be consistent with international agreements. Remedies available include injunctions, damages, seizure, and disposal/destruction of infringing goods. Penalties may include fines or imprisonment. Levels of IPR enforcement are limited by overall demands on police and overburdened courts. The government is attempting to deal with the lack of public awareness through seminars and publications.

Patents: A draft bill on patents has been completed and is now subject to review by the legislative committee to determine if it is in compliance with the WTO TRIPS Agreement. New amendments to the Copyright Act include the conferment of protection on compilation works such as databases. The Act also grants protection for encrypted transmissions, broadcasting, and cable program services, and includes a right of action against persons who knowingly infringe those rights for commercial gain.

Trademarks: Litigation is a viable option in protecting intellectual property. In 1997, in individual lawsuits in Jamaican courts, the U.S. corporations McDonald's and K-Mart successfully defended their names and service marks against trademark infringement.

Copyright: Video piracy is frequent, and the unauthorized re-broadcast of satellite television programs by Jamaican cable operators takes place. Although licensing for broadcasts is required for subscription television, some unlicensed cable operators conduct business illegally. The broadcasting commission has indicated that it has started taking steps to terminate such activity. All licensees are required to obtain permission from program providers before re-broadcasting.

9. Worker Rights

a. *The Right of Association:* The Jamaican Constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. *The Right to Organize and Bargain Collectively:* Article 23 of the Jamaican Constitution guarantees the right to form, join and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. Industrial actions (generally brief strikes) are frequently employed in both private and public sector 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 have historically played an important economic and political role in Jamaican affairs. The public sector is highly unionized. Throughout 1997, the Ministry of Finance has been negotiating new two-year agreements covering tens of thousands of public sector employees. Reduced levels of inflation have enabled government negotiators to avoid budget-busting public sector salary increases.

No free trade zone factory is unionized. Jamaica's largest unions claim this is because unionization is discouraged in the zones. The ongoing contraction of the apparel industry and a lack of alternatives for its workforce (largely female heads of household, with minimal qualifications for other employment) are additional disincentives for unionization at the present time. However, in tourist areas, workers are often drawn away by more attractive employment opportunities in the local tourism sector.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. *Minimum Age for Employment of Children:* The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except for parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, child labor is not institutionalized. Both government and societal views are intolerant of the practice, and the use of child labor in formal industries such as textiles/apparel is virtually non-existent.

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. The minimum wage is J$800 for a 40-hour week or J$20 per hour. There are frequently additional allowances (e.g. for transportation, meals, clothing, etc.). Unemployment compensation or "redundancy pay" is included in the negotiation of specific wage and benefit packages. Jamaican law requires all factories to be registered, inspected and approved by the Ministry of Labor. Inspections are limited by scarce resources and a narrow legal definition of "factory."

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors and most of the firms involved are unionized, with the important exception of the garment assembly firms. No garment assembly firms in the free trade zones are unionized; some outside the zones are unionized. There have been no reports of U.S.-related firms abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the industry average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		139
Food and Kindred Products	−1	
Chemicals and Allied Products	100	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	39	
Wholesale Trade		1,401
Banking		15
Finance/Insurance/Real Estate		6
Services		33
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,687

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	334.8	398.7	414.8
Real GDP Growth (pct)[3]	5.2	7.0	4.6
GDP by Sector:			
Agriculture	18.96	21.42	18.12
Manufacturing	62.62	80.20	79.53
Services	197.61	253.24	243.50
Per Capita GDP (US$)	3,604	4,080	4,422
Labor Force (Millions)	36.3	36.6	37.5
Unemployment Rate (pct)	5.5	4.3	3.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	30.1	21.1	21.7
Consumer Price Inflation	27.7	15.7	17.8
Exchange Rate (Peso/US$)	7.6	7.9	9.9
Balance of Payments and Trade:			
Total Exports FOB[4]	96.0	110.4	117.5
Exports to United States[4]	79.4	94.3	101.7
Total Imports FOB[4]	89.5	109.8	124.8

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Imports from United States[4]	67.7	82.0	93.1
Trade Balance[4]	6.5	0.6	−7.3
Balance with United States[4]	11.7	12.3	8.6
External Public Debt	98.3	88.3	88.0
Fiscal Deficit/GDP (pct)	0.1	1.0	1.4
Current Account Deficit/GDP (pct)	0.5	1.8	3.5
Debt Service Payments/GDP (pct)	21.0	22.5	23.0
Gold and Foreign Exchange Reserves	18.7	28.0	30.1
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data in November.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade, Mexican data.

1. General Policy Framework

The strong recovery that the Mexican economy experienced in 1996 and 1997 has begun to taper off. Following growth of seven percent in 1997, Gross Domestic Product (GDP) will grow about 4.6 percent in 1998 and probably only three percent in 1999. The government cut fiscal expenditures three times in 1998 to adjust to low international oil prices. In addition, the central bank tightened monetary policy to contain the contagion effect from the international financial crisis, contributing to the slowdown.

Exports, led by the maquiladora industry, have been the main engine of economic growth, and could surpass $117 billion in 1998. The country's aggressive market opening through bilateral and multilateral trade agreements has continued to create new markets for Mexican products, while allowing more foreign competition. Led principally by capital goods imported by the maquiladora sector, and by increased consumer demand, imports have increased at a faster rate than exports, ending Mexico's trade surplus of recent years. Two-way trade with the United States has continued to grow and (by Mexican figures) could surpass $190 dollars this year. (U.S. Department of Commerce figures should show closer to $180-185 billion.) Mexico's trade surplus with the United States is steadily decreasing, and could become a deficit in 1999 or 2000.

The central bank's tight monetary policy led to high nominal interest rates late in 1998, but was not able to prevent a depreciation of the peso, which lost almost 25 percent of its value against the dollar. The currency depreciation renewed inflationary expectations and inflation surpassed the government's target of 12 percent for the year. The central bank's announced principal objective of controlling inflation portends a tight monetary policy throughout 1999.

2. Exchange Rate Policy

In December 1994, Mexico abandoned its exchange band mechanism, which had been in place since 1991, in favor of a free-floating exchange rate. The peso has floated freely since then with only infrequent interventions by the Bank of Mexico (Mexico's central bank). After losing more than half its value against the dollar in 1995, the peso was remarkably stable in 1996 and through most of 1997. The peso has depreciated more than 25 percent since October 1997, in response to the slowdown in financial flows to emerging markets in the wake of the Asian financial crisis. To accumulate foreign reserves and weaken the peso to support exporters, the bank offered credit institutions monthly options to sell dollars to the central bank. The Bank of Mexico has purchased up to $600 to $800 million of these options from banks in a single month. The amount of these options, however, is still felt to be too small to have an appreciable impact on the exchange rate. This offer was not made in October or November 1998, in order not to conflict with the Bank of Mexico's October sale of dollars in defense of the peso.

The peso experienced some volatility from mid-August to late October 1998. At the beginning of the year the peso traded for 8.0 pesos per dollar. By September the currency weakened to more than 10 pesos to the dollar, before strengthening to less than 10 pesos to the dollar.

3. Structural Policies

Regulation of the Mexican economy continues to decrease significantly. The government introduced legislation in 1993 to promote greater competition, limit monopolistic behavior, and prohibit practices that restrain trade. The Mexican Federal Competition Commission, established in that legislation, now has functioned successfully for more than four years. A 1993 Foreign Trade Law eliminated most non-tariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. The Mexican Customs Service also was modernized and automated. Customs Law reforms, implemented in 1996, have greatly assisted in the effort to weed out corruption. A project to examine all government regulations and to reduce them continues moving forward, with several federal ministries and the federal district having completed their work. State and local deregulation is also planned for the future.

The government has privatized or eliminated more than 1000 parastatal companies since 1986. State enterprises thus far privatized include commercial banks, the telephone company, a television network, airlines, steel production, most railroads and ports, warehouses and several major industrial facilities. President Zedillo is continuing the privatization trend. In 1997 and 1998, multiple contracts were let for private sector construction of power plants and for distribution of natural gas to strategically chosen communities. The government continues working to privatize management and some facilities at the remaining government-operated ports, and has shed all railroads.

Airport privatization in mid November 1998 remained slow moving, with bidding guidelines issued only for the first group of nine airports. It is likely this first group only will be privatized in the first quarter of 1999. The government announced plans to sell up to 49 percent of its secondary petrochemical plants, despite opposition party resistance. In addition, the government has signed two protocols with the United States in 1997 relating to satellite transmissions, and in early 1998, SATMEX, the Mexican satellite operator, was privatized. A further protocol on mobile satellite services was signed in December 1998. There is now competition in most of Mexico for the provision of long-distance telephone service. Competition for local telephone service is expected in the first half of 1999.

4. Debt Management Policies

Mexico has largely achieved the objectives laid out in the emergency economic program developed to cope with the 1995 peso crisis. During 1997 and the first three quarters of 1998, public sector debt continued to decline in real terms. The maturity of public debt was extended, the debt profile was reconfigured, the composition of external debt altered dramatically, and Mexico successfully returned to international capital markets. Among the most telling indicators of the success of Mexico's debt strategy were early repayment to the U.S. Treasury of all of the economic support funds extended to Mexico during the 1995 crisis, and Mexico's relative ease in weathering the effects of other-country financial crises in the fall of 1998.

At the end of the first half of 1998, Mexico's net public sector external debt was $88.2 billion, a slight decrease from 1997. Net external borrowing is limited by law to $5 billion annually. In 1998 total amortization of public external debt will be $22.1 billion, compared to $32.3 billion in 1997.

5. Significant Barriers to U.S. Exports

Import Licenses: The Secretariat of Trade and Industrial Development (SECOFI) requires import licenses for a number of commercially sensitive products. In 1998, SECOFI expanded the import licensing system by establishing an "automatic" import license for certain Asian and European products because of concerns about dumping and under-invoicing. While NAFTA originated goods are exempt from these requirements, U.S. companies that obtain goods from covered countries may be affected by the requirements. The Secretariat of Agriculture requires a prior import authorization for fresh/chilled and frozen meat. In 1998, the Secretariat of Health announced new import license rules for certain food products. These rules call for either an "advance sanitary import authorization" or "notification of sanitary import" prior to the product crossing the border. Obtaining these permits requires extensive documentation and certification by the exporter. In addition, Mexico maintains import licenses for sensitive products such as endangered species and weapons.

Insurance: Until 1990, the Mexican insurance market was closed to foreigners. With the introduction of NAFTA, U.S. and Canadian insurers that had joint venture operations in Mexico were allowed to increase their ownership share from 30 percent in 1994 to 51 percent in 1996 and 100 percent by the year 2000. Companies not already in Mexico could set up joint ventures and obtain majority control during 1998. U.S. insurers may also establish wholly owned subsidiaries in Mexico, subject to aggregate market share limits which will be eliminated in 2000. Some third-country firms have entered through affiliates or subsidiaries in the United States or Canada under the NAFTA arrangement.

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. However, in cellular telephony, foreign investors may participate up to 100 percent, subject to approval by the national foreign investment commission. Nevertheless, foreign investors may only participate through a Mexican corporation. Mexico modified its constitution in 1995 to allow for private participation and equity in Mexican telecommunication satellites, including ownership of transponders. The government's satellite firm was privatized in early 1998. Foreign investment is limited to a 49 percent equity position.

The Telmex legal monopoly on long distance and international telephone service ended in August 1996 and competition was introduced in January 1997. There currently is competition in all major cities and much of the rest of Mexico. Eight firms are currently authorized to provide long distance service, five of which have U.S. partners. USTR cited Mexico in its March 1998 annual "1377" review for failure to meet its WTO Basic Telecom Agreement commitments, including a discriminatory 58 percent surcharge on inbound international long distance traffic and failure to allow International Simple Resale (ISR). In December 1998, the government eliminated the 58 percent surcharge, but has yet to permit ISR. Local, basic telephone service is already technically open to competition, and practical competition is expected in early 1999.

Financial Services: The financial services sector is generally open and liberalized. Mexico continued during 1995 to promote competition and diversification in the financial sector by encouraging foreign investment. New rules adopted in 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 (effectively excluding Mexico's three largest banks). Legislation passed in December 1998 removed the six percent cap, allowing 100 percent ownership of any bank. Foreigners may now own up to 25 percent of the total net capital of the banking system. Also, a single Mexican or foreign individual may own up to 20 percent of a given Mexican financial institution. As a group, foreigners can, in most cases, own up to 49 percent of a bank, stock brokerage house, or financial group.

Standards, Testing, Labeling, and Certification: Mandatory, government-enforced standards play a major role in Mexico. Mexican customs enforces standards for goods entering the country at the border. The government has been the primary actor in determining product standards, labeling and certification policy, with some input from the private sector and, to a lesser extent, from consumers. The government revised its federal law on metrology and standardization in May 1997. These changes provided for greater transparency and the privatization of its accreditation program.

Mexican law requires that Mexican standards be based on "international standards," but Mexican standards sometimes will incorporate U.S. and Canadian standards when those differ from the international benchmark. Under NAFTA, Mexico was committed to recognizing U.S. conformity assessment bodies beginning in 1998, on the same terms that it applies to Mexican bodies. While no U.S. laboratories have been recognized, Mexican laboratories continue to be accredited.

In 1996 and 1997 the government implemented major changes in its general labeling requirements for both imported and domestic products. The transition process for U.S. exporters to meet the new labeling rules has been relatively smooth, and the government has demonstrated its willingness to adjust the new policies to accommodate exporters' interests.

The extensive use of mandatory standards, testing and labeling has the potential of acting as a barrier to trade and can raise the cost of exporting to Mexico. The government has displayed an increased willingness to work with U.S. industry to address U.S. concerns while continuing to protect the Mexican consumer. However, problems remain with restrictions on U.S. beef exports to three Mexican states that fail to recognize U.S. meat grades.

In late 1998, Mexico suspended testing for heavy metals residues in imported meats based on national treatment differences between its standards for domestic and imported products. These standards, among the most restrictive in the world, were not based on international or NAFTA consensus, and had questionable scientific basis. Other new standards for imported grain and poultry, published in late 1998, are interrupting—or may interrupt—U.S. exports. Again, there are questions regarding conformity with international standards and sound scientific justification.

While Mexico has come a long way in fulfilling its transparency obligations, certain ministries, e.g., the Ministry of Health, maintain that certain regulations are "executive orders" and therefore the ministry is not required to published them for comment. However, Mexico did not take an exemption for these regulations in the NAFTA; therefore, all regulations should be subject to the same transparency obligations as other standards and regulations.

Only Mexican producers or importers are allowed to obtain a NOM certificate (official document certifying that a particular good complies with an applicable standard). This poses a problem for U.S. exporters, if they use multiple importers. Each importer has to pay to have the same product tested at a Mexican lab every year. The cost associated with this redundant testing is industry's main complaint. In October 1997, SECOFI published revisions to its procedures which try to address the multiple importer problem by allowing U.S. manufacturers to obtain a dictamen (report of test), which can be used by multiple importers. However, to make use of this provision, U.S. manufacturers, unlike Mexican manufacturers, must obtain quality system registration based on ISO 9000 criteria from a Mexican-recognized quality system registrar. This option is far too burdensome and cost prohibitive for small and medium size companies.

Investment Barriers: The national foreign investment commission decides questions of foreign investment in Mexico. The country's constitution and Foreign Investment Law of 1992 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 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, but will be limited to 49 percent of existing facilities, and consortia purchasing this minority share must be majority Mexican owned. Newly built petrochemical plants may have up to 100 percent foreign investment.

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. In 1995, Mexico issued regulations for the first time allowing private sector participation in the transportation, distribution and storage of natural gas. Contracts let in 1997 and 1998 under the new regulations constitute one of the major success stories in Mexico's ongoing infrastructure development.

Investment restrictions still prohibit foreigners from acquiring title to residential real estate within 50 kilometers of the nation's coasts and 100 kilometers of the borders. However, foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. At this time, only Mexican nationals may own gasoline stations, whose gasoline is supplied by PEMEX, the state-owned petroleum monopoly. These gasoline stations also only carry PEMEX lubricants, although other lubricants are manufactured and sold in Mexico. Both foreigners and Mexican citizens themselves encounter problems with enforcement of property rights.

Government Procurement Practices: 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 comptroller's secretariat. In 1991, Mexico abandoned the rule that state-owned enterprises give preference in procurement to national suppliers. Suppliers from all countries 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 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 bids to competition by suppliers from NAFTA Parties. Each year, that percentage will increase until all PEMEX bids which are above the NAFTA value threshold will be open to goods and suppliers from NAFTA Parties. CFE procurement will be open by 2004.

Customs Procedures: In 1996 Mexico enacted a new Customs Law that simplified a number of procedures. The law transfers a number of obligations to private sector customs brokers who are subject to sanctions if they violate customs procedures. As a result, some brokers have been very restrictive in their interpretation of Mexican regulations and standards. Mexican customs also maintains (and in some cases has expanded) measures that can impede imports, including lists of approved importers and reference prices.

6. Export Subsidies Policies

The government has not had an export subsidy program. However, in October 1997 the government announced a program to subsidize sugar exporters for the shortfall between export and domestic prices in the first nine months of that year. Otherwise, provisions for promoting exports in the Foreign Trade Law have been 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 regulating the protection of Intellectual Property Rights (IPR): the World Intellectual Property Organization (WIPO), the Geneva Convention for the Protection of Phonograms against Unauthorized Duplication of their Phonograms; the Berne Convention for the Protection of Literary and Artistic Works (1971); the Paris Convention for the Protection of Industrial Property (1967); the International Convention for the Protection of New Varieties of Plants; the Universal Copyright Convention, and the Brussels Satellite Convention.

While Mexico was not on a "Special 301" Watch List in 1998, it was cited in the "Other Observations" category because of significant problems with piracy and counterfeiting, with U.S. industry losses increasing annually. Only a small percentage of raids and seizures have resulted in court decisions and the levels of penalties assessed when court decisions are made are inadequate to deter future piracy. As a result, manufacturers and distributors of pirated products continue to operate largely unfettered.

The government has been strengthening its domestic legal framework for protecting intellectual property. In 1997 it implemented a new Copyright Law and amended its penal code to strengthen penalties against copyright piracy. It also amended its 1991 Industrial Property Law, effective October 1, 1994, to create the Mexican Institute for Industrial Property (IMPI), giving this agency enhanced powers to implement Mexico's IPR laws. Mexico passed a law in 1996 providing protection to plant species.

Mexico has implemented NAFTA obligations 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. The term of patent protection is 14 to 20 years from the date of filing. Trademarks are granted for 10-year renewable periods.

Although federal authorities conduct investigations and carry out raids against pirates, there have been few criminal convictions stemming from these actions. The new Copyright Law permits IMPI to take administrative action against copyright violations. Following a complaint by a right holder, Mexican customs authorities are able to seize pirated merchandise. Mexican and U.S. authorities continue to discuss means to improve IPR protection in the two countries.

8. Worker Rights

a. *The Right of Association:* The constitution and the Federal Labor Law (FLL) give workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed with about 30 percent of the work force members in thousands of unions. Although no prior approval is required to form unions, they must register with the Federal Labor Secretariat or state labor boards to gain legal status. Federal or state authorities reportedly sometimes use this administrative procedure to withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of follow-up activities in 1996, 1997 and 1998, pursuant to a 1995 agreement reached in ministerial consultations under the North American Agreement on Labor Cooperation (the NAFTA labor side agreement).

Unions, federations, and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. 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. Again in 1998, the committee of experts of the International Labor Organization (ILO) found that such restrictions violate freedom of association, and asked the Mexican Government to amend these provisions. A 1996 Mexican supreme court decision invalidated similar restrictions in the laws of two states.

Most labor confederations, federations and separate national unions 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 some influence on government policies, but limits their freedom of action. Rivalries within and between PRI-allied organizations are strong. A smaller number of labor federations and independent unions are not allied to the PRI.

b. *The Right to Organize and Bargain Collectively:* The FLL strongly upholds this right. The public sector is almost totally organized. Industrial areas are also heavily organized. The law protects workers from antiunion discrimination but enforcement is uneven. Industry or sectoral agreements 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, which had been done for the past decade. The government, major employers, and unions meet periodically to discuss labor relations under the "new labor culture" mechanism. The government remains committed to free collective bargaining without guidelines or interference.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor and none has been reported in many years.

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-sized companies but is inadequate at small companies and in agriculture and is 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 and in thousands of family workshops), and in agriculture. Although enforcement is spotty, the government formally requires that children attend a minimum of nine years of school and has the ability to hold parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth.

e. *Acceptable Conditions of Work:* The FLL provides for a daily minimum wage set annually, usually effective January 1 by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party may ask the commission to reconvene to consider a special increase. In December 1997 the commission adopted a 14.44 percent increase. In Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone and most border areas, the daily minimum wage has been 30.20 pesos ($3.07 in late November 1998). However, daily minimum wage earners actually are paid 34.43 pesos due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 47.4 percent of the labor force earns the daily minimum wage or less. Industrial workers, under collective bargaining contracts, tend to average three to four times the daily minimum wage.

The law and collective agreements also provide extensive additional benefits. Those benefits which are legally required include social security (IMSS), 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 strong union contracts. Eight hours is the legal workday and six days the legal workweek, with pay for seven. Workers who are asked to exceed three hours of overtime per day or work overtime on three consecutive days receive triple the normal wage for that overtime. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven day's pay. This is why unions jealously defend the legal ban on hiring and paying wages by the hour.

Mexico's Occupational Safety and Health (OSH) laws and rules are relatively advanced. Completely revised regulations were published in 1997. Employers must observe "general regulations on safety and health in the work place" (which reflects close NAFTA consultation and cooperation) issued jointly by the Labor Secretariat (STPS) and the Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review workplace safety and health needs. Individual employees or unions may complain directly to 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 comprehensive enforcement. There are special problems in construction, where unskilled, untrained, and poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other industrialized sectors of the Mexican economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		109
Total Manufacturing		15,119
Food and Kindred Products	5,025	
Chemicals and Allied Products	3,157	
Primary and Fabricated Metals	361	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	803	
Transportation Equipment	1,920	
Other Manufacturing	(1)	
Wholesale Trade		862
Banking		510
Finance/Insurance/Real Estate		4,079
Services		924
Other Industries		3,792
TOTAL ALL INDUSTRIES		25,395

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	1,955.8	2,018.3	2,099.0
Real GDP Growth (pct)[2 3 4]	4.5	5.0	4.0
GDP by Sector:[2]			
Agriculture[4]	539.0	575.0	632.5
Manufacturing	413.0	418.9	431.2
Services[5]	833.6	865.6	887.2
Government	170.2	158.9	148.2
Per Capita GDP (US$)[2]	439	436	431
Labor Force (000s)	1,507.2	1,567.5	1,630.1
Unemployment Rate (pct)	16.0	14.3	12.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	28.1	50.1	20.0
Consumer Price Inflation (pct)	12.1	7.3	18.0

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Exchange Rate (Cordobas/US$ annual average)			
Official	8.4	9.5	10.5
Parallel	8.5	9.5	10.6
Balance of Payments and Trade:			
Total Exports FOB[6]	669.6	703.6	586.1
Exports to United States[7]	313.2	308.0	326.2
Total Imports CIF[6]	-1,049.7	-1,371.4	-1,235.6
Imports from United States[7]	-367.6	-510.6	-468.8
Trade Balance[6]	-380.1	-667.8	-649.5
Balance with United States[7]	-54.4	-202.6	-140.6
External Public Debt (US$ billions)	6.1	6.1	6.2
Fiscal Deficit/GDP (pct)	8.4	5.2	7.4
Current Account Deficit/GDP (pct)	35.7	40.5	22.3
Debt Service Payments/GDP (pct)	40.4	39.5	20.8
Gold and Foreign Exchange Reserves	145.0	356.0	305.8
Aid from United States	52	27	N/A
Aid from All Other Sources	546	292	N/A

[1] All 1998 figures are based on central bank data from December 1998, taking into account damage caused by Hurricane Mitch.
[2] 1996 and 1997 GDP data revised by central bank in October 1998.
[3] Percentage changes calculated in local currency.
[4] Includes livestock, fisheries, and forestry.
[5] Includes construction and mining.
[6] Merchandise trade is based on central bank data.
Source: U.S. Department of Commerce; 1998 figures are estimates based on trade data through October.

1. General Policy Framework

Nicaragua has made considerable progress since 1990 in moving from a centralized to a market-oriented economy. The country has liberalized its foreign trade regime, brought inflation under control, and eliminated foreign exchange controls. With the inauguration of President Arnoldo Aleman in January 1997, Nicaragua began to quicken the pace of its opening to foreign trade. The economy grew by 5 percent in 1997, its best performance since 1981. To foster macroeconomic stability, the Aleman administration signed an Economic Structural Adjustment Facility (ESAF) program with the IMF in January 1998. In estimates prior to November, the government had projected 6 percent economic growth in 1998. However, the unprecedented flooding from Hurricane Mitch—Nicaragua's worst natural disaster since the 1972 Managua earthquake—caused extensive losses which will impact on the country's economic performance into 1999 and well beyond.

At the end of its second year in office, the Aleman administration faced important economic challenges including: meeting the targets of an Enhanced Structural Adjustment Facility (ESAF) with the International Monetary Fund; making progress on the resolution of thousands of Sandinista-era property confiscation cases; and reducing unemployment and poverty in the hemisphere's second-poorest nation. Nicaragua's large current account deficit and fiscal deficit are counterbalanced by strong inflows of foreign assistance and private capital.

Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most nontariff barriers. Private investment, from both domestic and foreign sources, is rising and the private banking sector continues to expand. Agriculture, construction, and the export sector have led Nicaragua's recent economic growth. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

2. Exchange Rate Policy

Since January 1993, the government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily, with the real exchange rate held essentially constant. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was under one-half-percent in 1998. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The government maintains price controls only on sugar, domestically-produced soft drinks, certain petroleum products, and pharmaceuticals. However, in the past, the government has negotiated voluntary price restraints with domestic producers of important consumer goods. During the aftermath of Hurricane Mitch, the government instructed distributors of basic food products to maintain stable food prices.

Tax Policies: Nicaragua is in the process of implementing progressive import tax reductions through the year 2002. Since January 1998, Nicaragua has imposed regular import duties (DAI) of 15 percent on final consumption goods and 10 percent on intermediate goods (there is no DAI on raw materials and capital goods produced outside of Central America, but raw materials and capital goods imported form any Central American country carries a 5 percent DAI). Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent. The maximum rate of the combined DAI and ATP is 25 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items that generally is lower than 15 percent. DAI, ATP and IEC are based on CIF value. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Importers of many items face a total import tax burden of 15 to 45 percent.

Nicaragua's 1997 Tax Reform Law marked an important step by the Aleman administration towards fostering Nicaragua's insertion into the global economy. The reform: a) banned almost all non-trade barriers on imports; b) eliminated the discretion of government officials to exonerate tariffs; c) repealed the restrictive Law on Agents, Representatives or Distributors of Foreign Firms; d) established a "rebate" of 1.5 percent of FOB value for all exports; e) eliminated IGV on several activities; f) reduced municipal taxes from 2 to 1.5 percent in 1998 and to 1 percent in 2000; g) eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange; and h) set a schedule of progressive import tax reductions through the year 2002.

4. Debt Management Policies

The previous administration of Violeta Chamorro inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next eight years, Nicaragua negotiated a series of deals that reduced its stock of debt to $6.2 billion. Despite this progress, Nicaragua's debt, at almost three times GDP, remains high. Accordingly, the Aleman government has made debt reduction a top priority. In April 1998, the Paris Club creditors and the Nicaraguan Government reached an agreement on the terms and conditions for reducing and rescheduling Nicaragua's official debt. The United States signed a bilateral Paris Club agreement with Nicaragua in October. Another promising avenue for debt reduction is through the IMF/World Bank debt reduction initiative for the heavily indebted poor countries. However, to be eligible for this program, Nicaragua must first show satisfactory performance under an IMF program.

5. Aid

Nicaragua is highly dependent on foreign aid to cover its trade and fiscal deficits. More than half of its assistance is provided by multilateral financial institutions like the Inter-American Development Bank and World Bank. European countries, Japan, Taiwan, and the United States are also major donors . Since 1990, the United States has provided more than $1 billion in assistance and debt-relief to Nicaragua. That money has funded such projects as balance of payments support for economic stabilization, primary education, health care reform, employment generation, food donations, and the strengthening of democratic institutions. Nicaragua is not believed to be getting military aid from any source.

6. 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 must meet some phytosanitary requirements.

Services Barriers: Although 10 private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed.

Investment Barriers: Remittance of 100 percent of profits and original capital three years after 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 government will not guarantee that foreign exchange will be available. The U.S. 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 further costs.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista Government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan Government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996, Nicaragua ratified the United States-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has not yet been submitted to the U.S. Senate for ratification.

7. Export Subsidies Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Foreign inputs for Nicaraguan export goods from the country's free trade zones enter duty-free and are exempt from value-added tax. The government's Export Promotion Committee is empowered to extend tax exemptions to exports of key interest to the country.

8. Protection of U.S. Intellectual Property

Nicaragua belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is a signatory to the Paris Convention, Mexico Convention, Buenos Aires Convention, Inter-American Copyrights Convention, Universal Copyright Convention, and the Satellites Convention. In 1998, the U.S. Trade Representative maintained Nicaragua on the "Special 301" Other Observations list for failing to update its legal structure, reduce piracy rates affecting all forms of intellectual property, and bring its IP regime into compliance with the obligations of the bilateral IPR agreement.

The government has indicated a commitment to providing adequate and effective intellectual property rights protection. However, current levels of protection still do not meet international standards. Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is working to modernize its intellectual property rights regime. The National Assembly has approved a new Copyright Law in principle, but must conduct an article-by-article review before it becomes law. The Trademark Law was updated in 1994.

In January 1998, Nicaragua and the United States signed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits, and encrypted satellite signals.

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights: Pirated videos are readily available in video rental stores nationwide, as are pirated audio cassettes and software. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals. According to estimates by the International Intellectual Property Alliance (IIPA), U.S. copyright-based industries' losses in Nicaragua due to piracy were $3.9 million in 1997.

9. Worker Rights

a. *The Right of Association:* The Constitution provides for the right of workers to organize voluntarily in unions. The 1996 Labor Code reaffirmed this right. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The Constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. *The Right to Organize and Bargain Collectively:* The Constitution provides for the right to bargain collectively. According to the 1996 Labor Code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

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 Constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 Labor Code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for

15 and 16 year-olds. The law limits the workday for such children to 6 hours and prohibits night work. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the small, formal sector of the economy.

e. *Acceptable Conditions of Work:* The 1996 Labor Code maintains the constitutionally mandated 8-hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The code established that severance pay shall be from one to five months duration, depending on the length of employment and the circumstances of termination. The code also seeks to bring the country into compliance with international standards of workplace hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, but the majority of urban workers earn well above the minimum rates.

f. *Rights in Sectors with U.S. Investment:* Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		3
Food and Kindred Products	0	
Chemicals and Allied Products	3	
Primary and Fabricated Metals	(2)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		7
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		130

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

PANAMA

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	8,151	8,700	8,995
Real GDP (1982 prices)	6,373	6,673	6,880
Real GDP Growth (pct)'	2.8	4.7	3.1
GDP by Sector (1982 prices):			
Agriculture	515	517	435
Manufacturing	1,169	1,231	1,290
Services	3,767	3,964	4,185
Government	921	961	970
Per Capita GDP (US$)	2,383	2,454	2,502
Labor Force (000s)	1,011	1,044	1,096
Unemployment Rate (pct)	13.9	13.1	12

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Money and Prices (annual percentage growth):			
Money Supply (M2) Growth (pct)[2]	5.8	0.8	−0.1
Consumer Price Inflation	1.3	1.2	1.7
Exchange Rate (Balboa/US$ annual average)	1	1	1[3]
Balance of Payments and Trade:			
Total Exports FOB[4]	566	658	640
Exports to United States	269	293	280
Total Imports CIF[4]	2,781	2,992	3,150
Imports from United States	1,041	1,103	1,300
Trade Balance[4]	−2,215	−2,344	−2,510
Balance with United States	−772	−810	1,020
Colon Free Zone[5]			
Exports	5,492	6,276	6,050
Imports	4,624	5,390	5,450
External Public Debt	5,070	5,052	5,246
Fiscal Deficit(-)/GDP (pct)[6]	−0.4	0.6	−0.7
Current Account Deficit(-)/GDP (pct)	−0.7	−3.5	N/A
Debt Service Ratio (pct)	18.2	12.2	13.4
Gold and Foreign Exchange Reserves[7]	849	1,131	1,312
Aid from United States	6.3	9.3	7.1
Aid from All Other Sources	226	N/A	N/A

[1] Figures for 1998 are estimated unless otherwise indicated.
[2] Figure is based on IMF 9/98 International Financial Statistics. M2 = Deposit Money + Quasi Money. Figure for 1998 as of March.
[3] The balboa/dollar exchange rate is fixed at 1:1. The legal tender is the U.S. Dollar, so there is no parallel exchange rate.
[4] Trade statistics do not include the Colon Free Zone.
[5] The Colon Free Zone (CFZ) is the largest free trading area in the hemisphere. Historically, the United States supplies 13 percent of CFZ imports and takes 5 percent of CFZ exports.
[6] Figures indicate deficit of the nonfinancial public sector as percent of GDP.
[7] Figure is based on IMF 9/98 International Financial Statistics. Panama reports no gold holdings. Figure for 1998 as of July.

1. General Policy Framework

Panama's economy is based on a well developed services sector that accounts for 74 percent of GDP. Services include the Panama Canal, container port activities, flagship registry, banking, insurance, government, and the Colon Free Zone. The industrial sector, which accounts for 19 percent of GDP, is made up of manufacturing, mining, utilities, and construction. Agriculture, forestry and fisheries account for the remaining eight percent of GDP.

During four years in office, the Perez Balladares government has implemented economic policy reforms to liberalize the trade regime, privatize state-owned enterprises, lower tariffs, restructure unfunded pension programs, and attract foreign investment. A Banking Reform Law and a somewhat flawed Foreign Investment Protection Law were enacted in 1998. In November 1997, Panama reduced tariffs beyond the requirements of its June 1997 entry into the World Trade Organization (WTO), resulting in the lowest tariffs in Latin America. Primary objectives of the government continue to be the development of the reverted U.S. military bases and the privatization of public enterprises.

The economy grew 4.7 percent in real terms in 1997, up from 2.8 percent in 1996. The embassy estimates 3 to 4 percent growth in 1998. The more modest growth estimate is based on the harmful effects of a prolonged strike on the important banana industry in March and April and the drought effects of El Nino on agriculture and the electrical sector. In addition, Colon Free Zone trade, after growing at over 10 percent in the first quarter of 1998, has declined in the third quarter due to the downstream effects of the Asian crisis. The principal engine for growth continues to be the maritime sector.

The use of the U.S. Dollar as Panama's currency means fiscal policy is the government's only macroeconomic policy instrument. Therefore, government spending and investment are strictly bound by tax and non-tax revenues (including payments by the Panama Canal Commission) as well as the government's ability to borrow.

2. Exchange Rate Policy

Panama's official currency, the balboa, is pegged to the dollar at a 1:1 ratio. The balboa circulates in coins only. All paper currency in circulation is U.S. currency. The fixed parity means the competitiveness of U.S. products in Panama depends on transportation costs as well as tariff and non-tariff barriers to entry. U.S. exports have no risk of foreign exchange losses on sales in Panama.

3. Structural Policies

The government is committed to trade liberalization and reduction of structural economic distortions. With accession to the WTO and following negotiations with international financial institutions, Panama implemented significant tariff reductions in 1997. Moreover, the government subsequently initiated a program of further reductions, ultimately to achieve an across-the-board 10 percent tariff ceiling. When fully implemented, this would leave Panama with the lowest tariff ceiling in Latin America. Panama is close to completing a Free Trade Agreement with Mexico and continues to negotiate with Chile, though talks have bogged down in the financial services sector.

Panama is pressing forward with major privatizations. The government privatized ports at opposite ends of the Panama Canal in a $22 million per year contract with Hutchison Whampoa, a Hong Kong shipping and port management company. This bid was criticized as less than transparent. The telecommunications company was partially privatized in a $652 million sale to Cable & Wireless (UK). Conversely, this bidding action was praised as open and transparent. A contract to rebuild and operate the historic Panama Canal Railway was signed with Kansas City Southern Industries in January 1998. Three government electrical distribution companies were sold for over $300 million in October 1998, followed by the sale of five power plants in November. In addition, two private toll roads are under construction. Upcoming privatizations include two sugar mills, the international airport, and a convention center.

The restrictive Panamanian Labor Code was revised in 1995, though strong opposition allowed only marginal reform. Unions continue to oppose reform initiatives, on occasion violently. In 1996, a special labor regime for export processing zones was created by executive decree. The constitutionality of the decree was challenged and the question is presently pending before the Supreme Court. Notwithstanding several health and housing programs, the government estimates that over 40 percent of Panamanians live in poverty. Considering the relatively high per capita income level of over $3,300 (current dollars), Panama's historically skewed income distribution does not appear to be abating.

4. Debt Management Policies

In September 1997, Panama issued $700 million in 30 year global bonds, using $600 million to retire Brady bonds and retaining $100 million in cash. This follows the issuance of $500 million in Eurobonds in February 1997. The success of both offerings indicates the positive view of Panama's debt in world markets. The government has reduced its public debt from a level of almost $5.9 billion in 1995 to $5 billion currently. Its program has been stalled by world market conditions.

5. Aid

In FY 1998, aid from the United States included USAID disbursements of $4.6 million. The objectives of the USAID program in Panama are 1) to improve the management and protection of the Panama Canal watershed, and 2) to facilitate the smooth transfer of the Panama Canal and the productive use of the reverted properties in the Canal area. In addition, the United States Department of Justice provided training programs totaling over $500,000 in FY 1998.

Development aid from other sources came primarily from the International Development Bank (IDB) with $90.1 million disbursed in 1996 and a projected $1 billion loan program over the next several years. The International Monetary Fund (IMF) disbursed $78.5 million in 1996 under a standby facility, following disbursements of $13.7 million in 1995. The World Bank disbursed a second tranche of $30 million under an economic recovery loan approved in 1992. The World Bank also disbursed $1.95 million in loans targeted for rural health and education. Germany, Spain and Japan provided a total of approximately $23 million in commodity and technical assistance in 1996. The European Union provided funding to finance a portion of the Panama Canal Universal Congress, to establish the Panama Canal Museum, and to study future canal traffic, all totaling approximately $1.2 million.

6. Significant Barriers to U.S. Exports

The Perez Balladares government has followed through on its commitment to liberalize Panama's trade. With its accession to the WTO and its initiative to further lower tariffs, Panama has transformed a tariff regime that just a few years ago was one of the highest in the region. However, some non-tariff barriers have continued to plague U.S. exporters, especially in the agricultural sector.

The Panamanian judicial system also presents potential obstacles to investors. There is a backlog previously estimated at 100,000 criminal and civil cases, increasing at approximately 20,000 per year. Many investors have expressed concerns over the potential for corruption in the judicial process.

The combination of relatively high costs for both utilities and labor makes unit production costs higher than average for the region. Also, investors complain of burdensome and excessive product registration requirements. The government is trying, however, through a "one-stop shopping" concept, to make its regulations more investor-friendly for those producing for export.

As a WTO member, Panama's customs valuation system conforms to international standards. The processing of customs documents for imports is generally fast, efficient, and reliable. However, some importers have complained of product misclassification and, in isolated cases, demands for excessive duties. In addition, importers of agricultural goods have faced sudden and arbitrary changes in procedures and practices.

In financial services, restrictions on foreign ownership is minimal except for finance companies. U.S. banks, insurance companies and brokerages are welcome and in some cases are leaders in the local market.

7. Export Subsidies Policies

The Universalization Law, enacted in June 1995, allows any company to import raw materials or semi-processed goods at a duty of three percent for domestic consumption or 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 on their profits from export operations through 2002.

The Tax Credit Certificate (CAT) program, which subsidizes production of non-traditional exports, is being phased out. Through the year 2000, the program allows exporters to receive CATs worth 15 percent of value added. After 2000, the program is slated to be eliminated.

8. Protection of U.S. Intellectual Property

Panama belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Universal Copyright Convention, and the Satellites Convention. In 1998, the U.S. Trade Representative maintained Panama on the "Special 301" Other Observations list.

Panama's intellectual property legislation, including Law 15 of 1994 (Copyrights) and Law 35 of 1996 (Industrial Property), is generally consistent with the standards specified in the WTO TRIPs Agreement. The laws explicitly protect foreign works. Although enforcement has improved in recent years, piracy and counterfeiting remain problems, particularly in the Colon Free Zone (CFZ).

Patents: The Industrial Property Law establishes a standard of 20 years of protection for all patent holders and protects processes. Although the law imposes a working requirement on patent holders, the patent holder can satisfy the requirement by importing the product. Under the law, the government can issue compulsory licenses only after notice to, and a hearing for, the patent holder. In addition, a patent holder can still preserve his rights by beginning manufacture or importation within one year of the initial notification of the compulsory licensing proceeding. The recipient of a compulsory license must have the capacity to manufacture the product in Panama.

Trademarks: The Industrial Property Law also provides for protection of trademarks and trade secrets. It simplifies trademark registration and gives protection for 10 years, renewable for an unlimited number of additional 10-year periods. While the law provides adequate protection, enforcement is another matter. Counterfeit merchandise, particularly apparel and footwear, watches, perfume, and sunglasses, are available in Panamanian stores. Trademark-infringing merchandise is also transshipped through the CFZ for distribution in Latin American markets. In implementing the Industrial Property Law, the CFZ administration created an Intellectual Property Department in March 1998. The new IP Department and the CFZ Customs Office have conducted more than 15 raids and seizures in 1998.

Copyrights: Video and sound recording piracy have long been a serious problem in Panama. However, since late 1996, aggressive action by the 10th Circuit Prosecutor's Office (Fiscalia) of Panama City has reduced the incidence of video piracy. The Fiscalia has broken up several large-scale illicit video reproduction operations and has brought charges against two notorious video pirates. The Recording Industry Association of America (RIAA) has stated that pirates reproduce and distribute pirated sound recording cassettes and compact discs from the CFZ throughout Latin America. In September 1998, the Fiscalia raided warehouses at Tocumen International Airport and seized approximately 5 million East Asia-produced pirated compact discs, along with CD-ROM computer games and counterfeit microchips.

The Business Software Alliance (BSA) has an active public awareness program in Panama, and periodically obtains warrants to search businesses for appropriate use of software licenses. Several criminal and civil cases have been brought for illegal software use; most have been settled out of court. While most pirated products are imported, local software companies have also been victimized by illicit copying and use of their products.

According to estimates by the International Intellectual Property Alliance (IIPA), U.S. copyright-based industries' losses in Panama due to piracy were $24.4 million in 1997. Losses due to trademark infringement are believed to be large, especially considering the CFZ transshipment problem, but are not easily quantifiable.

USAID, through the Panamanian private sector, is assisting the government in bringing the public administration of IPR together under one autonomous institution. Draft legislation is expected to be presented to the Assembly by early 1999.

9. 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. Neither the government nor the political parties control or financially support unions. There are 257 active unions, grouped under 6 confederations and 48 federations, representing approximately 10 percent of the employed labor force. Civil service workers are permitted to form public employee associations and federations, though not unions. Union organizations at every level may and do affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The Labor Code provides most workers with the right to organize and bargain collectively. The law protects union workers from anti-union discrimination and requires employers to reinstate workers fired for union activities. The Labor Code also establishes a conciliation board in the Ministry of Labor to resolve complaints and it provides a procedure for arbitration. The Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor, and neither practice has been 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 age 16 cannot work overtime; those under 18 cannot work at night. Children between the ages of 12 and 15 may perform light farm work that does not interfere with their education. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment. However, it has not enforced child labor provisions in rural areas due to insufficient staff.

e. *Acceptable Conditions at Work:* The Labor Code establishes a standard work week of 48 hours and provides for at least one 24-hour rest period weekly. It also establishes minimum wage rates, though in the relatively high cost urban areas, the minimum wage is not sufficient to support a worker and family above the poverty level. The Ministry of Labor does not adequately enforce the minimum wage law due to insufficient personnel and financial resources. The government sets and enforces occupational health and safety standards. It conducts periodic inspections of particularly hazardous employment sites as well as doing so in response to complaints. Workers may remove themselves from situations that present an immediate health or safety hazard without jeopardizing their employment. Health and safety standards generally emphasize safety rather than long-term health hazards. Complaints of health and safety problems continue in the construction, banana, cement, and milling industries.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment generally mirror those in other sectors. As mentioned above, the banana industry, which has significant U.S. investment, continues to produce complaints of health hazards largely due to workers' exposure to pesticides. The Panama Canal operates under separate labor regulations. As part of the Canal transition process, Panamanian mediators are being trained, with USAID financing, in alternate dispute resolution to resolve labor conflicts within the Panama Canal Authority post-1999.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		724
Total Manufacturing		102
Food and Kindred Products	30	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	40	
Wholesale Trade		509
Banking		89
Finance/Insurance/Real Estate		19,585
Services		33
Other Industries		−83
TOTAL ALL INDUSTRIES		20,958

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

PARAGUAY

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	9,650	9,612	9,564
Real GDP Growth (pct)	1.2	2.7	−0.5
GDP by Sector (pct):			
Agriculture	26	27	26
Manufacturing	14	14	14
Services	36	37	37
Government	6	6	6
Per Capita GDP (1982 US$)	1,634	1,634	N/A
Labor Force (000s)	1,747	N/A	N/A
Unemployment Rate (pct)	9.8	12.0	12.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	13.3	7.7	−4.7
Consumer Price Inflation (pct)	8.2	6.2	14.6
Exchange Rate (GS/US$ year end)	2,110	2,294	2,830
Official	N/A	N/A	N/A
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[3]	4,004	3,609	3,384
Exports to United States[3]	42.3	40.6	38.7
Total Imports CIF[3]	4,382	4,214	3,660
Imports from United States[3]	897	913	734
Trade Balance[3]	−378	−606	−276
Balance with United States[3]	−855	−872	−695
External Public Debt	1,336	1,437	1,475
Fiscal Deficit/GDP (pct)	1.7	−0.8	−1.2
Current Account Deficit/GDP (pct)	−3.3	−5.0	−2.7
Debt Service Payments/GDP (pct)	18	17	19

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Gold and Foreign Exchange Reserves	1,062	846	870
Aid from United States	5	5	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are central bank preliminary data except for U.S. imports and exports, which are embassy estimates.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.

1. General Policy Framework

Paraguayans elected a new president, congress, and governors on May 10, 1998. The new government has made economic reform, led by reform of the banking sector, its principal goal, and has submitted a plan to congress for a package of international and national bond issuances to pay depositors of failed or merged banks, and bolster foreign reserves. Some important steps have been made in the protection of intellectual property rights, and the Finance Ministry and its customs branch have reviewed tax and duty collection procedures. The financial sector continued to be in upheaval, with the closure of several banks and exchange houses, and subsistence farming, particularly cotton, continued to struggle due to poor weather conditions and mismanagement of the government's cotton reactivation program. Inflation exceeded the annual target rate by the fourth quarter, forcing the central bank to reevaluate its policies. The new government found the public deficit to be almost twice as large as originally believed. The Cubas administration has taken some effective measures to increase revenue and cut spending with the goal of balancing the budget by the end of 1999.

Key hurdles to continued reform are congressional and executive inability to rise above partisan politics, endemic corruption, negative fallout from prior year privatization efforts, and a drop in the previously lucrative re-export trade to Brazil. Paraguay's membership in the Southern Cone Common Market (MERCOSUR) continues to pose more immediate challenges than benefits, but continues to be a primary attraction for foreign investors. Paraguay is the region's lowest cost provider of electricity, and could serve as a strong base in certain industries for entering the 200 million-consumer MERCOSUR market.

Paraguayan imports of U.S. goods have dropped over the last several years after impressive growth in the early part of the decade. The imports reflect not only local consumer and business demand, but that of neighboring countries as well. A significant portion of Paraguayan importers take advantage of "leakage" in local customs and tariff enforcement to import goods to Paraguay for transshipment to Brazil and Argentina. While some legitimate goods are transshipped, an increasing percentage of transshipped goods are unlicensed copies of CDs, video games, software, cellular telephone batteries, designer items, etc. With tariff rates in Argentina and Brazil falling and rising in Paraguay as part of a planned MERCOSUR-wide common tariff regime, Paraguay's relative tariffs no longer provide sufficient margins on the transshipment of many legitimate goods.

2. Exchange Rate Policy

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 guarani. The decline of illicit/informal cross-border trade with Brazil, coupled with rising inflation, has caused a 35 percent devaluation of the guarani in the past year. On November 9, the market rate stood at 2,850 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. With continuing economic uncertainty, the failure of many local banks, and continued inflation, the dollar has become the preferred unit for large purchases, savings, and virtually all international transactions. Dollar-based savings accounts total over one billion 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 public transportation fares. The Ministry of Finance oversees all tax matters. Under current law, 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 on the income generated directly from reinvested profits. The government implemented a Value-Added Tax (IVA) in 1992. Some analysts have estimated that IVA compliance hovers around 30 percent. Charges of corruption among tax officials are endemic. The bulk of tax revenues are collected by customs on imported merchandise.

4. Debt Management Policies

In 1992, the government reduced external debt with both official and commercial creditors through a drawdown of foreign reserves. Since that time, however, increasingly large public deficits have nudged public debt back upward. Foreign reserves have not recovered, however, and Paraguay currently has about $740 million in hard currency. The government's debt is approximately $1.5 billion. The government has sent legislation to the congress authorizing an international bond issue of $400 million and a local bond issue of $200 million, to be used to bail out the ailing banking sector and shore up international reserves. Further, Japan and Taiwan have recently provided over $200 million in long-term foreign assistance loans for agriculture and infrastructure development. Approximately two-thirds (roughly $900 million) of Paraguay's foreign debt is held by multilateral lending institutions. During a recent visit, a representative from the World Bank announced that no new World Bank loans would be available to Paraguay until it allocated and properly accounted for existing loans. Paraguay continues to meet its obligations to foreign creditors in a timely fashion.

5. Aid

Direct U.S. aid to Paraguay in fiscal year 1998 included roughly $675,000 in military assistance administered at post, such as international military education and training, information exchange visits and seminars; $105 thousand in counter-narcotics assistance; and $6.125 million in USAID disbursements for democracy, reproductive health and biodiversity protection. Indirect U.S. contributions via the Inter-American Development Bank, World Bank and United Nations programs totaled tens of millions of dollars more.

6. Significant Barriers to U.S. Exports

Paraguay is a member of the World Trade Organization (WTO) and has an open market that does not require import licenses, except for guns and ammunition (the United States prohibits the export of U.S. guns and ammunition to Paraguay). U.S. companies have not fared well in non-transparent government procurement tenders. Paraguayan regulations require country of origin designation on domestic and imported products. Expiration dates are required for medical products and some consumer goods. As of January 1998, imported beer is required to display detailed manufacture and content information, labeled in Spanish at the point of bottling. A similar regulation was put in place for shoes. MERCOSUR-wide labeling requirements are underway.

Law 194/93 established the legal regime between foreign companies and their Paraguayan representatives. This law requires that to break a contractual relation with its Paraguayan distributor, the foreign company must prove just cause in a Paraguayan court. If the relationship is ended without just cause, the foreign company must pay an indemnity. The rights under this law cannot be waived as part of the contractual relationship between both parties. Foreign companies have paid large sums when ending distributor relationships in Paraguay to avoid lengthy court cases or have maintained relationships with underperforming representatives to avoid such payments.

7. 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.

However, Paraguay exports 90 percent of its cotton crop and government subsidized credit to small-scale producers signifies an indirect export subsidy. Government subsidized financing for the 1997-98 crop was provided to the producers of 80 percent of the cotton harvest. Due to high default rates, subsidized credit for the 1998-99 crop has been reduced to cover only 30 percent of production. The government will provide small-scale farmers with subsidized input, such as seed and pest control products.

8. Protection of U.S. Intellectual Property

Paraguay belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, and the Phonograms Convention. In 1998, the U.S. Trade Representative designated Paraguay as a "Special 301" Priority Foreign Country. On February 17, 1998, the U.S. Government initiated a "Special 301" investigation of Paraguay as a result of its historically inadequate enforcement of intellectual property rights, its failure to enact adequate and effective IP legislation, as well as its status as a distribution and assembly center for pirate and counterfeit merchandise and the large re-export trade to other MERCOSUR countries.

On November 17, USTR concluded a Memorandum of Understanding and an Enforcement Action Plan that contain specific near-term and longer-term obligations. The Agreement contains commitments by Paraguay to take immediate action against known centers of piracy and counterfeiting; initiate a Special Enforcement Period (to last until March 15, 1999), during which intensive action will be taken to prevent and punish the infringement of intellectual property rights; pursue amendments to its laws that will facilitate effective prosecution of copyright piracy; coordinate the anti-piracy efforts of its customs, police, prosecutorial, and tax authorities; implement institutional reforms to strengthen enforcement at its borders; and ensure that its government ministries use only authorized software.

As a result of this agreement, the U.S. Government has revoked Paraguay's designation as a Priority Foreign Country and terminated the Special 301 investigation. The U.S. Government also designated Paraguay for "Section 306 Monitoring" to demonstrate the need for continued improvement, allowing the U.S. to move directly to trade sanctions if there is slippage in Paraguay's enforcement of this agreement.

Patents: Congress has not taken up comprehensive patent legislation. Lobbying against the legislation has complicated action in congress.

Trademarks: On August 6, 1998, a new Trademark Law was promulgated that includes a broader definition of trademarks. The law prohibits the registration of a trademark by parties with no legitimate interests or who knew or should have known that another party already owned the mark. Provisions provide specific protection for well-known trademarks. The law also includes stronger enforcement measures and penalties for infractions. In practical terms, trademark violation is still rampant in Paraguay, and resolution in the courts is slow and non-transparent. The new law provides an important first step, but must be followed by increased enforcement and modernization of the judicial system to become fully effective.

Copyrights: On October 15, 1998, President Cubas signed a new Copyright Law, which follows international conventions to protect all classes of creative works. Software programs receive the same treatment as literary works under the law. The law contains norms that regulate contracts related to copyrights. A reform in the procedural guide to the penal code, which goes into effect June 1999, will make copyright violations "private actions," requiring legal action by the offended party to seek redress. The Ministry of Commerce is leading an effort to make copyright violations a "public action," opening the door to litigation by public prosecutors. Practical application of copyright protection suffers the same systemic challenges as trademark protection.

9. Worker Rights

In October 1993 the Paraguayan Congress 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, except 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:* The law protects collective bargaining. 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:* The law prohibits forced labor. 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 of age may be employed only in family enterprises, apprenticeships, or in agriculture. The Labor Code prohibits work by children under 12 years of age, and all children are required to attend elementary school. In practice, however, many thousands of children, many under the age of 12, work in urban streets in informal employment.

e. *Acceptable Conditions of Work:* The Labor Code allows for a standard legal work week of 48 hours, 42 hours for night work, with one day of rest. The law also provides for a minimum wage, 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		11
Total Manufacturing		27
Food and Kindred Products	0	
Chemicals and Allied Products	6	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	21	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		2
TOTAL ALL INDUSTRIES		151

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

PERU

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	61,000	65,200	64,100
Real GDP Growth (pct) [3]	2.5	7.2	2.5
GDP by Sector:			
Agriculture	5.5	4.9	4.0
Manufacturing	2.5	6.0	−5.0
Services	3.2	6.6	5.0
Government	1.9	4.6	−2.0
Per Capita GDP (US$) [2]	2,552	2,672	2,584
Labor Force (000s) [4]	6,592	7,309	N/A
Unemployment Rate (pct)	7.9	8.3	9.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	38.3	18.3	15.0
Consumer Price Inflation	11.8	6.5	8.0
Average Exchange Rate (Sol/US$)			
Official	2.46	2.66	2.93
Parallel	2.46	2.66	2.93
Balance of Payments and Trade:			
Total Exports FOB	5,600	6,814	5,348

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Exports to United States[5]	1,000	1,579	1,511
Total Imports FOB	7,700	8,552	8,413
Imports from United States[5]	1,800	2,001	2,054
Trade Balance	−2,100	−1,738	−3,065
Balance with United States	−800	−422	−543
External Public Debt	26,289	19,737	19,292
Fiscal Deficit/GDP	1.3	0	0
Current Account Deficit/GDP	5.9	5.2	6.5
Debt Service Payments/GDP	2.1	1.5	N/A
Net International Reserves	8,540	10,169	9,800
Aid from United States	152	140	127
Total Aid	275	N/A	N/A

[1] 1998 figures are estimates based on data available as of October.
[2] GDP data calculated using official figures at average exchange rate; 1998 data based on annualized half-year data. The Peruvian Government has promised to release re-calculated GDP figures in January 1999.
[3] Percentage changes calculated in local currency.
[4] Lima metropolitan area only.
[5] Estimates based on annualized official data for August 1998.
Source: Central Reserve Bank of Peru, National Institute of Statistics, Ministry of Labor, and embassy estimates.

1. General Policy Framework

Peru is essentially a free market economy which provides significant trade and investment opportunities for U.S. companies. Over the past eight years, the government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, lowered tariffs, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: The economy slowed in 1998; real GDP growth slipped to an estimated 2.5 percent after robust growth of 7.2 percent in 1997. Economic performance in 1998 was affected by several factors, including the worsening of Peru's terms of trade (as prices for minerals—Peru's primary exports—dropped) and the "El Nino" weather phenomenon, which led to sharp declines in fish exports. The current account deficit also spiked upwards in 1998, to about 6.5 percent of GDP. Inflation remained low by Peru's historical standards, hitting 8.0 percent for the year. The government's overall budget was balanced in 1998. Despite Peru's macroeconomic stability, underemployment remains high, and almost half the population lives in poverty.

Trade Policy: Peru's economy is largely open to imports. As Peru's largest trading partner, the U.S. exported over $2 billion to Peru in 1998, about equal to the level of 1997. Peru's average tariff rate has dropped consistently since it hit 80 percent in 1990, reaching 13 percent in 1998. Some countries (not including the U.S.), however, avoid tariffs on a number of their exports to Peru because of preferential trade agreements. As a member of the Andean Community and of the Latin American Integration Association (ALADI), Peru grants duty-free access to many products originating in those countries. In June 1998, Peru signed a Free Trade Agreement with Chile, which will be phased in over a number of years. In April 1998, the Andean Community signed a framework agreement with MERCOSUR to establish a free trade area after the year 2000; further negotiations in 1999 must still take place to define the implementation of the agreement. Peru also plans to complete a Free Trade Agreement with Mexico by the year 2000. Peru officially became a member of APEC in November 1998.

Monetary Policy: 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. United States Dollars account for two thirds of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. Net foreign reserves have grown to about $10 billion (they were negative in mid-1990). Peru reached an agreement in July 1996 to reschedule its official debt (Paris Club), and closed a deal with its commercial creditors (Brady Plan) in March 1997.

2. Exchange Rate Policy

The exchange rate for the Peruvian New Sol is determined by market forces, with some intervention by the central bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition 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. U.S. exports are generally price competitive in Peru.

3. Structural Policies

Peru is a liberal economy largely dominated by the private sector and market forces. The government has consistently reduced its role in the economy since it began a privatization program in 1992. Since that time, most major state-owned businesses, including the telephone company and mining companies, have been sold. The government has not held to its original timetable to complete the privatization program, but plans to wrap it up in 1999, four years later than originally planned. Still to be sold are the remaining parts of the petroleum company (Petro Peru), some electrical utilities, and mining properties. In early 1997, the government announced that it would begin a new phase of the privatization program by selling concessions to build and/or operate public facilities such as airports, roads, railroads, and ports. U.S. companies have participated heavily in the privatization program, particularly in the mining, energy, and petroleum sectors.

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 tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to over 14 percent by late 1998. Customs collections have more than tripled since the early 1990s, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies heavily on its 18 percent Value-Added Tax (VAT). There are also several high selective consumption taxes on certain items, such as automobiles.

4. Debt Management

Peru's long and medium-term public external debt at the end of June 1998 totaled about $19.3 billion—less than one third of GDP. Total service payments due on the debt for 1998 are estimated at $1.7 billion.

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 (EFF) with the IMF for 1993-95. The government negotiated a follow-on EFF for 1996-1998 and plans an unprecedented third EFF for 1999-2001. 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-March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996, under which the Club creditors agreed to reschedule approximately $1 billion in "official debt" payments coming due between 1996 and 1999, and to reschedule some debt originally rescheduled in 1991 in order to smooth out Peru's debt service profile.

Peru closed out a $10.5 billion Brady Plan commercial debt restructuring in March 1997. The government estimates annual obligations under the deal at about $300 million. With the Brady closing and the Paris Club rescheduling, Peru is now current with nearly all its international creditors.

5. Significant Barriers to U.S. Exports

Almost all non-tariff barriers to U.S. exports and obstacles to direct investment have been eliminated over the past eight years. Peru became a founding member of the World Trade Organization in January 1995.

Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in illegal narcotics production); ammonium nitrate fertilizer (which has been used as a blast enhancer for terrorist car bombs), wild plant and animal species, and some radio and communication equipment. The following imports are banned: several insecticides, fireworks, used clothing, used shoes, used tires, radioactive waste, and cars over five years old and trucks over eight years old.

Tariffs apply to virtually all goods exported from the U.S. to Peru, although rates have been lowered over the past few years. A new tariff structure that went into effect in April 1997, for example, lowered the average tariff rate from 16 to 13 percent. At the same time, the government did raise some tariffs on agricultural products and imposed an additional "temporary" tariff on agricultural goods, in a move to try to promote domestic investment in the sector. Under the new system, a 12 percent tariff applies to more than 95 percent (by value) of the products imported into Peru; a 20 percent tariff applies to most of the rest, while a few products are assessed rates (because of the additional "temporary" tariffs) of up to 25 percent. Another set of import surcharges also applies to four basic commodities: rice, corn, sugar and milk products. (The surcharge on wheat was eliminated in July 1998). Imports are also assessed an 18 percent value-added tax on top of any tariffs; domestically-produced goods pay the same tax as well. Some non-U.S. exporters have preferential access to the Peruvian market because of Peru's bilateral and multilateral tariff reduction agreements.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, a conflicting provision of law restricts the majority ownership of broadcast media to Peruvian citizens. Foreigners are also restricted from owning land within 50 kilometers from a border, but can operate within those areas through special authorization. There are no prohibitions on the repatriation of capital or profits. Under current law, foreign employees may not make up more than 20 percent of the total number of employees of a local company (whether owned by foreign or national interests) or more than 30 percent of the total company payroll, although some exemptions apply.

Customs procedures have been simplified and the customs administration made more efficient in recent years. As part of the customs service reform, Peru implemented a system of preshipment inspections, through which private inspection firms evaluate most incoming shipments worth more than $5,000. (Exceptions include cotton and heavy machinery). The importer must pay up to one percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays and conflicts over valuation.

6. Export Subsidies Policies

The Peruvian Government provides no direct 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 a portion of the 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. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will be used to generate exports and that will themselves be reexported within 24 months. There are several small-scale export promotion zones where goods enter duty-free; they must pay duties if/when they enter the rest of the country.

7. Protection of U.S. Intellectual Property

Peru belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Satellites Convention, Universal Copyright Convention, and the Film Register Treaty. In 1998, the U.S. Trade Representative maintained Peru on the "Special 301" Watch List.

In April 1996, Peru passed two new laws to improve its intellectual property rights protection regime and bring its national laws into conformity with Andean Community decisions and other international obligations on intellectual property. Although the new laws are an improvement, they contain several deficiencies, and the government will need to make further changes to its laws to come into conformity with the WTO TRIPS Agreement by the year 2000. The government is generally proactive in promoting and protecting intellectual property rights for domestic and foreign interests. Although enforcement efforts have increased, piracy remains widespread.

Patents and Trademarks: Peru's 1996 Industrial Property Rights Law provides an effective term of protection for patents and prohibits devices that decode encrypted satellite signals, along with other improvements. In June 1997, based on an agreement reached with the U.S. Government, the Government of Peru resolved several apparent inconsistencies with the TRIPS Agreement provisions on patent protection and most-favored nation treatment for patents. Peruvian law does not provide for pipeline protection for patents or protection from parallel imports. Although Peruvian law provides for effective trademark protection, counterfeiting of trademarks and imports of pirated merchandise are widespread. Peru, along with its Andean Community partners, is working to revise the common Andean Community policy on Industrial Property to bring it into compliance with the TRIPS Agreement.

Copyrights: Peru's Copyright Law is generally consistent with the TRIPS Agreement. However, textbooks, books on technical subjects, audio cassettes, motion picture videos, and software are widely pirated. While the government, in coordination with the private sector, has conducted numerous raids over the last few years on large-scale distributors and users of pirated goods and has increased other types of enforcement, piracy continues to be a significant problem for legitimate owners of copyrights in Peru.

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 five percent belong to unions. More than half the work force is 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. The International Labor Organization (ILO) in June 1996 called on the Peruvian Government to enhance freedom of association.

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 legislation in 1995 and 1996 amending the 1992 Employment Promotion Law which union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this law with the ILO, and the ILO noted that the new legislation failed to effectively guarantee the protection of workers against acts of anti-union discrimination and to protect workers' organizations against acts of interference by employers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited, as is imprisonment for debt. In response to a complaint filed with the ILO, however, the government in 1994 acknowledged the existence of forced labor practices in remote areas of the country and said it had taken measures to end them. Although the constitution does not specifically prohibit forced or bonded labor by children, Peru has ratified ILO Convention 105 on the abolition of forced labor, including forced or bonded child labor. Nevertheless, there have been recent reports of forced or bonded child labor in the informal gold mining operations in a remote area of Peru.

d. *Minimum Age for Employment of Children:* The minimum legal age for employment is 12. In certain sectors, higher minimums are in force: 14 in agricultural work; 15 in industrial, commercial or mining work; and 16 in the fishing industry. Although education through the primary level is free and compulsory, many school-aged children must work to support their families. Much of the child labor takes place in the informal economy without government supervision of wages or conditions. In recent years, government surveys have variously estimated the number of child and adolescent workers to be anywhere from 500,000 to 1.9 million.

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.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		166
Total Manufacturing		201
Food and Kindred Products	57	
Chemicals and Allied Products	85	
Primary and Fabricated Metals	5	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	54	
Wholesale Trade		123
Banking		(2)
Finance/Insurance/Real Estate		218
Services		45
Other Industries		(2)
TOTAL ALL INDUSTRIES		2,595

(1) Less than $500,000 (+/−).
(2) 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]

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP	5,449	5,878	6,420
Real GDP Growth (pct)	3.8	3.2	5.0
GDP by Sector:			
Agriculture	114	123	123
Manufacturing	447	493	595
Services	2,794	3,068	3,449
Petroleum	1,451	1,627	1,636
Government	541	472	516
Per Capita GDP (US$)	4,288	4,614	5,005
Labor Force (000s)	530	541	554
Unemployment Rate (pct)	16.2	14.5	13.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [2]	−0.8	5.8	6.1
Consumer Price Inflation	3.3	3.8	5.0
Exchange Rate (TTD/US$)	6.03	6.29	6.29
Balance of Payments and Trade:			
Total Exports FOB	2,490	2,542	2,319
Exports to United States	1,094	998	853
Total Imports CIF	2,134	3,036	3,003

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Imports from United States	800	1,563	1,393
Trade Balance	341	−494	−684
Balance with United States[3]	294	−565	−540
External Public Debt	1,858	1,541	1,420[4]
Fiscal Deficit/GDP (pct)	−0.01	0.1	−1.3
Current Account Deficit/GDP (pct)	10.2	−9.9	−10.6
Debt Service Payments/GDP (pct)	6.0	8.0	4.6
Gold and Foreign Exchange Reserves	545	706	827[4]
Aid from United States[5]	1.0	3.0	3.5
Aid from Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on 9 months of data, except as noted. 1996 and 1997 figures have been revised.
[2] Through August 1998.
[3] 1998 figure is an estimate based on 8 months of data.
[4] As of September 1998.
[5] Represents primarily security assistance and Counter-narcotics program funding, training, equipment transfers, and in-kind contributions. Includes USIA and USDA exchanges.
Source: All statistics compiled by the Central Statistical Office (CSO), except BOP figures which are compiled by the central bank.

1. General Policy Framework

Trinidad and Tobago's substantial oil and natural gas reserves made it one of the richest countries in the Western Hemisphere during the oil booms of the seventies and early eighties. Much of the oil revenue windfall was used to subsidize state-owned companies and to fund social and infrastructure projects, which became a drain on government finances. A dramatic increase in domestic consumption contributed to overvaluation of the currency with a resulting decline in non-oil exports. The collapse of oil prices in the mid-1980's, and concurrent decrease in Trinidadian oil production caused a severe recession from which Trinidad and Tobago only recovered in 1994. Although 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 1992, the government has successfully turned the state-controlled economy into a market-driven one. In 1992, it began a large scale divestment program and has since partially or fully privatized the majority of state-owned companies. The government has also dismantled most trade barriers, with only a small number of products remaining on a "negative list" (requiring import licenses) or subject to import surcharges.

Trinidad and Tobago aggressively courts foreign investors, and initialed a Bilateral Investment Treaty with the United States in 1994 which came into force on December 26, 1996. Total U.S. direct investment flows grew from US$475 million in 1995 to US$589 million in 1996, US$1,095 million in 1997 and an estimated US$1,130 million in 1998.

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 35 percent. Improvements in revenue collection since 1993 have boosted VAT, income tax and customs duty revenues. This, together with additional revenues for the sale of offshore leases and tighter controls on spending, has contributed to slight fiscal surpluses since 1995. Simplification of the personal income tax regime in 1997, by eliminating many deductions in favor of a set standard deduction, and restructuring of the Board of Inland Revenue were designed to further boost revenue collection. The Financial Act of 1998 changed the fiscal year beginning date from January 1 to October 1 in order to facilitate planning.

The exchange rate, which was loosely managed by the central bank after it was floated in 1993, has remained relatively stable. After depreciating by about 4.5 percent through early 1996, supply and demand imbalances in late 1996 and the first half of 1997 led to a sharper decline of 11.7 percent. Since the second quarter of 1997, the exchange rate has remained steady. The central bank relies largely on commercial bank reserve requirements to control the money supply. In 1996 reserve requirements rose as high as 23 percent, fell as low as 21 percent in 1997, and again rose to 24 percent in 1998. The bank has begun to use open-market operations to control liquidity in an effort to reduce local interest rates and spur investment.

After four consecutive years of decline, inflation edged up to 3.3 percent in 1997 and an estimated 5 percent in 1998.

2. Exchange Rate Policy

In April 1993 the government removed exchange controls and floated the TT Dollar. The central bank loosely manages the rate through currency market interventions and consultations with the commercial banks. In 1996 foreign exchange pressure mounted, and a decision by the central bank to allow a freer float led to a depreciation, which went as low as TT$6.23 to US$1.00 in December, 1996. Since early November 1997, the rate has hovered around TT$6.29 to US$1.00. Foreign exchange supply depends heavily on the quarterly tax payments and purchases of local goods and services by a small number of large multinational firms, of which the most prominent are U.S. owned. 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. The dismantling of tariff and trade barriers and liberalization of the investment regime led to a 95 percent growth of imports from the United States in 1997. U.S. imports are expected to exceed well over US$1 billion again in 1998, due largely to machinery imports for several mostly U.S.-content petrochemical plants which have begun construction.

3. Structural Policies

Pricing Policies: Generally, the market determines prices. The government maintains domestic price controls only on sugar, schoolbooks, and pharmaceuticals.

Tax Policies: With the exception of Caribbean Community (CARICOM)-origin goods, most goods entering Trinidad and Tobago have been subject to a variety of import charges, including customs duties, stamp taxes, import surcharges and VAT. Most of these charges have been reduced since 1994. The stamp tax on imports was eliminated as part of the policy of bringing import charges down to the CARICOM Common External Tariff (CET) level. As of July 1, 1998 CET rates for industrial products range between 0 percent and 20 percent. In the case of agricultural goods, rates range between 0 percent and 20 percent for processed agricultural products, and up to 40 percent for primary agricultural products. An increasing variety of raw materials and machinery in approved sectors is exempt from all customs duties. Duties on manufacturing inputs were reduced across the board in August 1995 to 2.5 percent from 5 percent and eliminated in several categories. Import surcharges, which replaced quantitative restrictions in 1990, are being gradually phased out but still apply to certain products such as poultry, sugar and assorted fruits and vegetables. Import surcharges are in addition to the CET and range as high as 100 percent for various poultry parts. Most surcharges will be phased out or reduced by 1999. The notable exception is sugar. The 60 percent surcharge on sugar (75 percent for icing sugar) is not slated for reduction. This surcharge is in addition to the 40 percent CARICOM CET on sugar.

Another exception to the general lowering of import restrictive measures is in the importation of new and used cars. Import duties of new cars were recently raised from a range of 20 percent to 30 percent to a range of 25 percent to 45 percent (ranges dependent on engine size). Fees for registering locally assembled used cars (disassembled used cars are imported, mainly from Japan, and then assembled here), rose from a range of US$3,180 to US$4,769 to a range of US$4,769 to US$14,308. In announcing these new measures as part of the 1999 Budget, government officials cited the need to reduce traffic congestion and pollution, curb demands on foreign exchange, and safety concerns over locally assembled used cars.

The standard rate of VAT is 15 percent; however, many basic commodities are zero-rated. Excise tax is levied only on locally produced petroleum products, tobacco and alcoholic beverages. The corporate tax rate was lowered in 1994 from a maximum of 45 percent to 38 percent, and again in 1995 to 35 percent. While the tax code does not favor foreign investors over local investors, profits on sales to markets outside CARICOM are tax exempt, which benefits firms with non-CARICOM connections.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals and plants, many 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

In the second quarter of 1998, Trinidad and Tobago completed repayment of a US$335 million International Monetary Fund loan. Trinidad and Tobago enjoys excellent relations with the international financial institutions; its major lender is the Inter-American Development Bank (IDB). As of September 1998 IDB has approved loans of US$568.5 million (30 percent have been disbursed). Total external debt has declined steadily, falling to US$1.85 billion at the end of 1996, US$1.55 billion in 1997, and US$1.46 billion in the second quarter of 1998 (latest available figure). The 1998 debt to GDP ratio fell to 26.9 percent and the 1998 debt service as a percent of exports fell to 10 percent.

The lower total debt burden has allowed the government more flexibility in lowering import duties and trade barriers, benefiting U.S. exports. Responsible debt management and macroeconomic stability have led Moody's to upgrade Trinidad and Tobago's sovereign credit rating from BA2 to BA1. Standard and Poor's has given Trinidad and Tobago an initial rating of BB+. The two ratings are among the highest in the hemisphere.

5. Aid

The majority of U.S. assistance to Trinidad and Tobago is in the form of support for justice and security and counter-narcotics programs. Expenditures for all Department of Defense programs in Trinidad and Tobago in 1996 totaled US$1.9 million (including salary and transportation costs for training missions). 1997 Individual Military Education Training (IMET) was funded at US$200,000, and Foreign Military Finance Program (FMF) at US$285,000. The Department of State has provided US$400,000 in anti-narcotics assistance in 1997 and US$500,000 in 1998. By the Spring of 1999, the United States will have transferred four aircraft and two coast guard patrol craft to Trinidad and Tobago, as well as a support package for the latter worth approximately US$1 million.

6. Significant Barriers to U.S. Exports

Trinidad and Tobago is highly import-dependent, with the United States supplying about 51.5 percent of total imports in 1997 with the same percentage estimated for 1998. Only a limited number of items remain on the "negative list" (requiring import licenses). These include poultry, fish, oils and fats, motor vehicles, cigarette papers, small ships and boats, and pesticides.

Foreign ownership of service companies is permitted. Trinidad and Tobago currently has one wholly U.S.-owned bank, several U.S.-owned air courier services, and one U.S. majority-owned insurance company.

The Trinidad and Tobago Bureau of Standards (TTBS) is responsible for all trade standards except those pertaining to food, drugs and cosmetic items, which the Chemistry, Food and Drug Division of the Ministry of Health monitors. The TTBS uses the ISO 9000 series of standards and is a member of ISONET. Standards, labeling, testing and certification rarely hinder U.S. exports.

Foreign direct investment is actively encouraged by the government, and there are few if any remaining restrictions. Investment is screened only for eligibility for government incentives and assessment of its environmental impact. Both tax and nontax incentives may be negotiated. A Bilateral Investment Treaty with the United States, granting national treatment and other benefits to U.S. investors came into force on December 26, 1996. The repatriation of capital, dividends, interest, and other distributions and gains on investment may be freely transacted. Several foreign firms have alleged that there are inconsistencies and a lack of clear rules and transparency in the granting of long-term work permits. These generally fall into two categories, either that a permit is not granted to an official of a company which is competing with a local firm, or that the authorities threaten not to renew a permit because a foreign firm has not done enough to train and promote a Trinidadian into the position.

Government procurement practices are generally open and fair, with the government and government-owned companies adhering to an open bidding process. Some government entities request prequalification applications from firms, then notify prequalified companies in a selective tender invitation. Trinidad and Tobago signed the Uruguay Round Final Act on April 15, 1994, and became a WTO member on April 1, 1995, but is not a party to the WTO Government Procurement Agreement.

Customs operations are being restructured and streamlined with the help of U.S. government advisors. UNCTAD's ASYCUDA trade facilitation system (Automated System for Customs Data) was adopted on January 1, 1995. Customs clearance can be time consuming because of bureaucratic delays.

7. 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. Free zone manufacturers are exempt from customs duties on capital goods, spare parts and raw materials, and all corporate taxes on profits from manufacturing and international sales.

8. Protection of U.S. Intellectual Property

Trinidad and Tobago belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). In addition, Trinidad and Tobago is a signatory to the Paris Convention, Berne Convention, Nice Agreement, Locarno Agreement, Patent Cooperation Treaty, Strasbourg Agreement, Phonograms Convention, Vienna Agreement, Satellites Convention, Budapest Treaty, Trademark Law Treaty, and the Universal Copyright Convention.

In 1994, Trinidad and Tobago signed an Intellectual Property Rights Agreement with the United States that, along with Trinidad's commitments under the WTO TRIPs Agreement, required revisions of most IPR legislation. While the government's awareness of the need for IPR protection has improved, enforcement of existing regulations remains lax. As a member of the Caribbean Basin Initiative, the government is committed to prohibiting unauthorized broadcasts of U.S. programs.

Patents: The Patents Act of 1996 introduced internationally accepted criteria for registration of universal novelty, inventive step, and industrial applicability, along with a full search and examination procedure. The Act extended the period of protection to 20 years with no possibility of extension.

Trademarks: The new Trademark Amendment Act took effect September 1997. Trademarks can be registered for a period of 10 years, with unlimited renewals. Counterfeiting of trademarks is not a widespread problem in Trinidad & Tobago.

Copyright: The 1997 Copyright Act, which took effect October 1, 1997, was written with the assistance of WIPO and was forwarded to the United States for comment in compliance with the U.S.-Trinidad and Tobago Bilateral Memorandum of Understanding on Intellectual Property Rights. The new Act offers protections equivalent to those available in the United States. However, enforcement of IPR laws remains a concern under the new Act. Although the Copyright Organization of Trinidad and Tobago has stepped up its enforcement activity since the law took effect, it has primarily targeted unauthorized use of locally produced music products. Video rental outlets in Trinidad and Tobago are replete with pirated videos, and pirated audiocassettes are sold openly on the street and some stores. Local cable TV operators anticipate they will have to increase rates or eliminate some channels to comply with the new law.

New Technologies: Although larger firms in Trinidad and Tobago generally obtain legal computer software, some smaller firms use wholly or partially pirated software or make multiple copies of legally purchased software. Licensed cable companies are faced with unlicensed cable operators and satellite dish owners who connect neighborhoods to TV satellites for a fee. Licensed cable companies provide customers with some U.S. 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 agents 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 enforcement. By signing a bilateral IPR agreement with the United States, the government has acknowledged that IPR infringement is a deterrent to investment and that it is committed to improving both legislation and enforcement.

9. Worker Rights

a. *The Right of Association:* The 1972 Industrial Relations Act provides that all workers, including those in state-owned enterprises, may form or join unions of their own choosing without prior authorization. Union membership has declined, with an estimated 20 to 28 percent of the work force organized in 14 active unions. Most unions are independent of the government or political party control, although the Prime Minister was formerly president of the Sugar Workers Union. The Act prohibits antiunion activities before a union is legally registered, and the Labor Relations Act prohibits retribution against strikers. Both laws contain grievance procedures.

b. *The Right to Organize and Bargain Collectively:* The right of workers to bargain collectively is established in the Industrial Relations Act of 1972. Antiunion 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 of its practice.

d. *Minimum Age for Employment of Children:* The minimum legal age for workers is 12 years. Children from 12 to 14 years of age may only work in family businesses. Children under the age of 18 may legally work only during daylight hours, with the exception of 16 to 18 year olds, who may work at night in sugar factories. The probation service in the Ministry of Social Development and Family Services is responsible for enforcing child labor provisions, but enforcement is lax. There is no organized exploitation of child labor, but children are often seen begging or working as street vendors.

e. *Acceptable Conditions of Work:* In June 1998 the government passed the Minimum Wages Act which established a minimum wage of TT$7 (US$1.10) per hour, a 40 hour work week, time and a half pay for the first four hours of overtime on a workday, double pay for the next four hours, and triple pay thereafter. For Sundays, holidays, and off days the Act also provides for double pay for the first eight hours and triple pay thereafter.

The Factories and Ordinance Bill of 1948 sets occupational health and safety standards in certain industries and provides for inspections to monitor and enforce compliance. The Industrial Relations Act protects workers who file complaints with the Ministry of Labor regarding illegal or hazardous working conditions. Should it be determined upon inspection that hazardous conditions exist in the workplace, the worker is absolved for refusing to comply with an order that would have placed him or her in danger.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		327
Total Manufacturing		60
Food and Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	6	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	2	
Wholesale Trade		102
Banking		634
Finance/Insurance/Real Estate		11,040
Services		24
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.

URUGUAY

Key Economic Indicators

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

	1996	1997	1998 [2]
Income, Production and Employment:			
Nominal GDP [3]	18.9	20.0	20.7
Real GDP Growth (pct)	5.3	5.0	3.0
GDP Growth by Sector (pct):			
Agriculture	8.6	−1.3	−1.0
Manufacturing	4.0	5.8	2.5
Services	3.7	3.8	3.0
Government	5.0	2.8	N/A
Per Capita GDP (US$)	5,918	6,112	6,300
Labor Force (000s)	1,334	1,376	1,400
Unemployment Rate (pct)	11.9	11.4	10.5

Key Economic Indicators—Continued

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

	1996	1997	1998 [2]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.4	21.3	15.0
Consumer Price Inflation	24.3	15.2	8.0
Exchange Rate [4]	7.98	9.45	10.55
Balance of Payments and Trade:			
Total Exports FOB [5]	2.5	2.7	2.9
Exports to United States (US$ millions)	167	162	150
Total Imports [5]	3.3	3.7	3.9
Imports from United States (US$ millions)	398	432	454
Trade Balance [5]	−0.9	−1.0	−1.0
Balance with United States (US$ millions)	−231	−270	−304
External Public Debt	5.4	5.5	5.6
Fiscal Deficit/GDP (pct)	1.6	1.4	1.0
Current Account Deficit/GDP (pct)	1.6	1.6	1.8
Debt Service Payments/GDP (pct)	5.1	5.2	5.2
Gold and Foreign Exchange Reserves (net)	2.1	2.2	2.5
Aid from United States (US$ millions)	1.44	8.45	2.0
Aid from All Other Sources (US$ millions)	23.3	N/A	N/A

[1] Data in Uruguayan Pesos was converted into U.S. Dollars at the average interbank selling rate for each year.
[2] 1998 figures are all estimates based on available monthly data in October.
[3] GDP at producer price.
[4] Annual average of the interbank floating selling rate. Uruguayan Pesos/US$.
[5] Merchandise trade.
Sources: Uruguayan Central Bank and National Institute of Statistics.

1. *General Policy Framework*

The historical basis of the Uruguayan economy has been agriculture, particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather and meat.) Industry, which has undergone a strong reconversion process fostered by MERCOSUR integration, declined in the early nineties and since 1994 has recovered its growth trend. At present industry accounts for 18 percent of Uruguay's GDP. The service sector, particularly tourism and financial services, dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

Per capita income of $6,112 for 1997 puts Uruguay in the World Bank's upper-middle income grouping. The UNDP human development report places it among the countries with high human development.

Overall the Uruguayan economy has performed well in recent years under good rates of growth, low budget and current account deficits, and declining inflation rates. The government has given the private sector access to many activities formerly reserved for the state.

In 1997, Uruguay's risk rating for long-term debt issued in foreign currency improved to BBB minus (by Standard & Poor's, Duff & Phelps and Europe's IBCA, and baa3 by Moody's), reaching investment grade status. This status enables U.S. pension funds to invest in Uruguay. As of October 1998, the investment grade status had been ratified by Standard & Poor's and Duff & Phelps. Despite the soundness of its macroeconomic indicators, the Uruguayan economy remains vulnerable to a regional slowdown or crisis.

Trade with neighboring Argentina and Brazil now accounts for almost half of Uruguay's overall trade with the world. The United States is the fourth largest Uruguayan trading partner, after Argentina, Brazil and the European Union. Since 1991, the U.S. has enjoyed a rapidly growing trade surplus with Uruguay. In 1997, the United States bought 6 percent of Uruguay's exports ($162 million) and provided 11.6 percent of the country's imports ($432 million.) Tariff rates have declined to zero percent for most MERCOSUR 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 23 percent.

2. Exchange Rate Policy

The government allows the peso to float against the dollar within a three percent range. The band currently rises by 0.6 percent per month (7.4 percent per year) and the central bank regularly buys and sells dollars to keep the peso's value within the band. The gap between depreciation and inflation was null in 1997, and by September 1998 grew to 0.96 percentage points (on a 12-month basis).

Uruguay's monetary policy is geared at keeping inflation under control, using nominal exchange rate stability as the main instrument. Central bank intervention to defend the currency entails a loss of control over the money supply, limiting the effectiveness of monetary policy that is carried out through the issuance of very short term paper.

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

Since 1995, the government of President Julio Maria Sanguinetti has been implementing a three-stage stabilization program consisting of: a) a fiscal adjustment package implemented immediately after he took office (March 1995); 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 budget deficit.

The government is slowly eliminating redundant functions and divesting itself of non-essential activities. Central administration reform aims to reduce the number of central government employees by 10,000 out of a total of 232,000, enhance the sector's efficiency and save the government $80 million per year. Almost all levels of government are encouraging the private sector to play a greater role. Many activities, formerly restricted to the state, have been transferred to the private sector under contract, concession or sale. The government ended its insurance and mortgage monopolies in 1995.

Social security reform was also implemented, lowering a structural government deficit in the long-run (prior to the reform the social security deficit amounted to 6 percent of GDP.)

The reform is converting the highly deficit-ridden public system into a solid bifurcated system of public and private providers. The public sector deficit was 1.5 percent of GDP in 1997; as of 1998's first half, the budget deficit is 0.9 percent (on a 12-month basis), mostly due to the cost of implementing structural reforms.

The inflation rate decreased from 130 percent in 1990 to 15.2 percent in 1997, and the rate for the twelve-month period ending September 1998 had further decreased to 9.98 percent, the lowest rate in four decades. The Ministry of Finance projects five percent inflation for 1999. 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) for its general revenue. Under a law of investment promotion, the government gives tax exemptions to investing firms. There are also incentives for companies which hire young people.

4. Debt Management Policies

As of 1998's first quarter, the Uruguayan external debt was $2.9 billion, 84 percent of which is public. Since 1996, Uruguay has been extending the maturity of its debt. While all the private sector's debt is short-term (one year or less), the public sector's debt has a longer maturity (half of the latter matures after the year 2003). Debt service in 1997 was $1 billion, equivalent to 24 percent of combined merchandise and service exports, and less than 5 percent of GDP.

Total net foreign exchange reserves amounted to $2.2 billion as of September 1998, equivalent to 6.8 months of imports, and enough to cover total external debt service for more than two years. An IMF standby program is in place and a joint agreement with the IMF and the World Bank has been signed to assure funds that would help Uruguay deal with the international financial crisis.

5. Aid

Uruguay receives little non-military aid from the United States. During 1997 Uruguay received $8 million for peacekeeping, training and equipment under the International Military Education and Training Program. Bilateral counter narcotics assistance totaled $150,000 in 1997. A Peace Corps program closed in 1997. Using $6 million from a debt reduction program, the United States Government and the Uruguayan Government jointly manage the Fund of the Americas. This fund redirects to local environmental and child welfare programs funds that would otherwise be owed by the Government of Uruguay to the United States for repayment of official debt. According to the Uruguayan Presidency's Office of Budget and Planning, total estimated aid received from all other sources in 1996 and 1997 amounts to $125 million (the government keeps aid statistics on a two-year basis).

6. Significant Barriers To U.S. Exports

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 a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. There are no serious restrictions on professional services such as law, medicine or accounting. Those from abroad wishing to practice these professions in Uruguay, must prove equivalent credentials to those required of locals. 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. 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). Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms and even city municipalities however, grant the concession of specific services to privately-owned companies.

Government procurement practices are well-defined, transparent and closely followed. Tenders are generally open to all bidders, foreign and domestic. However, a government decree establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

The only exemptions to tariff regulations in the context of anti-dumping legislation are minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices which threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil. Minimum export prices have been scheduled to be phased out, but a number are still in effect (textiles, clothing and sugar).

7. Export Subsidies Policies

The government provides a nine percent subsidy to wool fabric and apparel producers using funds from a tax on wool exports. Uruguay is a signatory of the GATT/WTO subsidies code.

8. Protection of U.S. Intellectual Property

Uruguay belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative maintained Uruguay on the "Special 301" Other Observations list because of deficiencies in copyright and patent protection.

Uruguay's Intellectual Property Rights (IPR) regime does not yet meet international standards. The most serious deficiency is the specific exclusion of pharmaceuticals and chemical products from patent protection. Public/private sector commissions have been drafting IPR legislation on patents and copyrights to bring Uruguay up to the standards specified in the WTO TRIPS Agreement. Parliament had not approved any of the bills as of December 1998.

Patents: 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.

Trademarks: In 1998, a new bill on trademarks was approved. 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. Registering a foreign trademark without proving a legal commercial connection with the trademark is no longer a possibility.

Copyright: Uruguay affords copyright protection to, inter alia, books, records, videos, and software. As Uruguay's Copyright Law dates to 1937, the extent to which it protects computer software is subject to judicial interpretation each time a case is presented. Despite legal protection, enforcement of copyrights for software is still weak and pirating of software is estimated at 80 percent. Software suppliers estimated that losses due to piracy were more than $10 million in 1997. According to estimates by the International Intellectual Property Rights Alliance, U.S. copyright-based industries' losses in Uruguay due to piracy were nearly $9 million in 1997.

9. 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.

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 monthly minimum wage ($93 as of September, 1998). The standard work week is 48 hours for six days, with overtime compensation. 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		197
Food and Kindred Products	79	
Chemicals and Allied Products	46	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	72	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		37
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		475

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

VENEZUELA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	63.4	87.4	101.2
Real GDP Growth (pct) [3]	-0.4	5.1	-3.0
GDP by Sector:			
Agriculture	1.9	2.7	2.0
Manufacturing	-4.8	2.6	-4.0
Services	-3.3	3.4	-3.0
Government	-3.8	-3.3	-3.5
Per Capita GDP (US$)	2,842	3,838	4,349
Labor Force (000s)	9,025	9,507	9,940
Unemployment Rate (pct)	12.4	10.6	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	55.8	62.5	9.0
Consumer Price Inflation	103.2	37.6	32.5
Exchange Rate (BS/US$ annual average) [4]			
Official	419.5	488.8	549.3
Parallel	462.6	488.8	549.3
Balance of Payments and Trade:			
Total Exports FOB [5]	23.4	23.7	16.8
Exports to United States [6]	12.9	13.4	9.5
Total Imports [5]	9.8	12.3	12.5
Imports from United States [6]	4.7	6.6	6.7
Trade Balance [5]	13.6	11.4	4.3
Balance with United States [6]	8.2	6.8	2.8
External Public Debt	25.4	23.8	23.0
Fiscal Superavit (Deficit)/GDP (pct)	0.6	1.6	-4.0
Current Account Surplus (Deficit)/GDP (pct)	13.9	6.9	-0.6
Foreign Debt Service Payments/GDP (pct)	10.1	12.0	5.4
Gold and Foreign Exchange Reserves	15.2	17.8	12.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data in November.
[2] GDP at market value.
[3] Percentage changes calculated in local currency.
[4] On April 22, 1996, the government abandoned the fixed rate of BS 290 to the dollar, eliminated exchange controls, and allowed the currency to float. For the remainder of 1996 the bolivar hovered around BS 470 to the dollar. During the period of exchange controls, the parallel rate was the effective exchange rate resulting from the trading of Brady Bonds on the Caracas Stock Exchange.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce; exports FAS, imports customs basis; 1998 figures are estimates based on data available in November.

1. General Policy Framework

Venezuela has followed a free market path following President Rafael Caldera's April 1996 decision to abandon a two-year experiment with foreign exchange and price controls. A harsh economic downturn caused by a deep recession in Asia and a fall in oil prices posed challenges to this economic opening in 1998, but did not derail the program. Privatizations continued. The government sold a 70 percent interest in the Nueva Esparta electric company and an 80 percent interest in the Venezuelan ferrosilicon producer FESILVEN to private investors. Despite these successes, Venezuela's failure to find bidders for its aluminum industry underscored the continuing difficulties of privatization in an economy challenged by an economic recession, an overvalued currency, and high interest rates. Efforts to privatize four money-losing state aluminum plants continue.

Venezuela made major strides in modernizing the country's legal framework during 1998. A new Petrochemicals Law further opened that sector to private investment and a Domestic Refined Products Law further liberalized Venezuela's internal fuels market. A revised Capital Markets Law gave closer regulation to the securities business and raised reserve requirements for stockbrokers. Venezuela created a macroeconomic stabilization fund, a repository for excess revenues in years when oil prices are high, that the state can draw upon to smooth economic adjustments during years when oil prices fall. Congress passed a Commercial Arbitration Law, which makes it possible for businesses to settle disputes through binding arbitration, rather than resorting to the country's court system. The government enacted landmark pension reform legislation, which will provide for the private management of workers' pension funds, a measure that should both improve retirements and make a pool of domestic investment capital available to local enterprises. The government also approved a new Customs Law designed to crack down on illegal and undervalued imports by making private customs agents legally responsible for the shipments they handle. Finally, a new Tourism Law was passed that provided extensive tax breaks to investors willing to put resources into that sector.

The Caldera administration sought to strengthen U.S.-Venezuela bilateral relations and to facilitate U.S. investment in Venezuela. The United States and Venezuela initialed a Bilateral Income Tax Treaty during 1998, which will enter into force upon notification of ratification by both countries. Separately, the U.S. and Venezuela spent many months negotiating a Bilateral Investment Treaty, which would have provided full national treatment to investors from both countries. In the atmosphere of presidential elections, negotiations broke down in the spring after the Venezuelan team undertook consultations with public and private sector organizations. The U.S. will pursue the resumption of talks with the new Venezuelan Government that takes office on February 2, 1999.

Because of Venezuela's vast natural resources, the economic reform process possesses enormous potential. The country is rich in petroleum, natural gas, hydroelectric power, bauxite, iron ore, coal, gold, and diamonds. The petroleum industry dominates Venezuela's economy. In 1997, it accounted for roughly 28 percent of the country's GDP, 77 percent of export earnings, and 62 percent of central government revenues. It is estimated that for 1998 the state petroleum company's (PDVSA's) share of government revenues will fall to 44 percent due to reduced oil prices. The petroleum sector will become more important as PDVSA continues to open the sector to private capital. PDVSA wants to double production over the next 10 years, from its current level of 3.1 million barrels per day (b/d) to more than 6 million b/d by 2007. However, in light of OPEC production cuts, its timetable for doubling production may be delayed.

The government has begun efforts to diversify the Venezuelan economy by expanding non-oil exports. The government created a new Ministry of Industry and Commerce (MIC) in January 1997, which merged the former Ministry of Development with the Foreign Trade Institute. A new Foreign Trade Bank (BANCOEX) also began operations in October 1997 with a charter to promote, as well as finance, exports.

The Venezuelan economy, led by the oil sector, grew strongly through 1997, expanding by five percent. Building on this base, 1998 started off strongly. This expansion ended suddenly with increasing economic problems in Asia and a rapid fall in oil prices in the late winter and early spring. Venezuela fell into a deep recession as interest rates rose and both employment and demand for goods declined. Overall GDP ran at an estimated negative three percent for 1998 with the domestic manufacturing sector particularly hard hit. The economy is not expected to recover until the last quarter of 1999.

Inflation remains a challenge for Venezuela. The lifting of exchange controls and the corresponding devaluation caused an inflationary burst in 1996, which pushed the consumer price index to 103 percent, the highest level ever recorded in Venezuela. The government cut inflation to 37.6 percent in 1997. The government's goal for inflation in 1998 had been 20 percent. However, high public spending and an increase in the money supply have augmented inflationary pressures. Estimates now indicate that inflation reached approximately 32.5 percent by the end of 1998.

2. Exchange Rate Policy

The Central Bank of Venezuela (BCV) sells short-term monetary notes (known as TEMS), government bonds (known as DPNS) and dollar reserves to support the bolivar. The BCV can exert considerable influence over the exchange rate because it receives around 80 percent of the country's supply of dollars. PDVSA, the chief earner of foreign exchange, by law must sell its dollar proceeds to the BCV, which in turn supplies these dollars to the local market.

Since the elimination of exchange controls and the large devaluation of April 1996, the BCV has not permitted the bolivar's depreciation to keep up with the rate of inflation. It has done this as an anti-inflationary measure to hold down the prices of imports. The bolivar/dollar exchange rate was BS 470 to the dollar in May 1996 and only reached BS 500 to the dollar at the end of 1997. It was BS 568.5 to the dollar in mid November 1998. This constitutes a twelve-percent depreciation from January 1 to mid-November 1998. The inflation rate for the same period ran over 25 percent. The divergence between the rates of devaluation and inflation has caused the bolivar to become increasingly overvalued against the dollar. The best estimates held that the bolivar was 39 percent overvalued at the end of 1998. Despite the overvalued exchange rate's negative impact on domestic manufactures and non-oil exports, the government is expected to maintain the overvalued bolivar to hold down prices through the inauguration of the new government on February 2, 1999. BCV reserves remain sufficient to support the bolivar, barring some unforeseen economic shock.

3. Structural policies

Pricing Policies: The government lifted price controls on all basic goods and services in April 1996, with the exception of pharmaceuticals and public services, as part of its economic reform program. Prices for the majority of pharmaceutical products were decontrolled in August 1998. Now only those pharmaceuticals with less than four competitive products remain subject to price controls. Price labeling rules were relaxed in 1996. There is no longer a requirement to stamp an unalterable maximum price on items leaving the factory. The government eliminated the remaining subsidy on gasoline in 1997, bringing domestic retail prices up to export prices.

Tax Policies: Venezuela has a territorially based tax system, and income received from any economic activity carried out in Venezuela is subject to taxation. The maximum income tax rate for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum sector. PDVSA's hydrocarbon revenues are subject to a 67.7 percent income tax, in addition to a 16.7 percent royalty payment on production. In 1998, in a move criticized by some PDVSA executives, the government required PDVSA to pay a one-time "dividend" of $1.4 billion to help the Venezuelan government fund its fiscal deficit.

Most joint ventures with PDVSA are liable for the same level of income tax, except for those involved in the development and refining of heavy and extra heavy crudes and off shore natural gas, which are subject to a reduced rate of 34 percent. (Joint ventures did not have to pay the 1998 dividend, which was considered a one-time charge.) The government announced in September 1996 that current and future projects involving extra heavy crude oil would also be entitled, on a case by case basis, to temporary reductions in the 16.7 percent royalty payment to as low as 1.5 percent. These reductions are granted for the construction phase of the projects.

Since 1993, the government has imposed a one percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustment for depreciation and inflation. On August 1, 1996, the government raised its wholesale tax, which is also applied against imports, from 12.5 to 16.5 percent. Venezuela also applies a luxury tax, at a rate of 10 or 20 percent, on certain items such as jewelry, yachts, and high-priced automobiles and cable television. The government's attempt to convert the wholesale tax to a broader-based value added tax was defeated the end of 1998. The new government has indicated it will try to enact this measure in 1999.

4. Debt Management Policies

Venezuela's public sector's external debt stood at $23.8 billion at the end of 1997 and is expected to fall slightly to 23 billion by the end of 1998. External debt represents about 23 percent of GDP. Venezuela's external debt service totaled about 5.4 percent of GDP in 1998, a fall from the previous year when it had been 12 percent. (The change did not represent a significant improvement in Venezuela's external debt situation, but rather resulted from a nominal increase in GDP due largely to inflation and an overvalued currency combined with the effect of heavy payments scheduled for the previous year.) Venezuela continues to carry a heavy domestic debt burden largely incurred during the 1994-95 financial crisis and as a result of the 1997 labor reforms.

Venezuela reached a shadow agreement with the IMF in June 1998. This involved no actual transfer of funds. Venezuela agreed to IMF-recommended budgetary measures to compensate for falling oil prices. The IMF recommended that the government keep its fiscal deficit to no more than 2.5 percent of GDP. However, the continuing decline in oil prices and the domestic recession made it very difficult for the government to reach this target.

5. Aid

The U.S. furnishes Venezuela counter-narcotics assistance through a number of programs. Under Presidential Drawdown Authority under Section 506(a)(2) of the Foreign Assistance Act of FY 1996 and FY 1997, the U.S. government is providing the Venezuelan military with $13.5 million in training, equipment and services to support counter-narcotics operations. In FY 1998, the U.S. provided an estimated $600,000 in counter-narcotics assistance to Venezuelan law enforcement agencies and the military from international narcotics control funds. The U.S. also gave the government $400,000 in aid under the International Military Education and Training Program (IMET) to strengthen the country's counter-narcotics capabilities.

6. Significant Barriers to U.S. Exports

After many years of following an economic policy based on import substitution, Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990. Venezuela became a founding member of GATT's successor, the World Trade Organization (WTO), in 1995 following completion of the Uruguay Round negotiations. Venezuela implemented the Andean Community's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET possesses a five-tier tariff structure of 0, 5, 10, 15, and 20 percent. As such, it reflects old import substitution ideas since it imposes the highest tariff rates on finished goods and the lowest rates on raw materials and intermediate products. Venezuela's average import tariff on a trade-weighted basis is roughly 10 percent. Under the Andean Community's Common Automotive Policy (CAP), assembled passenger vehicles constitute an exception to the 20 percent maximum tariff and are subject to 35 percent import duties. The knock-down kits from which such cars are assembled enter Venezuela with only a three percent duty. Imports of used automobiles, used clothing and used tires remain prohibited, even though Venezuela agreed to eliminate all GATT-inconsistent quantitative restrictions by the end of 1993 as part of its accession to the GATT.

Venezuela implemented the Andean Community's price band system in 1995 for certain agricultural products, including feed grains, oilseeds, oilseed products, sugar, rice, wheat, milk, pork and poultry. Yellow corn was added to the price band system in 1996. Ad valorem rates for these products are adjusted according to the relationship between market commodity reference prices and established floor and ceiling prices. When the reference price for a particular market commodity falls below the established floor price, the compensatory tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the compensatory tariff is eliminated. Floor and ceiling prices are set once a year based on average CIF prices during the past five years.

Import Licenses: Venezuela requires that importers obtain sanitary and phytosanitary (SPS) certificates from the Ministries of Health and Agriculture for most pharmaceutical and agricultural imports. The government routinely uses these measures to restrict agricultural and food imports. For example, Venezuelan authorities banned the import of U.S. poultry in 1993 because avian influenza (AI) exists in the United States. The restriction is not based on a scientific risk assessment indicating that U.S. poultry exports pose a risk to the Venezuelan poultry industry. The Ministry of Agriculture modified this import prohibition in its official gazette on March 13, 1997, allowing the import of pathogenic free (SPF) eggs from "avian influenza countries and the import of certain processed poultry products from AI countries." Even so, it is almost certain that the government would not issue sanitary permits for the importation of U.S. poultry, largely due to pressure from local poultry producers. Furthermore, those producers openly admit that the issue would disappear if Venezuela was approved as an eligible poultry exporter to the United States. Currently, the embassy knows of no requests on the part of Venezuelan importers for U.S. poultry.

In April 1997, the government lifted a ban on U.S. pork and swine imports imposed because of Porcine Reproductive and Respiratory Syndrome (PRRS). Furthermore, the Venezuelan Agricultural Health Service (SASA) and Ministry of Health officials reviewed the U.S. meat processing system as overseen by the USDA and approved U.S. facilities for export to Venezuela. Venezuela now plans to invoke its WTO-negotiated Tariff Rate Quota (TRQ) for pork imports, again limiting market access below actual demand. Full details of this TRQ are unavailable at this time.

The Ministry of Agriculture implemented a yellow corn import licensing system in February 1997, ostensibly to administer its WTO tariff rate quota for sorghum and yellow corn, but in actuality to enforce domestic sorghum absorption requirements. Under this system, feed manufacturers must purchase a government-assigned amount of domestic sorghum at the official (i.e. higher than world market) price in order to obtain import licenses for yellow corn. The Ministry of Agriculture has announced that it may establish similar import license requirements for white corn, rice and powdered milk.

Services Barriers: Professionals working in disciplines covered by national licensing legislation (e.g. law, architecture, engineering, medicine, veterinary practice, economics, business administration/management, accounting, and security services) must re-validate their qualifications at a Venezuelan University and pass the Associated Professional Exam. Foreign journalists who plan to work in the domestic Spanish language media face similar revalidation requirements.

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 the issuance of COVENIN certificates. Some Venezuelan importers of U.S. products have alleged that COVENIN applies these standards more strictly to imports than to domestic products.

The government started to require certificates of origin for imports in March 1996 that are "similar to goods which currently have anti-dumping or compensatory measures applied to them." Importers have complained that the new requirement, which primarily affects textiles and garments, is burdensome and time-consuming to fulfill. Tariff and non-tariff barriers also inhibit the importation of milk, some cereals and certain live animals.

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydrocarbons reserved to the government and its entities under the 1975 Hydrocarbon Law. However, private companies may engage in hydrocarbons-related activities through operating contracts or through equity joint ventures as long as the following conditions are met: 1) the joint ventures must guarantee state control of the operation; 2) they must be of limited duration; and 3) they must have the prior authorization of Congress. PDVSA has been opening the oil sector to increasing amounts of foreign investment since 1993 through both operating contracts and joint ventures.

The exploitation of iron ore is also reserved to the state and therefore is not open to foreign investment. There are no formal barriers to foreign investment in the rest of the mining sector (including the processing of iron), but the long, drawn-out process for obtaining mining concessions effectively inhibits it. Two large, foreign-owned, gold mining projects obtained mining concessions in recent years and could begin operations at the beginning of the next decade. Venezuela limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in enterprises engaged in television and radio broadcasting, in the Spanish-language press, and in professional services subject to national licensing legislation.

Venezuelan law incorporates performance requirements and quotas for certain industries. Under the Andean Community's Common Automotive Policy (CAP), all car assemblers in Venezuela must incorporate a minimum amount of regional content in their finished vehicles. The local content requirement for passenger vehicles was 32 percent in 1997 and rose to 33 percent for 1998. It is scheduled to rise to 34 percent in 1999. The government enforces a "one for one" policy for performers giving concerts in Venezuela. This requires foreign artists featured in these events to give stage time to national performers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films. At least half of the television programming must be dedicated to national programs. Finally, at least half of the FM radio broadcasting from 7 a.m. to 10 p.m. is dedicated to Venezuelan music.

Venezuela's Organic Labor Law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and airplanes, and foremen be Venezuelan. Article 27 limits foreign employment in companies with ten or more employees to 10 percent of the work force and restricts remuneration for foreign workers to 20 percent of the payroll. The shortage of skilled Venezuelan workers in the booming oil sector sometimes makes it difficult for foreign oil companies to meet this requirement. Article 28 allows for temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available.

Government Procurement Practices: The 1990 Law of Tenders states that for general and selective tenders within a "reasonable range" preference will be given to those that score highest on national content, labor impact, national value added, local participation, and technology transfer. According to an unwritten rule, the government also purchases local goods unless the price of such goods is 25 percent more than the landed cost of competing foreign products. 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."

Companies wanting to sell to a Venezuelan governmental agency must be registered in the National Register of Contractors, which is maintained by the Central Office of Statistics (OCEI). Venezuela is not a signatory of the WTO Agreement on Government Procurement, although the government has recently expressed interest in this exploring this possibility.

Customs Procedures: The private sector, both Venezuelan and foreign, complains that Venezuelan customs is plagued by corruption and antiquated procedures, which frequently delay the clearance of incoming goods. The government took the first step in modernizing customs procedures in October 1996 by initiating a new computerized operation at La Guaria, one of the country's main ports.

The government passed a new Customs Law at the end of 1998, which would make private customs agents criminally responsible for illegal shipments or undervalued shipments that enter the country. The government also instituted measures to assess customs charges for imported clothes according to minimum prices set by the bulk weight of a given shipment. Critics charged that the new regulations constitute an effort to protect manufacturers hard hit by the overvalued currency and the domestic recession. The government countered that the new customs regulations are temporary (they are renewable regulations set to last 180 days), and are designed to be stopgap measures to prevent the deliberate undervaluing of imports pending implementation of the new Customs Law.

7. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with a customs rebate paid on imported inputs. Exporters can also get a rebate of the 16.5 percent wholesale tax levied on imported inputs. Foreign as well as domestic companies are eligible for these rebates, which are given in the form of tax refund certificates denominated in bolivars. Exporters of selected agricultural products—including coffee, cocoa, some fruits and certain seafood products—receive a tax credit equal to 10 percent of the export's FOB value. President Caldera issued a decree in March 1997 allowing industrial projects (including tourism) that are designed to either produce goods for the export market or to generate foreign exchange to receive exoneration from the 16.5 percent wholesale tax during their "pre-operative" stage of development. The exoneration is good for up to five years.

8. Protection of U.S. Intellectual Property

Venezuela belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Universal Copyright Convention. In 1998, the U.S. Trade Representative maintained Venezuela on the "Special 301" Watch List because it does not yet provide adequate and effective protection of intellectual property rights (IPR).

Although Venezuela has improved its protection of intellectual property rights over the last few years, U.S. companies continue to express concern about inadequacies in the enforcement of patents, trademarks, and copyrights. The Venezuelan court system has been an unreliable means for pursuing IPR claims.

In July 1996, the government took a significant step forward in improving enforcement by forming a special anti-piracy unit (COMANPI) to enforce copyright law. COMANPI had notable success in combating video piracy in its first several months of existence. More recently, the agency has concentrated on countering the widespread piracy of satellite signals and cable television. In 1998, COMANPI expanded its mandate to include enforcement of patents and trademarks, as well as copyrights. In March 1997, the government created a new Intellectual Property and Trademark Office (SAPI) by merging the existing Industrial Property Office (SARPI) with the National Copyright Office. SAPI became operational on May 1, 1998. Indications so far are that the agency will attempt a more serious enforcement of trademark rules than has taken place in the past.

Patents: Andean Community Decisions 344 and 345, which took effect in 1994, are comprehensive and offer a significant improvement over the previous standards of protection for patents and trademarks provided by Venezuela's 1955 Industrial Property Law. However, the decisions are considered faulty since they include compulsory licensing provisions, working requirements, and restrictions on bio-technical inventions. The decisions deny pharmaceutical patent protection for medicines registered on the World Health Organization's list of essential drugs. Furthermore, they lack provisions concerning transitional ("pipeline") protection and protection from parallel imports. The decisions also do not contain provisions for enforcing intellectual property rights.

Although Venezuela has been pressing to begin the process of modifying Decision 344 to make it consistent with the WTO TRIPs Agreement, other Andean Community members prefer to wait to make any changes until the January 1, 2000 deadline for implementation of the TRIPs Agreement is much closer. The government has proposed legislation to update the 1955 Industrial Property Law, but this still awaits action by congress.

Trademarks: Decision 344 improves protection for famous trademarks, prohibits the coexistence of similar marks, and provides for the cancellation of trademark registrations based on "bad faith." However, problems remain with Venezuela's trademark application process. Current procedures enable local pirates to produce and sell counterfeit products even after the genuine owners of those trademarks have undertaken (often lengthy) legal proceedings against the pirates. Trademark piracy is common in the clothing, toy, and sporting goods sectors. Enforcement remains inadequate.

SAPI made a promising start in 1998 in fighting trademark piracy. In October, SAPI nullified the trademark application of a pirate who had applied for and received a U.S. trademark "in bad faith." Nevertheless, SAPI retains a long backlog of cases, and many U.S. companies remain tied up in legal attempts to recuperate their trademarks. Two outstanding cases are Reebok International and Home Depot. Two recent Supreme Court decisions involving Joan and David shoes and Phillip Morris have also undercut progress on IPR protection. The court decided both cases according to Venezuela's 1955 Industrial Property Law because they were initiated before 1994, when Andean Community Decision 344 came into effect.

Copyrights: Andean Community Decision 351 and Venezuela's 1993 Copyright Law are modern and comprehensive and have substantially improved protection of copyrighted products in Venezuela. The Copyright Law extended protection to a wide range of creative works, including computer software, satellite signals, and cable television. Despite the arrival of COMANPI, computer software and video piracy are still common. Unauthorized reception and retransmission of U.S. satellite signals and services are also widespread.

New Technologies: Decision 351 and Venezuela's Copyright Law protect an array of creative activities in the computer and broadcasting fields. Nevertheless, Decision 344 excludes diagnostic procedures, animals, experiments with genetic material obtained from humans, and many natural products from patent protection. However, it does contain provisions for the protection of industrial secrets.

9. Worker Rights

a. *The Right of Association:* Both the Constitution and local labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private sector and public sector employees (except members of the armed forces) the right to form and join unions of their choosing. One major union umbrella organization, the Venezuelan Confederation of Workers (CTV), three smaller unions affiliated with CTV, and a number of independent unions all operate freely. About 25 percent of the national labor force is unionized.

b. *The Right to Organize and Bargain Collectively:* The Labor Code protects and encourages collective bargaining, which is freely practiced. Employers must negotiate a collective contract with the union that represents the majority of their workers in a given enterprise. The labor code also contains a provision stating that wages may be raised by administrative decree, provided that 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 that they must join a specified union.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code states that no one may "obligate others to work against their will."

d. *Minimum Age for Employment of Children:* The Labor Code allows children between the ages of 12 and 14 years to work only if the National Institute for Minors or the Labor Ministry grants special permission. However, children between the ages of 14 and 16 need only the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health," in jobs that could damage their intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than six hours a day or 30 hours a week. Minors under the age of 18 years may work only during the hours between 6 a.m. and 7 p.m.

e. *Acceptable Conditions of Work:* Effective May 1998, the monthly minimum wage for the private sector is $175 (BS 100,000) for urban workers and $157 (BS 90,000) for rural workers. The law excludes only domestic workers and concierges from coverage under the minimum wage decrees. The Ministry of Labor enforces minimum wage rates effectively in the formal sector of the economy, but generally does not enforce them in the informal sector. The 1990 Labor Code reduced the standard workweek to a maximum of 44 hours and requires "two complete days of rest each week." The code also states that employers are obligated to pay specific amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational illnesses, regardless of who is responsible for the injury.

In a statute passed in 1998, employers with fifty or more employees must now provide workers who earn less than twice the minimum wage (about $350 a month) with a meal during each work shift. Employers can do this by providing their own canteen, contracting with a food service or distributing lunch tickets that workers can redeem at food establishments.

f. *Rights in Sectors with U.S. Investment:* People who work in sectors that receive high levels of U.S. investment receive the same protection as other workers. The wages and working conditions for those in U.S.-affiliated industries are better than average in the majority of cases.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,232
Total Manufacturing		1,833
Food and Kindred Products	375	
Chemicals and Allied Products	258	
Primary and Fabricated Metals	121	
Industrial Machinery and Equipment	36	
Electric and Electronic Equipment	89	
Transportation Equipment	474	
Other Manufacturing	480	
Wholesale Trade		294
Banking		(1)
Finance/Insurance/Real Estate		59
Services		87
Other Industries		(1)
TOTAL ALL INDUSTRIES		5,176

(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]

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	45,741	46,940	47,644
Real GDP Growth[3]	4.1	2.1	1.5
GDP by Sector:[2]			
Agriculture	4,971	4,497	5,756
Manufacturing	4,245	4,405	4,765
Construction	4,399	4,616	4,731
Hydrocarbons	13,404	13,717	10,700
Services	10,071	10,771	11,794
Government	8,651	8,922	9,670
Real Per Capita GDP (US$)	1,493	1,506	1,672
Labor Force (millions)	7.81	8.07	8.10
Unemployment Rate (pct)	27.9	28.0	29.5
Fiscal Deficit/GDP (pct)	3.0	2.3	-1.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	14.2	18.5	17.4
Consumer Price Index	18.7	5.73	5.3
Exchange Rate (annual average)			
Official[4]	54.7	57.7	59.5
Parallel[5]	59.6	65.0	70.0
Balance of Payments and Trade:			
Total Exports	13,960	14,640	11,300
Oil/Gas	12,640	13,700	10,600
Exports to United States[6]	2,270	2,439	1,656
Total Imports CIF	11,240	10,190	9,800
Imports from United States[6]	632	695	713
Trade Balance	2,720	4,450	1,500
Balance with United States	1,640	1,744	953
External Public Debt	33,651	31,200	30,800
Debt Service/GDP (pct)	8.9	8.9	11.1
Current Account Deficit/GDP (pct)	2.8	6.45	-0.05
Gold and Foreign Exchange Reserves	6,230	8,040	6,700
Aid from United States[7]	165	156	209
Aid from All Other Sources[8]	420	392	N/A

[1] Embassy estimates based on partial data furnished by Algeria's Central Bank and its National Economic and Social Council.
[2] GDP at current market price.
[3] Percentage changes calculated in local currency.
[4] Bank of Algeria and embassy estimate.
[5] Embassy estimates.
[6] 1998 data, nine months USDOC projected.
[7] In thousands of dollars, IMET and USIA exchanges.
[8] OECD DAC data for 1993, 1994, 1995; net ODA disbursements including from multilateral institutions.

1. General Policy Framework

The Algerian market presents significant commercial opportunities to U.S. exporters and investors. Algeria has major oil and gas reserves for export to the U.S. and European markets, and U.S. technology and expertise are highly prized as a means to exploit these resources. While the hydrocarbon sector is already a large market for U.S. exports, there are other markets for U.S. goods and services in Algeria, including housing, consumer products, water projects, and telecommunications. The government has deregulated the trade sector. In 1998, export earnings and debt payment rescheduling provided the government with foreign exchange to finance imports. According to the International Monetary Fund (IMF), total foreign exchange reserves will likely sink to $6.7 billion by year-end 1998, down from $8 billion at year-end 1997. The Fund further estimates that reserves will fall to $3 billion by year-end 1999. Algeria has a growing population, its infrastructure needs renovation, and there is a critical housing shortage. Many of its industrial firms have equipment that was purchased 20 to 30 years ago. Over the medium and long term, Algeria should be a large, growing market for U.S. exports.

U.S. exports to Algeria rose about 2.4 percent in 1998 relative to the level of the year before. The former level is still about 8.4 percent below that of 1996. The relatively lower level of imports may be attributed to a good 1998 harvest in Algeria. In 1997, U.S. agricultural exports to Algeria reached $315 million, which represented 45 percent of total U.S. exports to Algeria. In 1998, U.S. agricultural exports to Algeria are expected to total more than $270 million. The Algerians did not accept U.S. government credits to finance its purchases. The Algerians have requested a program of credits for 1999.

The 1998 government budget was the first one in four years not subject to the constraints of an IMF structural adjustment program. The government loosened the tight fiscal policy it has been pursuing in conjunction with the IMF-backed program. Spending levels on capital appropriations reflected both the loosening of fiscal discipline and the need to invest in a deteriorated infrastructure. The revised 1998 budget raised capital expenditures as a percentage of GDP from 7.2 percent in 1997 to 9.1 percent in 1998. The net result of lower than expected growth in the economy and increased spending led the government in 1998 to incur a budget deficit for the first time since 1995. The estimated deficit was expected to equal 2.6 percent of GDP. This estimate is based on revenue projections for an average price of oil at $15 per barrel. The recent decline in world oil prices, to nearly $10 per barrel, calls into question all of these budget, export revenue, and debt-service projections.

The instruments of monetary policy in Algeria are limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set weekly by a government board. In late 1998, the central bank rediscount rate stood at 9.5 percent and commercial bank lending rates ranged between 10 and 12.5 percent. To finance government deficit spending, the government sells bonds on the primary market to Algerian customers. In 1998, for the first time the central bank opened a secondary market for government debt.

Still, the lack of a vital financial sector restricts growth of the private sector and is an impediment to foreign investment in Algeria. Reform efforts in the state-owned banking sector overall have progressed slowly. In the emerging private banking sector, five private banks began operations in Algeria during 1998, including one U.S.-based bank. The Algerian Government is also backing development of primary and secondary housing mortgage loan markets. State banks also began writing home mortgage loans in 1998, a first for Algeria, following a World Bank-sponsored technical assistance project that was led by the U.S.-based Mortgage Bankers Association.

2. Exchange Rate Policy

A government board implements a managed float system for the dinar, which is convertible for all current account transactions. Private and public importers may buy foreign exchange from five commercial banks for commercial transactions provided they can pay for hard currency in dinars. Although commercial banks may buy foreign exchange from the Bank of Algeria at regular weekly auctions, at which they set the dinar's exchange rate, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. However, since the central bank buys the foreign hydrocarbon export proceeds of the national oil company, SONATRACH, the bank plays the dominant role in the foreign exchange market. The primary objective of its intervention policy is to avoid sharp fluctuations in the exchange rate.

3. Structural Policy

The government has changed major aspects of its regulatory pricing, and tax policies as part of its overall structural adjustment program during the past five years. It has loosened its tight hold on state-owned company purchase, production, and pricing decisions in order to give their managers greater autonomy. During the late spring 1997, the government suspended its program of emergency financing for state-owned firms that had recourse to such funding to cover overdrafts and otherwise pay off outstanding debt. The government also pursued its policy of eliminating subsidies and partially removed those on energy products at the end of 1997. The government privatized or liquidated 1000 state enterprises since 1996. For the first time, two state-owned enterprises issued stock for purchase as part of the ongoing privatization effort. Also in 1998, SONATRACH issued bonds for the first time.

The government ran budget surpluses in 1996 and 1997 because of increased revenues from hydrocarbon exports, which accounted for about 60 percent of fiscal revenues and 95 percent of export earnings during the last two years. In 1996, the government modified its import duty schedule so that eight different rates cover all foodstuffs, semi-finished, and finished products, with the top rate being 45 percent in 1997. The government reformed its tax code in 1998 to encourage business development, cutting rates in several categories as part of the 1999 budget. The new law will reduce corporate tax rates from 38 to 30 percent, decreasing again to 18 percent if profits are re-invested in the company. The law also excludes from taxation profits on stock and bond sales for five years.

4. Debt Management Policies

Algeria continued to improve its external debt situation in 1998, reducing its total external debt from $31.2 billion to $30.8 billion. The government did not, however, choose to renew its program of cooperation with the IMF. Algeria met its IMF-backed extended fund facility obligations throughout 1998. Payment in 1998 of principal and interest on the debt that had been rescheduled totaled $5.21 billion. The amounts for 1999-2001 are $5.81 billion, $5.63 billion, and $5.51 billion, respectively. The share of export earnings spent on debt service payments rose from 33 percent in 1997 to 43 percent in 1998 due to reduced earnings from lower than expected oil prices and scheduled, increased payments to foreign creditors.

In order to meet debt service and support an increase in the real output of goods and services, the government is counting both on hydrocarbon export revenues to recover and on a substantial rise in non-hydrocarbon export revenues between now and the end of this decade. On the former point, in 1998 the Algerian economy remained sensitive to fluctuations in oil prices. The government expects revenue losses in 1998 from lower oil prices to total $3 billion. Algeria's non-hydrocarbon exports dropped from $570 million in 1997 to $390 million in 1998.

The central bank is estimating that the growth of Algeria's Gross Domestic Product (GDP) in volume terms will be about 5.2 percent per annum during the next three years (1999-2001). Based on the assumption of the average price of oil being $15 per barrel, the government assumes that Algeria's balance of payments will be such during this period that its stock of outstanding debt will decline by more than $5.2 billion between 1996 and 2001 (from $34 billion to $28.8 billion). Under these assumptions, outstanding debt as a proportion of GDP will decline from 69.7 percent to 57.5 percent by the end of the period.

5. Significant Barriers to U.S. Exports

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, narcotics, and pork products, which are prohibited for security or religious reasons. The government insists on particular testing, labeling, or certification requirements being met, however. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic. This regulation is enforced. It is helpful to also label products in French. Food products when they arrive in Algeria must have at least 80 percent of their shelf life remaining. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming.

The government has deregulated some service sectors, notably insurance and banking. Air couriers are allowed to operate in Algeria subject to approval of the Algerian Ministry of Post and Telecommunications (PTT). DHL offers service in several Algerian cities. Although the PTT has a monopoly on all telecommunications services, it permits the local production, importation, and distribution of telecommunications equipment.

There are no absolute barriers to or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law govern investments in these two local sectors. Production sharing agreements are routine.

The Algerian Government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but no U.S. firms have been disadvantaged by Algeria's policy in this regard. The government occasionally uses countertrade practices to encourage the sale of goods locally produced.

6. Export Subsidies Policies

About 90 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a non-hydrocarbon exports insurance and guarantee program in 1996, but it has had little effect. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. Algerian legislation protects intellectual property and its enforcement is adequate. The embassy has received no reports of cases of infringement, counterfeiting, or piracy.

Patents are protected by the law of December 7, 1993 and administered by the Institut Algerien De Normalisation Et De Propriete Industrielle (INAPI). Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology.

Trademark protection is afforded by the laws of March 19, 1966 and of July 16, 1976. In 1986, authority for the granting and enforcement of trademark protection was transferred from INAPI to the Centre National Du Registre Du Commerce (CNRC).

Copyright protection for books, plays, musical compositions, films, paintings, sculpture, and photographs is provided by a 1973 law. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for (among other things) videos and radio programs.

Algeria's intellectual property practices have had no adverse affect on U.S. trade. The embassy has received no reports from U.S. firms of losses of export or investment opportunities due to imported or locally produced counterfeit or pirated goods.

8. Worker 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 all unions to engage in collective bargaining. This right has been freely practiced. While the law prohibits discrimination by employers against union members and organizers, 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 the regulation. In practice, many children work part or full time in small private workshops and in informal sector trade.

e. *Acceptable Conditions of Work:* The 1990 law on work relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour work week. A guaranteed monthly minimum wage of 6,000 Algerian Dinars ($100) has been set by the government. A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

f. *Worker Rights in Sectors with U.S. Investment:* Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy all the rights defined above. These workers at American firms enjoy better pay and safety than do fellow workers elsewhere in the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,023
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and 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		1,170

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

BAHRAIN

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
GDP (current)	5,790	6,080	6,262
Nominal GDP Growth (pct)	5.9	5.0	3.0
GDP by Sector:			
Agriculture	58	58	58
Manufacturing	1,043	1,050	1,081
Services	1,157	1,157	1,203
Government	991	991	942
Per Capita GDP (US$) [2]	9,666	9,806	9,679
Labor Force (000s)	231	235	240
Unemployment Rate	15	15	15
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	2.9	8.2	8.9
Exchange Rate (US$/BD)	2.65	2.65	2.65
Balance of Payments and Trade:			
Total Exports FOB [3]	4,681	4,310	3,217
Exports to United States	124	126	172
Total Imports CIF	4,262	3,857	3,202
Imports from United States	244	266	299
Trade Balance	419	453	15
Trade Balance with United States [4]	−120	−140	−127
External Public Debt	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	0	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	935	1,035	1,090
Aid from United States	0	0	0
Aid from All Other Sources	50	50	50

[1] 1998 figures are all estimates based on data available in October.

54-067 99 - 12

[2] Current prices, based on population projections.
[3] Exports include transshipment, which accounts for 14 percent of non-oil exports from Bahrain.
[4] Figures reflect merchandise trade.

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 that affect demand for U.S. exports, can best be described as laissez faire. Except for certain 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 assessed at a ten percent rate on most products. The Bahraini Dinar is freely convertible, and there are no restrictions on the remittance of capital or profits. Bahrain does not tax either individual or corporate earnings, other than petroleum revenues.

Over the past two decades, the government has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a secure regulatory framework that 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. Bahrain's oil production amounts to about 40,000 barrels a day (b/d), and it receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Sa'fa offshore oil field.

The budgetary accounts for the central government are prepared on a biennial basis. The budget for 1997 and 1998 was approved in December 1996, and the government currently is preparing the 1999-2000 budget. 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. Budget figures for 1998 project a $198 million deficit which will be financed through the issuance of three-month and six-month treasury bills to domestic banks.

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 (CDs) at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the dinar and the dollar at the rate of one 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, the United Arab Emirates, and 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 negotiating on a free 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 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 still officially participates in the primary Arab League economic boycott against Israel, but does 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 does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices basically depend upon the source of supply, shipping costs, and agents' markups. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, local merchants have been less able to maintain excessive margins, and as a consequence, prices have tended to fall toward the levels prevailing in other GCC countries. Consumer competition is likely to increase further as the impact of the 1998 Agency Law revision takes effect. The revised law abolishes agency monopolies, caps commissions at five percent, and provides for the phasing out of commissions entirely over the next five years.

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, production tax or withholding tax. Bahrain has customs duties and a few indirect and excise taxes, which include 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.

4. Debt Management Policies

The government follows a policy of strictly limiting its official indebtedness to foreign financial institutions. To date, it has financed its budget deficit through local banks. In April 1998, Bahrain launched its first bond issue (BD 40 million, equivalent to $107 million). It was well received. The government has no plans for a second issue at this time. Bahrain has no International Monetary Fund or World Bank programs.

5. Aid

Bahrain receives assistance in the form of project grants from Saudi Arabia, Kuwait, and the United Arab Emirates. On April 1, 1996, Saudi Arabia began giving Bahrain 100 percent of the revenue from the 140,000 b/d of oil produced from the offshore Abu Sa'fa field, a major source of funding for the government's budget.

6. 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 that 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 permits 100 percent foreign ownership of new industrial enterprises and the establishment of representative offices or branches of foreign companies without local sponsors. Other commercial investments are 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 must lease rather than 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, although a sizable expatriate labor force continues to work in Bahrain.

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. 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, insofar as it is enforced. 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 routine, 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 be imported by that firm's agents or, if by a third party, upon payment of a commission to the registered agent. This arrangement is being phased out (see above).

7. Export Subsidies Policies

The government provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not specifically target subsidies to small businesses.

8. Protection of U.S. Intellectual Property

Bahrain is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and is obligated to bring its laws and enforcement efforts into TRIPs compliance by January 1, 2000. In February 1995, Bahrain joined the World Intellectual Property Organization (WIPO), and it signed the Berne Convention for the Protection of Literary and Artistic Works, and the Paris Convention for the Protection of Industrial Property on October 29, 1996.

In April 1998, the U.S. Trade Representative maintained Bahrain on the Special 301 "Watch List" for failure to provide adequate and effective enforcement of IP laws and regulations relating to copyrighted and trademarked goods. The government's 1993 Copyright Protection Law is aggressively enforced but is incompatible with the Berne Convention and TRIPs. Since the Special 301 announcement, Bahrain has forcefully cracked down on audio visual copyright piracy in the last year, and these efforts have been sustained and expanded to software. Sound recording piracy, however, remains a major problem. Industry associations have applauded the government's improvements in IPR protection, but have also stressed the importance of the government revising its laws and increasing penalties against violators.

9. 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 that, 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 (JLCs) established by ministerial decree. Between 1981 and 1984, 12 JLCs were established in the major state-owned industries. In 1994, four new JLCs were established in the private sector, including one in a major hotel. In September 1998, three more JLCs were created, bringing the total number in Bahrain to 19.

b. *The Right to Organize and Bargain Collectively:* Bahrain's Labor Law neither grants nor denies workers the right to organize and bargain collectively. While the JLCs 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 compelled 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 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:* Minimum wage scales, set by government decree, exist for public sector employees and generally afford a decent standard of living for workers and their families. Current minimum wage for the public sector is 236.60 dollars (91 BD) a month. Wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home, housing, and education bonuses part of the salary.

Bahrain's Labor Law 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. Complaints brought before the Labor Ministry that 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.

f. *Rights in Sectors with U.S. Investment:* The company law does not discriminate at all against foreign-owned companies. Workers at all companies with U.S. investment 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		−36
Total Manufacturing		−7
Food and Kindred Products	(1)	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(2)
Banking		(1)
Finance/Insurance/Real Estate		−9
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		−80

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

EGYPT

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
GDP (current rices)	68.3	76.2	83.8
Real GDP Growth (pct) [2]	5.0	5.3	5.0
GDP by Sector:			
Agriculture	7.0	7.3	N/A
Manufacturing	7.3	7.9	N/A
Services	20.5	26.1	N/A
Government	3.1	3.3	N/A
Per Capita GDP (US$)	1,058	1,184	1,294
Labor Force (millions)	17,365	N/A	N/A
Unemployment Rate (pct)	9.1	8.8	8.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.5	15.1	12.3
Consumer Price Inflation (period average)	7.1	6.2	3.8
Exchange Rate (LE/US$ annual average)			
Market Rate	3.39	3.39	3.39
Balance of Payments and Trade:			
Total Exports FOB [3]	4.608	5.300	5.5

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Exports to United States[3]	0.713	0.694	N/A
Total Imports FOB[3]	14.106	15.500	16.700
Imports from United States[3]	3.146	3.840	N/A
Trade Balance[3]	−9.5	−10.2	−11.2
Balance with United States	−2.433	−3.146	N/A
External Public Debt	29.7	27.2	26.2
Fiscal Deficit/GDP (pct)	1.3	0.9	1.0
Current Account Balance/GDP (pct)	−0.3	0.2	−2.4
Debt Service Payments/GDP	14.3	13.6	14.2
Gold and Foreign Exchange Reserves	18.8	20.6	20.2
Aid from United States	2.115	2.115	2.115

[1] Statistics are based on Egypt's fiscal year starting July 1 and ending June 30, and IMF data released in September.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.

1. General Policy Framework

In a year which has witnessed successive shocks to emerging economies around the world, Egypt can claim, thus far, to have been an island of stability. Largely unintegrated into the global economy, Egypt has not been as vulnerable to capital flight and the evaporation of foreign direct investment as other emerging markets. In addition, the country has been well served by macroeconomic reform policies launched in 1991: inflation is officially listed at around four percent (down from over twenty percent at the start of the decade); foreign reserves are steady at around $20 billion; the Egyptian Pound is stable; and government spending has been disciplined (the budget deficit last year was 0.9 percent of GDP).

The government does not view these factors as grounds for complacency. The Asian financial crisis and the economic effects of two terrorist acts in 1997 (at the Egyptian Museum and Luxor) appear to have reinforced the government's determination to continue tackling a daunting array of structural reforms. Leading foreign and Egyptian businessmen consistently cite a number of areas as meriting additional priority attention by the government, including:

—Cutting red tape and simplifying bureaucracy, possibly though measures such as the creation of a meaningful and effective one-stop-shop to assist investors;

—Pressing ahead with the privatization program, concentrating on measures to expand the role of anchor investors and to achieve progress in such lagging, but crucial, areas as banking and insurance;

—Strengthening intellectual property rights protection, a major concern of high tech sectors such as software and pharmaceuticals and a key factor affecting technology transfer;

—Continuing efforts to lower tariffs, improve customs services and remove non-tariff barriers (such as health regulations blocking the import of U.S. beef and regulations blocking poultry imports);

—And, sustaining momentum in strengthening and modernizing the legal and regulatory framework for business by passing new legislation (such as a revised patent law), and through speedy implementation of recent legislation on government procurement and laws allowing an expanded role for the private sector and foreign investor in the banking and insurance sectors.

Continued success in implementing structural reforms will be crucial for Egypt to increase its saving and investment rates, which will in turn help the government achieve its objective of sustainable annual GDP growth of seven to eight percent. GDP grew at around 5 percent over the past two years, a noteworthy increase over the 3.5 percent average of the previous three years. Still, the significant distance between current performance and government objectives underscores the challenges still facing Egypt's policymakers and business community.

Last year, the government undertook several measures to encourage foreign direct investment. Legislation was passed authorizing an expanded role for the private sector and foreign investors in the banking and insurance sectors, a development which could lead to improved formation and utilization of savings. However, the government has yet to move decisively to implement the legislation. A law was also passed allowing private investment in airports and all maritime activities. There are no significant restrictions on the movement of capital in and out of the country.

The government continues to maintain fiscal discipline. The budget deficit was 0.9 percent of GDP in 1996/97, down from 20 percent in the early 1990s. In an effort to increase and diversify its revenue and expand government income, the government has submitted for parliamentary approval three bills aimed at expanding its general sales tax with a value-added tax.

Privatization remains a central component of the government's economic reform program, although the process has proceeded slowly in 1998 as the government tackles the job of selling less attractive firms. Fourteen firms have been privatized; of these, three were initial public offerings and two were sales to anchor investors. The nine other sales were liquidations. While evaluations of publicly-held banks are underway and the government remains committed to divesting majority holdings in all joint venture banks, there were no sales of the government's still considerable holdings in the banking sector in the last several months. To date, the total privatization effort has involved the sale of interests in 84 companies with a market value of about $5 billion, which represents about 7 percent of GDP, and about 35 percent of the current market value of the initial privatization portfolio. Out of the original portfolio of 314 companies, the government has sold controlling interests in 68 and minority interests in another 16.

2. Exchange Rate Policy

Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange operations in Egypt. Central bank foreign exchange reserves stood at $20.1 billion in June 1998. The government notes officially that the free market guides the rates of exchange set by the Central Bank of Egypt, other approved banks, and dealers. However, the central bank appears to actively monitor the exchange rate in order to assure the Egyptian Pound's stability.

3. Structural Policies

In general, prices for most products are market based, although the government does provide direct and indirect subsidies on key consumer goods to benefit Egypt's poor (including bread, which stimulates the demand for U.S. wheat). Pharmaceutical prices are set by the Ministry of Health. Railway fares, electricity, petroleum products and natural gas prices are gradually being deregulated to reflect actual costs.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing its tariffs. The maximum rate for WTO-bound tariffs was recently reduced from 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts and U.S. poultry products. Egypt does not maintain export quotas or require pre-approval for imports. It is in the process of implementing the harmonized system of classification. Although the government recognizes the need to eliminate procedural barriers to trade, businesses report that red tape and cumbersome bureaucracy remain significant problems.

The government instituted a General Sales Tax (GST) in 1991 and is now moving towards adoption of a value-added tax. Since 1991 taxes on certain consumer goods not covered by the GST (alcoholic and soft drinks, tobacco and petroleum products) were raised and converted to Ad Valorem Taxes (VAT). A unified income tax has been adopted which aims at reducing marginal tax rates, simplifying the tax rate structure, and improving administration of tax policy. Despite such efforts, businesses consistently note the need for reform and modernization of Egypt's tax system, describing its current administration as cumbersome and frequently unpredictable.

4. Debt Management Policies

In early 1991, official creditors in the Paris Club agreed to reduce by 50 percent the net present value of Egypt's official debt, phased in three tranches of 15, 15 and 20 percent. Release of the three tranches was conditioned on successful review of Egypt's reform program by the IMF. At about the same time, the United States forgave $6.8 billion of high-interest military debt. As a result, Egypt's total outstanding debt declined to about $ 28 billion, and the debt service ratio fell from over 50 percent in 1989 to 8.9 percent in 1997/98.

In October 1996, the government and the IMF agreed to an ambitious package of structural reform measures through 1998, and the IMF approved an SDR 291 million ($404 million) precautionary standby arrangement for Egypt. This agreement paved the way for the release of the final $4.2 billion tranche of Paris Club relief, reducing Egypt's annual debt servicing burden by $350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship between the Fund and the government will take a consultative aspect.

5. Aid

The United States is Egypt's largest provider of foreign assistance, having committed $2.1 billion in FY 1999. The assistance package is divided into economic support funds ($775 million) and military assistance ($1.3 billion). U.S. assistance levels to Egypt will be gradually reduced over the next several years. Both governments are committed to working together to maximize the positive impact assistance has on Egypt's transition to a private sector-led, export-oriented economy. A significant portion of the funds in both assistance categories are used by Egypt to acquire U.S. goods and services. For example, around $250 million of exports were financed in FY 1998 through USAID's Commodity Import Program. The Department of Agriculture, in separate programs (GSM 102), financed in FY 1998 about $200 million in U.S. exports to Egypt.

6. Significant Barriers to U.S. Exports

Egypt participated in the Uruguay Round negotiations and became a member of the World Trade Organization (WTO) in June 1995. Trade would be facilitated by improved notification to the WTO and major trading partners of changes the government makes to bring Egypt's trade regime into WTO compliance.

Import Barriers: Egypt does not require import licenses. For food and non-food imports with a shelf-life, the government mandates that they should not exceed half the shelf-life at time of entry into Egypt. The importation of commodities manufactured using ozone-depleting chemicals is prohibited.

Services Barriers: The government runs many service industries. Recent government policies allow private sector involvement in ports, maritime activities and airports, an opening which has spurred significant interest and activity in the private sector. Private firms dominate advertising, accounting, car rental and a wide range of consulting services. Egypt modified laws and regulations in accordance with its WTO financial services commitments.

Banking: Existing foreign bank branches have been permitted to conduct local currency operations since 1993. Two U.S. bank branches have licenses to do so. In June 1996, the parliament passed a bill amending the Banking Law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In another significant development, Law 155 was passed in June 1998. It provided the constitutional basis needed to permit the privatization of the four public sector banks. (Privatizing publicly-held banks will be a complex and politically sensitive undertaking; the government has not yet named a public-sector bank for privatization.) In a move to eliminate a tax loophole and orient banks' portfolio managers to more economically productive investments, the government passed the Income Tax Law 5 of 1998. This law eliminated a loophole that allowed banks and financial institutions to deduct interest earned on government securities, as well as to deduct the interest paid on funds borrowed to purchase such securities. Application of the law is delayed as the government produces the regulations and procedures needed for its implementation.

Securities: International brokers are permitted to operate in the Egyptian stock market. Several U.S. and European firms have established operations or purchased stakes in brokerage firms.

Insurance: The passage of a new Insurance Law in June 1998 marked a potentially significant milestone for the sector and the national economy. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. The first application by a U.S. firm for majority ownership is currently pending with the Ministry of Economy. Previously, foreign ownership was restricted to a minority stake. Four public-sector companies (one of which is a reinsurance company) dominate the insurance market. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. Two of the joint ventures are operating in the free zones.

Telecommunications: Law 19 of 1998 transferred the national communications authority from the direct control of the Ministry of Telecommunications to a joint stock company and established a regulatory body for the sector. In recent years Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. The mobile system has expanded significantly in the last three years as the result of increased GSM capacity. In 1996, a government-owned firm (ARENTO) was created with an initial GSM capacity of 90,000 lines. The establishment of two private sector companies in 1998 (Mobinil and Misrphone) further boosted the GSM system by 130,000 lines. The government recently announced that it would join the WTO Basic Telecommunications Agreement and the Information Technology Agreement (ITA) at the earliest possible opportunity. Government officials attribute the decision to become a signatory to these agreements to improvements in the telecommunications sector by the privatization process.

Maritime and Air Transportation: Maritime transport lines and services operated until recently as government monopolies. Law 22 of 1998 opened these areas to the private sector. this law permits the establishment of specialized ports on a build-own-operate basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport construction.

Standards, Testing, Labeling and Certification: While Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Items removed from the ban list were added to a list of commodities requiring inspection for quality control before customs clearance. This list now comprises 131 items, including meat, fruits, vegetables, spare parts, construction products, electronic devices, appliances, transformers, household appliances, and many consumer goods. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun arranging inspection visits in the U.S. to facilitate Egyptian customs clearance. Product specification also can be a barrier to trade. For example, Egyptian Standard No. 1522 of 1991 concerning inspection of imported frozen meat hinders exports of U.S. beef through imposition of a nearly unattainable maximum 7 percent fat level. The lack of clear standards for determining if processing is done according to Islamic rules restricts U.S. poultry parts exports.

Imported goods must be marked and labeled in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic-language catalog must accompany imported tools, machines and equipment. 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. Many of these standards violate the WTO agreement which prohibits "Nontechnical Barriers to Trade" (NTB). Only bona fide health and safety standards based on scientific evidence are mandatory under WTO; all other standards must be voluntary.

Investment Barriers: The General Authority for Free Zones and Investment (GAFI) has sole responsibility for regulating foreign investment. The government implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt signed a Bilateral Investment Treaty with the United States in 1992. It is also a signatory with the United States in an Investment Guarantee Agreement which extends political risk insurance (via OPIC) for American private investment. In addition, the government is a signatory of the International Convention for the Settlement of Investment Disputes.

Government Procurement: The government passed a new government procurement law this year (Law 89 of 1998) in an effort to increase transparency, assure equal opportunity among bidders and protect contractor rights. The law mandates that: a bid may not be transformed into a tender (a main defect of a prior law dating from 1983); decisions on bids are to be explained in writing; and more weight will be accorded to technical considerations in awarding contracts. The law also requires the immediate return of bid bonds and other guarantees once the tender is awarded. Egypt is not a signatory to the WTO Government Procurement Agreement. Initial analysis of the new Law 89 indicates that it violates the "national treatment" clause of the general principles of the WTO.

Customs Procedures: In 1993, Egypt adopted the harmonized system of customs classification. Tariff valuation is calculated from the so-called "Egyptian selling price" which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices, and the belief that under-invoicing is widely practiced, customs officials routinely and arbitrarily increase invoice values from 10-30 percent for customs valuation purposes. Multiplication of authorities for commodity clearance and inspection increases the complexity and costs of exporting to Egypt. As customs procedures are becoming increasingly automated through the use of computers, customs officials will no longer be able to exercise such subjective judgment over valuation of imports.

7. Export Subsidies Policies

Egypt has no direct export subsidies. Certain exporting industries may benefit from duty exemptions on imported inputs (if released under the temporary release system) or 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.

8. Protection of U.S. Intellectual Property

Egypt is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2000. Egypt is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the Madrid Agreement Concerning the International Registration of Marks (Stockholm Act of 1967).

In April 1998, the U.S. Trade Representative maintained Egypt on the Special 301 "Priority Watch List" due to a lack of progress in patent protection and in the enforcement of copyright protection.

Under Egypt's patent regime, the existing Patent Law (Law 132 of 1949) provides protection below international standards. It contains overly broad compulsory licensing provisions and excludes from patentability substances prepared or produced by chemical processes if such products are intended for food or medicine. The patent term is 15 years from the application filing date, compared with the international standard of 20 years. A five-year renewal may be obtained only if the invention is of special importance and has not been adequately worked to compensate patent holders for their efforts and expenses. Compulsory 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.

Egypt has drafted, but not passed, legislation designed to improve patent protection by providing product versus process patents, increasing the protection period to 20 years, and offering fair prerequisites for compulsory licensing. However, the government has indicated its intention to delay pharmaceutical patent protection until the year 2005 despite substantial assistance from the U.S. Government to help Egypt prepare modern legislation.

In the area of copyrights, Egypt passed amendments to its Copyright Law in 1994 and, over the past few years, made progress in the enforcement of copyrights. Law 29 of 1994 amended the Copyright Law (Law 38 of 1992) to ensure that computer software was afforded protection as a literary work, allowing it a 50-year protection term. Law 38 of 1992, an amendment to the out-of-date 1954 Copyright Law, increased penalties against piracy and provided specific protection to computer software. A 1994 decree also clarified rental and public performance rights, protection for sound recordings, and the definition of personal use. However, since late 1996, slackened enforcement activity and the imposition of low, non-deterrent penalties for infringement has lead to increasing levels of piracy, especially in the area of computer programs and videos.

For its trademark regime, Egypt is considering completely revising its laws in order to enhance significantly legal protection for trademarks and industrial designs. The current Trademark Law, Law 57 of 1939, 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. Application for judgments and enforcement must be made separately in each of the 26 governorates.

Egypt has no specific trade secrets legislation. Protection of commercially valuable information is possible through contractual agreement between parties. Breach of contractual terms of protection can be remedied in legal proceedings under either the civil or criminal code, depending on the severity of the damage caused.

Lastly, there is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington Semiconductor Convention.

9. Worker Rights

a. *Right of Association:* Egyptian workers may, but are not required to, join trade unions. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most members (about 25 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The ETUF, although semi-autonomous, maintains close ties with the governing National Democratic Party. Despite the ETUF leadership assertion that it actively promotes worker interests, it generally avoids public challenges to government policies.

b. *The Right to Organize and Bargain Collectively:* The proposed new labor law provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, allowing few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and not practiced.

d. *Minimum Age for Employment of Children:* In March 1996, the Egyptian Parliament adopted a new "Comprehensive Child Law" drafted by the National Council for Childhood and Motherhood. The minimum age for employment was raised from 12 to 14. Provincial governors may authorize "seasonal work" for children between 12 and 14. 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 14 to 15 may work six hours a day, but not after 7 p.m. and not in dangerous activities or activities requiring heavy work. Child workers must obtain medical certificates and work permits before they are employed. Recent estimates by the Egyptian Government put the number of child laborers at 2.7 percent of the total working population of 17 million. Local non-governmental organizations put the number of children working as much higher, although verification is impossible. The majority of working children are employed on farms. Children also work as apprentices in auto and craft shops, in construction, and as domestics. Most are employed in the informal section. The government has difficulty enforcing child labor laws due to a shortage of inspectors. Economic pressures, rural tradition, the inadequacy of the education system, and lack of government control in remote areas pose significant, but not insurmountable, barriers to addressing child labor issues in the near future.

Egypt is a signatory to the 1997 Oslo Action Plan calling for the immediate removal of children from hazardous occupations and the eventual elimination of child labor. Under the existing "Generalized System of Preferences" (GSP) afforded to Egypt by the U.S., exporters must abide by international labor standards which prohibit the use of child labor. There is also increasing pressure from a rapidly growing consumer's movement and new legislative requirements within the developed countries, notably the U.S. and the EU, to boycott goods manufactured with child làbor. This may give much needed momentum to solving Egypt's child labor problems.

e. *Acceptable Conditions of Work:* The government and public sector minimum wage is approximately $20 a month for a six-day, 48-hour workweek. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The average family can survive on a worker's base pay at the minimum wage rate.

f. *Rights in Sectors with U.S. Investment:* The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The Ministry of Manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,263
Total Manufacturing		283
Food and Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Primary and Fabricated Metals	8	
Industrial Machinery and Equipment	28	
Electric and 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—1997—Continued

[Millions of U.S. dollars]

Category	Amount
Other Manufacturing	(2)
Wholesale Trade	-54
Banking	134
Finance/Insurance/Real Estate	0
Services	-4
Other Industries	-52
TOTAL ALL INDUSTRIES	1,570

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,00 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ISRAEL

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP	95.2	98.1	96.3
Real GDP Growth	4.6	2.2	1.9
GDP by Sector:			
Agriculture	2.7	2.5	2.3
Manufacturing	18.0	18.2	18.1
Services	54.1	56.5	55.6
Public Sector	20.5	20.9	20.4
Per Capita GDP (US$)	16,750	16,830	16,160
Labor Force (000s)[2]	2,160	2,210	2,270
Unemployment Rate (pct)[2]	6.7	7.7	8.7
Money and Prices (annual percentage growth):			
Money Growth (M2) (pct)[3]	26	25	20
Consumer Inflation (pct)[3]	10.6	7.0	10.0
Exchange Rate (NIS/US$)[2]	3.19	3.45	3.80
Balance of Payments and Trade:			
Total Exports FOB	20.5	22.5	22.9
Exports to United States	6.3	7.2	8.1
Total Imports CIF[4]	29.9	29.0	28.0
Imports from United States[4]	6.0	5.4	5.3
Trade Balance[4]	-9.4	-6.5	-5.1
Balance with United States[4]	0.3	1.8	2.8
External Public Debt (gross)	25.2	26.1	28.0
Fiscal Deficit/GDP (pct)	3.6	2.8	2.3
Current Account Deficit/GDP (pct)	5.4	3.3	2.5
Debt Services/GDP (pct)[5]	6.5	6.5	6.5
Gold and Foreign Exchange Reserves[6]	11.6	20.3	22.5
Aid from United States	3.1	3.0	2.9
Aid from Other Countries	0	0	0

[1] 1998 indicators estimated using partial-year data.
[2] Annual average.
[3] December to December.
[4] Excludes defense imports.
[5] Includes private sector debt service.
[6] At end of year.

1. General Policy Framework

Israel is a small open economy, increasingly competitive internationally in such high technology sectors as telecommunications, software, pharmaceuticals, and biomedical equipment. Israel's economy grew rapidly in the first half of the 1990s, with growth averaging six percent annually. This expansion, during which Israel's economy grew in real terms by a cumulative 40 percent, was stimulated by a wave of immigration from the countries of the former Soviet Union and the erosion of Israel's economic isolation following peace agreements reached with Jordan and the Palestinians. Rising incomes and the needs of the immigrants encouraged a strong upsurge in imports, including from the United States. Merchandise imports almost doubled between 1990 and 1996, rising from $15.1 billion to $29.6 billion; imports from the United States grew from $2.7 billion to $6.0 billion over the same period. Export growth, although strong, did not keep pace, and the current account deficit widened to over five percent of GDP in 1996.

Since 1996, economic growth has slowed markedly; the growth rate for 1998 is estimated at only 1.9 percent. One factor behind the economic slowdown was a tightening of fiscal policy undertaken in 1997, which cut the budget deficit by roughly two percent of GDP, a tightening implemented to avert a potential crisis in Israel's balance of payments. Fiscal restraint has continued into the 1998 and proposed 1999 budgets, as the government attempts to reduce the fiscal deficit to a goal of 1.5 percent of GDP by 2001. Defense spending remains the largest single component of the Israeli budget, accounting for almost one-fifth of total spending. In recent years, the most rapidly growing portions of the budget have been in the area of social services, such as health care, education, and direct payments to individuals and institutions. Between 1990 and 1998, for example, education spending rose 83 percent after inflation, while transfer payments increased by 76 percent.

The goal of monetary policy is to reduce Israel's traditionally high inflation rate to OECD average levels by 2001. Since 1994, the central bank has maintained high real interest rates in its campaign to slow inflation and to achieve eventual price stability. Its chief policy instrument is the interest rate charged on its "monetary loans" to the commercial banks; it also adjusts domestic liquidity through purchases and sales of treasury bills, and by adjusting the volume of its borrowings from the banks. With imports of goods and services amounting to some 45 percent of GDP, Israel's inflation rate is strongly influenced by exchange rate developments. For example, after the consumer price index had risen only 3.0 percent in the twelve months ending in July 1998, the lowest rate of price increase recorded since the 1960s, a sharp decline in the value of the shekel in subsequent months gave a swift upward boost to inflation. Israel's official inflation target for 1999 is 4.0 percent.

2. Exchange Rate Policy

Under the "diagonal" exchange rate system introduced in 1991, the shekel floats within a pre-defined target zone against a basket of five currencies: the U.S. Dollar, Yen, Deutsche Mark, Pound Sterling, and French Franc. (The DM and French Franc are to be replaced by the euro as of January 1, 1999.) The slope, or pre-set rate of depreciation, of the zone is roughly equal to the expected inflation gap between Israel and its main trading partners. In August 1998, the slope of the lower (most appreciated) edge of the target zone was set at two percent per year, while that of the upper (most depreciated) limit remained at six percent. The width of the band, approximately plus or minus fifteen percent from the midpoint as of mid-1998, thus increases over time. As a matter of policy, the central bank does not intervene in the foreign exchange markets as long as the shekel remains within the target zone, although it is obligated to do so once the limits of the zone are reached. During the first half of 1997, for example, large-scale capital inflows caused the shekel to appreciate to the edge of its target zone. To keep the shekel within the zone, the central bank was forced to absorb the inflow of foreign currency and to sterilize the effect on domestic liquidity of such purchases through increased borrowings from the public.

Israel ended all foreign exchange controls for current transactions in 1993. In mid-1998, at the time of its fiftieth anniversary celebrations, Israel ended almost all of its remaining capital controls, except for limits on Israeli institutions' foreign investments and on access by non-Israelis to longer-term derivatives in the domestic market.

3. Structural Policies

Over the past decade, Israel has gradually reduced the degree of government involvement in and control over the economy while increasing the influence of domestic and international competition. Israel signed a Free Trade Agreement with the United States in 1985 and has similar agreements with the EU, the EFTA, and seven other countries. In addition, since 1991 Israel has been unilaterally reducing tariffs on imports from countries with which it does not have trade agreements. This policy of increasing exposure to international competition has led to a significant restructuring of Israeli industry, causing job losses in such traditional light manufacturing sectors as shoes and textiles.

Significant reforms, with important commercial implications for U.S. companies, are being undertaken in the telecommunications sector. In 1997, two private consortia, each with a U.S. firm as a participant, began offering international telephone service in competition with the established government-owned company; prices for international calls fell by as much as 80 percent. In October 1998, a third private company began offering cellular telephone service. Further liberalization of the telecommunications sector is planned for 1999, when the domestic market is to be opened to competition.

Israel's long-stalled privatization program came to life in 1997, when the government raised almost $3 billion from the sale of shares in government-owned companies and banks, more than twice its planned target for the year. The most important transaction of that year was the sale, to a U.S.-Israeli investor group, of a controlling 43-percent stake in Bank Hapoalim. Bank Hapoalim is Israel's largest bank and controls an estimated eight percent of the economy through its extensive holdings in Israeli industry. The pace of privatization slowed in 1998; receipts for the first ten months of the year totaled just over $1 billion. The government decided in 1998 to retain majority control of the state airline El Al; the sale of 49 percent of El Al's stock is now planned for 1999.

In the energy sector, a U.S.-based company has been awarded the first contract for the construction of a privately-operated independent electric power generating plant. In the future, under current law, up to ten percent of Israel's electricity will be generated by such independent producers; another ten percent of Israel's power needs could be met by imports. Israel is also designing its first natural gas importation and distribution system, a sector that holds promise for U.S. energy companies.

4. Debt Management Policies

From 1985, at the time of Israel's stabilization program, to the end of 1997, the ratio of Israel's net foreign debt to GDP declined from 73 percent to 18 percent, as the country's financial position gradually improved. The gross foreign debt of the public sector totaled $27.3 billion as of June 1998, all of it medium to long-term, and much of it guaranteed by the U.S. Government. Israel borrowed $9.2 billion between 1993 and 1998, for example, in bonds guaranteed by the United States intended to assist with the absorption of the immigrants from the former Soviet Union. The external liabilities of the banking system and non-financial public sector brought Israel's total gross foreign debt to $53.8 billion as of mid-1998. After netting out foreign assets of $36.3 billion, the country's net debt stood at $17.5 billion.

Anticipating the end of the U.S. loan guaranty program, the government began in 1995 to tap the international bond markets under its own name. Thus far, it has made successful offerings in the U.S., European, and Japanese bond markets.

5. Aid

U.S. assistance to Israel for fiscal year 1999 includes $1.86 billion in military aid, of which almost $1.4 billion is earmarked for procurement from the United States. U.S. aid also includes a $1.08 billion cash grant, $70 million for the Jewish Agency to assist with the absorption of new immigrants, and various forms of support for military R&D, notably for missile defense.

6. 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 Agreement (FTAA) by 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 and implemented the WTO regime on January 1, 1996.

The U.S.-Israel FTAA allows the two countries to protect sensitive agricultural subsectors with nontariff barriers including import bans, quotas, and fees. These limitations have been carried forward into the WTO regime. Most quantitative limits have been translated into Tariff Rate Quotas (TRQs), while items previously banned now bear prohibitively high tariffs or fees that make imports of such goods uncompetitive with domestic production. The principal U.S. goods affected by these measures include poultry and dairy products, fish, and most fresh produce.

In late 1996, the United States and Israel agreed on a five-year program of agricultural market liberalization. The agreement covers all agricultural products and provides for increased access during each year of the agreement via TRQs and reductions in tariff levels for a significant number of U.S. goods. Despite an Israeli commitment to issue all TRQ licenses for a given year no later than October 31 of the previous year, there continue to be substantial delays in the licensing of U.S. products.

Israel has two unique forms of protection for locally produced goods. The first of these is "Harama," meaning "uplift," which is applied at the pre-duty stage to the CIP 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 that 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 imported by exclusive agents, and by 10 percent or more for other products. Israel is not a signatory to the GATT Valuation Code, although it has expressed its intention to become one.

The second uniquely Israeli form of protection is called "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 to goods ranging from automobiles to some agricultural and food items. Israel has eliminated or reduced purchase taxes on many products including consumer electronics, building inputs, and office equipment. Where remaining, purchases 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. Although Israel agreed in 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, and carpets) standards are written so that domestic goods meet requirements more easily than do imports. In September 1998, Israel amended its packaging and labeling requirements to allow non-metric packaging as long as information on pricing in standard metric units is provided. This change should facilitate the entry of U.S. food products packaged in non-metric sizes. Israel has agreed to notify the United States of proposed new mandatory standards to be recorded under the GATT. The Standards Institute 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 government actively solicits foreign investment, including in the form of joint ventures, and 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 investments in priority development zones after receiving the approval of the Ministry of Industry and Trade. The incentive program provides grants of up to twenty percent of the amount of capital invested and tax benefits for investments in the development priority regions. There are generally no restrictions on foreign ownership, but a foreign-owned 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. Investment in regulated sectors, including banking, insurance, and defense-related industries, requires prior government approval.

Israel has one free trade zone, in the town of Eilat. In addition, there are three free ports: Haifa, Ashdod, and the port of Eilat. Enterprises in these areas may qualify for special tax benefits and are exempt from indirect taxation.

Israel is a signatory to the Uruguay Round Procurement Code, which provides wide coverage of Israeli Government entities to enable more open and transparent international tendering procedures. While some government entities notify the U.S. Government of tenders valued at over $50,000, many do not, and the notices that are received frequently carry short deadlines. Moreover, U.S. suppliers are locked out of Ministry of Defense food tenders for the army and other security forces. Complex technical specifications and kosher certification requirements discourage foreign participation.

The government 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 into or fulfill such industrial co-operation agreements (which may involve investment, co-development, co-production, subcontracting, or 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, Israeli law continues to require such offsets. Israeli Government agencies and state-owned corporations not covered by the Uruguay Round Government Procurement Code follow this "Buy Israel" policy to promote national manufacturers.

Israeli law provides for a 15 percent cost preference to domestic suppliers in many public procurement purchases, although the statute recognizes the primacy of Israel's bilateral and multilateral procurement commitments. The preference for local suppliers can reach as high as 30 percent for firms located in Israel's priority development areas.

In addition to its GATT multilateral trade commitments and its FTAA with the United States, Israel also has free trade agreements with the European Union, Canada, the Czech Republic, Slovakia, Turkey, Hungary, Poland, Slovenia, and the EFTA states. It also has a preferential trade agreement with Jordan. With respect to all other countries, Israel has substituted steep tariffs for nontariff barriers previously applied and is gradually reducing those tariffs. Israel's import liberalization program and negotiation of new free trade agreements have diluted U.S. advantages under the bilateral FTAA.

As part of the Middle East Peace Process, Israel has granted duty free access to its market for 50,000 tons of fresh and processed agricultural products from Jordan. It has also committed itself to allowing unlimited access for agricultural produce from the Palestinian Authority. This preferential access reduces the competitiveness of U.S. products in the Israeli market.

7. Export Subsidies Policies

The U.S.-Israeli FTAA included an agreement to phase out the subsidy element of export enhancement programs and to refrain from new export subsidies. Israel has already eliminated grants, except in the case of agricultural export and import substitution crops. In 1993, Israel 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. Israel has been a member of the GATT Subsidies Code since 1985.

Israel's Parliament, the Knesset, passed legislation in 1994 authorizing the creation of Free Processing Zones (FPZs). Under the terms of the law, qualifying companies operating in the FPZs would be exempt from direct taxation for a twenty-year period, and imported inputs would be free from import duties or tariff or most health and safety regulations generally in effect throughout Israel. Companies in FPZs would also be exempt from collective bargaining and minimum wage requirements, although subject to other labor law. 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 do not violate the U.S.-Israel FTAA export subsidies commitment. As of November 1998, no FPZs had yet been established, although one had been proposed for the Beer Sheva region.

8. Protection of U.S. Intellectual Property

Israel is a member of the World Trade Organization (WTO), and projects that it will be in compliance with its commitments under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement by January 1, 2000. Israel is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, The Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Israel is also 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.

In April 1998, the U.S. Trade Representative placed Israel on the "Special 301" IP Priority Watch List due in large part to U.S. concern over an increase in illegal copying and sale of video and audio recordings. In June 1998, USTR submitted an "Action Plan" to the Government of Israel addressing outstanding US concerns. Specific concerns include increasing piracy levels of cable television transmissions, audio and video cassettes, compact disks, and computer software. Also, Israel currently has an antiquated Copyright Law which, together with the low priority given to IPR enforcement by the authorities, has allowed an upsurge in piracy. A revised Copyright Law, with updated IPR requirements, has been under review for a number of years; it has not yet been submitted to the Knesset. The proposed legislation would include enhanced rights of distribution in connection with rental rights and imports of copyrighted materials. Rental rights would include all protected works, including sound recordings, cinematographic works, and computer programs. A Cable Broadcast Law is also in preparation.

Current Israeli patent law contains overly broad licensing provisions concerning compulsory issuance for dependent and nonworking patents. A draft revision of Israel's Patent Law has been in preparation for several years; the revised law would upgrade patent protection to TRIPs standards and would eliminate compulsory licensing. In addition, revised laws are under consideration for protection of industrial designs, trademarks, and integrated circuits.

In February 1998, the Knesset passed a separate amendment to the Patent Law which will allow nonpatent holders to manufacture limited quantities of 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 amendment also provides for a limited extension of the patent term for pharmaceutical products. The United States unsuccessfully objected to the amendment and urged that Israel model its law on the comparable provision of U.S. law. Israel is also considering legislation which would substantially weaken patent protection by permitting importation of patented pharmaceutical products from non-rightholders. The United States has urged Israel not to enact the proposed legislation due to its adverse impact on the rights of U.S. patent holders.

9. Worker Rights

a. *The Right of Association:* Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. In 1995, Histadrut's membership dropped sharply after the federation's links with the nation's largest health care fund were severed. A majority of the workforce remains covered by Histadrut's collective bargaining agreements. Non-Israeli workers, including nonresident Palestinians from the West Bank and Gaza who work legally in Israel, are not members of Israeli trade unions but are entitled to some protection 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 (i.e., quasi-constitutional) Law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the free processing zones authorized since 1994 would limit workers' collective bargaining and minimum wage rights.

c. *Prohibition of Forced or Compulsory Labor:* Israeli law prohibits forced or compulsory labor for both Israeli citizens and noncitizens working in Israel.

d. *Minimum Age for Employment of Children:* Children who have attained the age of 15 and who remain obligated to attend school may not be employed, unless they work as apprentices under the terms of the apprenticeship law. Nonetheless, children who have reached the age of 14 may be employed during official school holidays. The employment of children aged 16 to 18 is limited to ensure adequate time for rest and education. Ministry of Labor inspectors are responsible for enforcing these restrictions, but children's rights advocates contend that enforcement is unsatisfactory, especially in smaller, unorganized workplaces. Illegal employment of children does exist, probably concentrated in urban light industrial areas.

e. *Acceptable Conditions of Work:* The minimum wage is set by law at 47.5 percent of the average national wage, updated periodically for changes in the average wage and in the consumer price index. 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, the maximum hours of work at regular pay are 47 hours per week (eight hours per day and seven hours before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are covered by the law and collective bargaining agreements that cover Israeli workers.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors of the economy in which U.S. companies have invested are the same as described above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		49
Total Manufacturing		1,582
Food and Kindred Products	89	
Chemicals and Allied Products	53	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	(1)	
Electric and Electronic Equipment	1,062	
Transportation Equipment	5	
Other Manufacturing	111	
Wholesale Trade		94
Banking		0
Finance/Insurance/Real Estate		344
Services		112
Other Industries		105
TOTAL ALL INDUSTRIES		2,286

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

JORDAN

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	6,713	7,049	7,437
Real GDP Growth (pct)[3]	0.8	2.2	0.5
GDP by Sector:			
Agriculture	227	213	N/A
Manufacturing	745	807	N/A
Services	1,242	1,332	N/A
Government	1,166	1,241	N/A
Per Capita Nominal GDP (US$)[4]	1,510	1,533	1,555
Labor Force (000s)	994	1,024	N/A
Unemployment Rate (pct)[5]	11.3	13.2	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[6]	0.3	7.8	5.0
Consumer Price Inflation	6.5	3.0	5.0
Exchange Rate			
Official (JD/US$ annual average)	.709	.709	.709
Balance of Payments and Trade:			
Total Exports FOB[7]	1,816	1,835	1,750
Exports to United States[7]	26.3	26.0	13.8
Total Imports CIF[7]	4,291	4,100	3,957
Imports from United States[7]	416	388	301
Trade Balance[7]	−2,475	−2,265	−2,207
Balance with United States[7]	−389.7	−362	−287.2
Current Account Deficit/GDP (pct)[8]	3.3	−0.42	1.1
External Debt Outstanding	7,277	7,070	7,108
Debt Service Payments/GDP (pct) (commitment basis)	14.1	12.2	N/A
Debt Service Payments/GDP (pct) (cash basis)	8.6	7.5	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Fiscal Deficit/GDP (excluding grants) [9]	−7.7	−5.3	−9.6
Fiscal Deficit/GDP (including grants) [9]	−3.1	−0.8	−5.7
Gold and Foreign Currency Reserves [10]	1,956	2,400	N/A
Official Foreign Currency Reserves	697	1,693	N/A
Aid from United States [11] [12]	224	180	192
Aid from All Other Sources [12]	86	137	N/A

[1] Source: Central Bank of Jordan's (CBJ) Monthly Bulletin, October 1998. FY 1998 estimates are based on CBJ 1998 projections, 1997 Annual Report; embassy projections for exports and imports to/from U.S. are based on 8 months of U.S. Commerce Department statistics.
[2] FY 1998 estimates range between 5 to 6 percent; the average of 5.5 percent has been applied for calculation purposes.
[3] Percentage changes calculated in local currency.
[4] Based on population growth rate of 4 percent and nominal GDP growth rate of 5.5 percent.
[5] Official government estimates for entire Jordanian and foreign population; official unemployment rate for Jordanian population is 14.4 percent for 1997 (unofficial estimates range up to 27 percent).
[6] FY 1998 domestic liquidity estimated to grow at 7 percent over 1997 figure.
[7] Merchandise trade; exports and imports on customs basis; exports to U.S. based on Commerce Department figures.
[8] FY 1997 figure is in surplus.
[9] FY 1998 figure takes into consideration sale of the government's 40 percent stake in Jordan Telecommunication Company (currently suspended) and a stake in Jordan Cement Company (30 percent recently sold to French strategic partner). Without JTC revenue, deficit may reach 8 percent of GDP.
[10] Represents net foreign exchange reserves plus gold; FY 1998 banking system net foreign assets estimated to grow at 11.6 percent over 1997 figure.
[11] FY 1996 includes $100 million of military equipment transfers; figures exclude credit guarantees.
[12] Includes economic and military assistance.

1. General Policy Framework

Jordan's economy has grown slowly in recent years, due in part to a weak regional economy and political events in neighboring states that have disrupted trade. With a per capita Gross Domestic Product (GDP) estimated at approximately $1,500 and a population of approximately 4.5 million, Jordan's economy is relatively small for the region and largely dependent on trade and remittances rather than industry.

The government is attempting to attract investment and offers significant incentives to businesses wishing to establish operations in Jordan. The U.S. and Jordan have signed a Bilateral Investment Treaty, which protects investors and establishes procedures for resolving investment disputes. A Trade and Investment Framework Agreement is also in the final stage of negotiations.

In June 1998, the government revised its growth figures for 1996 and 1997 downward. Preliminary data indicates real growth in 1996 was nearer to 1 percent than the 5.4 percent originally claimed, and 1997's real growth estimate is now 2.2 percent, down from 5.2 percent. The estimate for real growth in 1998 is 0.5 percent. The fiscal deficit for 1998 could approach 9.4 percent, significantly above the IMF target of 3.0 percent. The government covers its fiscal deficit through borrowing and foreign grants.

Jordan is in the process of acceding to the World Trade Organization (WTO), but is not likely to gain membership until at least the year 2000. In addition, it has partially privatized the state-owned Jordan Cement Company and has taken preliminary steps to privatize the Aqaba railway. This could inject much-needed revenue into the government's coffers. However, the Jordan Telecommunications Company privatization has been postponed, and progress on other privatizations has been slow.

The United States has offered unique trade benefits to Jordan through the designation of a "Qualifying Industrial Zone" (QIZ) in Irbid, which allows duty-free entry into the U.S. for QIZ-produced goods. Two other potential QIZs, one a privately-owned industrial park on the Israel/Jordan border near the Sheik Hussein Bridge, and the other near Mafraq, are in the planning stage.

2. Exchange Rate Policy

The Central Bank of Jordan (CBJ) regulates foreign currency transactions in Jordan and sets the exchange rate. The dinar-dollar fixed rate was instituted on October 23, 1995 at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately $1.40 to the dinar). The dinar fluctuates against other currencies according to market forces.

The year 1997 marked a significant liberalization of the foreign exchange market. All restrictions pertaining to the inflow and outflow of foreign currency (including gold) were rescinded. The Jordanian Dinar (JD) was made fully convertible for all commercial and capital related transactions. Foreign currency is obtainable from licensed banks at the legal market clearing rate, which is the CBJ's official rate. It is anticipated that the JD will remain pegged to the dollar at an exchange rate of approximately $1.41 to the JD, in light of the central bank's commitment to maintaining exchange rate stability.

Money-exchangers operate under central bank supervision and are free to set their own currency exchange rates. Money-exchangers, unlike banks, do not pay CBJ commission fees for every exchange transaction, which gives them a competitive edge over banks.

Under the new Foreign Exchange Regulations of 1997, banks no longer require prior CBJ approval for the incoming and outgoing transfer of funds from either resident or non-resident accounts (including investment related transfers). Banks, however, ultimately report all foreign currency transactions to the CBJ. Banks are permitted to open non-resident accounts in JD and/or foreign currency.

However, the CBJ requires banks to submit non- resident supportive documents on behalf of their foreign clients every three years. Otherwise such accounts will be converted to resident foreign currency accounts. Non-resident foreign currency accounts are exempted from all transfer-related commission fees charged by the central bank.

Banks may buy or sell an unlimited amount of foreign currency on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward basis for the purpose of covering the value of imports. There are no restrictions as to the amount resident account holders may maintain in foreign currency deposits. Ceilings related to amounts residents are permitted to transfer abroad have been scrapped.

3. Structural Policies

Although enjoying U.S. Generalized System of Preferences (GSP) and Most Favored Nation Status, Jordan does not provide reciprocal treatment of goods imported from the United States. Most imports into Jordan are subject to tariffs and duties, while industrial raw materials and capital equipment imported by licensed industrial projects may be exempted. The ceiling on all duties is 40 percent. Most additional customs taxes, fees and duties on regular imports have been abolished. However, luxury goods and automobiles are still assessed additional sales taxes, fees and duties.

The Kingdom's Income Tax Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than $3,000) and 30 percent (for annual incomes exceeding $22,500). Corporate 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 re-invested profits and profits earned on exports from income tax.

Current law imposes an across-the-board 10 percent sales tax. However, the sales tax may reach 20 percent on certain luxury items, such as cigarettes and alcohol. The law exempts exports from the sales tax and empowers the Council of Ministers to impose additional sales taxes to compensate for revenue losses from reduced customs duties on goods and services subject to the sales tax. After reducing the duties on all imports, including automobiles, to no more than 40 percent, the Council of Ministers imposed an additional sales tax on imported automobiles ranging from 39 to 141 percent. The result is that there has been no positive change in Jordan's tax regime towards U.S. automobile imports. Almost all types of professional, business and legal services are also subject to the ten percent sales tax.

4. Debt Management Policies

Jordan's outstanding external public debt as of April 1998 was approximately $7 billion, according to the IMF. Jordan rescheduled $400 million in debt to Paris Club creditors in May, 1997, easing repayment pressure. The ratio of debt service to exports of goods and non-factor services has been decreasing since 1993, dropping from 35.9 percent in 1993 to 24.1 percent in 1997, according to the central bank. Approximately 28 percent of Jordan's external debt is to multilateral institutions, while its largest bilateral creditors are Japan, France and the United Kingdom.

The IMF, in one possible scenario, projects that Jordan's debt service may balloon from approximately $800 million in 1998 to over one billion dollars in the year 2002. This is a major issue to be addressed as the government negotiates a new IMF structural adjustment program to replace the current one, which expires in February 1999.

5. Aid

In fiscal year 1998, USAID's economic assistance program to Jordan totaled $150 million. In addition, the U.S. provided $50 million in Foreign Military Financing (FMF), $1.6 million in International Military Education and Training Program (IMET) funds, and $25 million in drawdown of excess defense articles. Jordan also received $15 million in PL-480 soft loans, and was eligible for $40 million in GSM 102 loan guarantees. USAID's economic assistance program for FY 1999 is expected to be $150 million. The U.S. Government will also donate wheat to Jordan under the Section 416(b) program valued at approximately $14 million.

6. Significant Barriers to U.S. Exports

Import Licenses: Import licenses are generally not required. Small import shipments up to JD 2000, or approximately $2800, do not require licenses. Approximately 40 special items do require prior clearance. Imports from Syria, Lebanon, Saudi Arabia, Iraq, Yemen, Bahrain, Libya, Morocco, Sudan, Tunisia, Kuwait, the Palestinian National Authority, Oman, Egypt, United Arab Emirates and Israel require licenses because they have bilateral trade protocols with Jordan.

Services Barriers: Jordan is not yet a member of the WTO, but has applied for membership and begun accession negotiations. Foreign suppliers of services do not receive Most Favored Nation (MFN) or national treatment. Almost all service industries are affected by market-entry barriers.

Standards, Testing, Labeling, and Certification: Except for pharmaceuticals, which are handled by the Ministry of Health, the Jordanian Standards and Measures Department is responsible for most issues related to standards, measures, technical specifications and ISO certification. Imported products must comply with labeling and marking requirements issued by the Standards and Measures Department and relevant government ministries. Different regulations apply to imported foodstuffs, medicines, chemicals and other consumer products. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

Investment Barriers: The United States and Jordan signed a Bilateral Investment Treaty in July 1997. The current Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. Most important to U.S. business, the law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in four sectors: media, construction, trade and commercial services and mining.

Government Procurement Practices: With 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 non-competitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender-issuing department, as well as review committees at the Central Tenders and General Supplies Departments, the right to accept or reject any bid while withholding information on its decisions.

Customs Procedures: Cumbersome customs procedures continue to undermine Jordan's business and investment climate. Overlapping areas of authority and difficult clearance procedures remain in place. Actual appraisal and tariff assessment practices are frequently arbitrary and may even differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict or lack specificity. Delays in clearing customs are routine.

7. Export Subsidies Policies

The central bank runs a low interest financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The Export and Finance Bank, a public shareholding corporation, provides commercial financing and loan guarantees to Jordanian exporters.

8. Protection of U.S. Intellectual Property

Jordan is in the process of joining the World Trade Organization and as a new member will be obligated to meet requirements of the Trade Related Aspects of Intellectual Property (TRIPS) Agreement upon accession. Jordan is a member of the

World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention for the Protection of Industrial Property.

In April 1998, the U.S. Trade Representative included Jordan on the "Special 301" Watch List for inadequate protection of intellectual property, and Jordan will undergo an out-of-cycle review in December of 1998. The government has established an action plan that sets a schedule for Intellectual Property (IP) reforms over the next three years. At present, Jordan's IP laws are not up to international standards. As a result, investment in intellectual property-intensive industry is dampened, new products are withheld from the Jordanian market, and U.S. companies lose millions of dollars in sales to pirated products.

In the area of copyrights, amendments to Jordan's Copyright Law were passed in October 1998 by parliament and provide an improved framework for protection of foreign copyrights. This law still appears to fall short of TRIPS requirements, particularly in areas of point of attachment, formalities, and compulsory licensing. Until Jordan joins the Berne Convention, U.S. works will not be afforded any protection under the Jordanian Copyright Law.

For trademarks, amendments to the existing trademark law have been completed and will likely be submitted for parliamentary approval by early 1999. To date, there is no evidence that Jordan has taken steps to reduce the 100 percent piracy rate for trademarked goods.

The government released a draft patent law for public comment in early November 1998. Currently, unauthorized copying of pharmaceutical products results in tens of millions of dollars in losses to U.S. and European pharmaceutical firms. The draft patent law appears to fall short of TRIPS requirements in the area of compulsory licensing, and would permit both research and development efforts by non-right holders before the expiration of patent protection as well as parallel import of patented pharmaceutical products.

Lastly in the area of new technologies, computer software piracy is rampant in Jordan's small but growing computer market. Jordan is expected to issue a decree requiring government ministries to use licensed software by the end of the year. However, there is no legislation to protect plant varieties, semiconductor layout design, trade secrets and industrial design.

9. Worker Rights

a. *The Right of Association:* Workers in the private sector and some state-owned companies have the right to establish and join unions. Between 15 to 30 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:* Unions have, and exercise, the right to bargain collectively. GJFTU 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.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is forbidden by the Jordanian Constitution, except in a state of emergency such as war or natural disaster.

d. *Minimum Age for Employment of Children:* Children under age 16 are not permitted to work except in the case of professional apprentices. Under an apprentice program, students may leave the standard educational track and begin part-time training (up to 6 hours a day) at age 13.

e. *Acceptable Conditions of Work:* Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. There is no comprehensive minimum wage in Jordan. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who may work up to 54 hours. Jordan has a Workers Compensation Law and a social security system which cover companies with more than five employees.

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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		−1
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		15
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

KUWAIT

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	31,127	30,403	29,490
Real GDP Growth (pct)[3]	13.83	−1.8	−4.2
GDP by Sector:			
Manufacturing	3,689	4,056	4,178
Services	3,201	3,491	3,596
Government	6,465	6,798	7,002
Petroleum	13,806	12,160	10,871
Per Capita GDP (US$)	14,865	13,769	13,177
Labor Force (000s)	907	989	1,233
Unemployment Rate (pct)	1.4	1.3	1.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	−0.6	4.3	−1.3
Consumer Price Inflation (pct)	3.6	0.8	1.2
Exchange Rate (KD/US$ annual average)			
Official	.299	.303	.305
Balance of Payments and Trade:			
Total Exports FOB	14,910	14,165	13,650
Exports to United States[4]	1,782	1,998	1,661
Total Imports CIF	8,385	8,267	8,185
Imports from United States[4]	1,979	1,394	1,591
Trade Balance	6,525	5,898	5,465
Balance with United States[4]	−197	604	70
Current Account Surplus/GDP (pct)	22.8	25.3	25.1
External Public Debt[5]	727	445	213
Debt Service Payments/GDP (pct)	10.4	0.9	0.8
Fiscal Deficit/GDP (pct)[6]	−5.1	13.8	21.3

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Gold and Foreign Exchange Reserves (US$ billions)	3.4	3.5	3.8
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 figures are projections based on data through August.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 Figures are estimates based on data available through August 1998.
[5] Based on Kuwaiti Government figures as of January 1998.
[6] This is a Ministry of Finance projection; embassy projects a lower deficit for FY 1998/99.

1. General Policy Framework

Kuwait is a politically stable state where the rule of law prevails. The press is largely 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 society.

Kuwait still faces several structural problems in its budget: excessive dependence on oil revenue, growing government expenditures due to the need for continued high defense spending, growing social expenditures resulting from high levels of government employment, and provision of heavily subsidized social services and utilities. Primarily because of weak oil revenues, Kuwait's budget will be in deficit for the FY 1997/98. A five-year plan to reduce government employment, reduce subsidies and encourage privatization of services is expected to be presented to parliament in late 1998 or early 1999, but is expected to meet resistance.

Domestic investment is encouraged by provision of low cost land, subsidized utilities and waivers of duties and fees. These are offset by lengthy bureaucratic procedures, and for foreigners, high tax rates and complex procedures to secure work visas. The Kuwait Central Bank uses interest rates as its primary means to control money supply. This is accomplished through adjustments to the discount rate and through market operations of government securities. Kuwait's money supply (M2) increased in 1997.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond a requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti Dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. Since the dollar makes up over half of the basket, the Kuwaiti Dinar has closely followed the exchange rate fluctuations of the U.S. Dollar over the past year.

3. Structural Policies

Kuwait's Government plays a dominant role in the local economy, which may diminish if moves toward privatization and rationalization of the economy are implemented. Kuwait's economy is heavily regulated, which restricts participation and competition in a number of sectors and strictly controls the roles of foreign capital and expatriate labor. Policies favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations and foreign interests in Kuwaiti corporations, at maximum rates of 55 percent of taxable income. Individuals are not subject to income taxes, but the government is considering possible changes to its current income tax structure.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Foreign nationals, save for the citizens of some GCC countries, are prohibited from having majority ownership in virtually every business other than certain small service-oriented businesses, and may not own property. Non-GCC nationals are forbidden to trade in Kuwait stocks on the Kuwait stock exchange except through the medium of unit trusts (mutual funds). A draft foreign investment law currently with parliament would address some of these disincentives.

Government procurement policies 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 for 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 that was variously valued at $80 to $100 billion. Following liberation, Kuwait made the final payment on its $5.5 billion jumbo reconstruction loan in December 1996. The estimated value of the Kuwait Investment Authority's (KIA) foreign assets, concentrated primarily in the Fund for Future Generations, is now approximately $60 billion, while other government foreign assets are estimated at about $22 billion. The government is authorized by law to borrow up to KD 10 billion ($30.5 billion) or its equivalent in major convertible currencies. As of the end of June 1998, the total outstanding balance of public debt instruments in KD issued by the Central Bank of Kuwait was KD 2.01 billion ($6.6 billion), while Kuwait's official external debt was estimated at about $340 million.

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 drilling equipment and certain other machinery, including that for new plants.

On July 1, 1992, Kuwait began collecting a four percent tariff on most imports. This flat rate is applied to the Cost, Insurance and Freight (CIF) value of imported goods. Where imports compete with domestic "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.

Kuwait, like other GCC member states, maintains restrictive standards which impede the marketing of U.S. exports. For example, shelf-life requirements for processed foods are often far shorter than necessary to preserve freshness and result in U.S. goods being uncompetitive with products shipped from countries closer to Kuwait. Standards for many electrical products are based on those of the UK, which restrict access of competitive U.S. products. Standards for medical, telecommunications and computer equipment tend to lag behind technological developments, with the result that government tenders often specify the purchase of obsolete, more costly items.

Government procurement policies specify local products when available and prescribe a 10 percent price advantage for local firms in government tenders.

The government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. Government opposes this type of program and has recommended that Kuwait carefully weigh all the potential costs to itself of an offset program. Interested U.S. firms should familiarize themselves with the terms of this program to ensure that 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. Should U.S. firms receive requests for boycott-related information from private Kuwaiti firms or Kuwaiti public officials, they should advise the embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. anti-boycott laws. Kuwait, along with many other Middle East countries, has received three one-year waivers of the 1996 "Brown Amendment" requirements. The current waiver will expire in May, 1999. 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, unless waived by the President.

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 a sample has been submitted to the municipality for quality testing.

Usually, customs assesses duty on imported goods based on commercial invoices. If the customs officials believe the declared value unrealistic, they may make their own assessment.

Importers do not need a separate import license for each product or each shipment. An importer does, however, need an annual import license issued by the Ministry of Commerce and Industry. To be eligible, the company must be registered both in the Commercial Register at the Ministry of Commerce and Industry, as well as at the Kuwait Chamber of Commerce and Industry. Kuwaiti shareholding in the capital of the company must be at least 51 percent.

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 form 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 is a member of the World Trade Organization (WTO) and plans to be in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement by January 1, 2000. Kuwait joined the World Intellectual Property Organization (WIPO) in April of 1998, but has not yet signed the Berne Convention for the protection of literary and artistic works (copyright) or the Paris Convention for the protection of industrial property (patent and trademark). The U.S. Trade Representative listed Kuwait in 1998 on the "Special 301" Priority Watch List for lack of progress in passing copyright legislation , absence of patent coverage for pharmaceuticals, and Intellectual Property (IP) enforcement problems. Trademark protection is satisfactory.

Patent: Kuwait has not yet established a "mailbox" as required under the WTO TRIPS accord. Currently, Kuwait's Patent Office serves only as a registration center, with no means of enforcing patent protection.

Copyright: In 1995, the Ministry of Information issued ministerial decrees protecting U.S. and British-copyrighted material. In April 1998, Kuwait's Ministry of Planning issued a decree barring the use of pirated software on government computers. A TRIPS-consistent draft Copyright Law is currently with the Kuwait Cabinet and is expected to be forwarded to the National Assembly in November. Kuwait's Minister of Commerce and Industry created an inter-ministerial IPR Committee in June of 1998 that was tasked with developing recommendations to bring Kuwait's IPR regime into conformance with its international obligations. The draft report was completed in September and a final version is expected to be released soon.

Video piracy, in particular, remains a major concern despite efforts by the Ministry of Information to enforce the 1995 Ministerial Decree. Lack of staff and a reluctance of Kuwaiti officials to publicize the names and locations where pirated products are seized are two major obstacles. Uncertain and slow judicial action is also a hurdle. It is hoped that these problems will be addressed following passage of the copyright bill.

8. Worker Rights

a. *The Right of Association:* Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions; latest figures indicate 50,000 workers are union members. The government restricts the free establishment of trade unions: workers may establish only one union in any occupational trade, and unions may establish only one federation. New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, about 80 percent of the labor force, may join unions after five years residence, but only as nonvoting members. In practice, the Kuwait Trade Union Federation claims that this restriction is not enforced and that foreigners may join unions regardless of their length of stay.

b. *The Right to Organize and Bargain Collectively:* While unions are legally independent organizations, 90 percent of their budgets derive from government subsidies and the government oversees their financial records. This extends to prescription of internal rules and constitutions, including prohibition of involvement in domestic political, religious or sectarian issues; unions nevertheless engage in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened. Were this to happen, union assets would revert to the Ministry of Social Affairs and Labor. Kuwaiti citizen, but not foreign, union members have the right within the union to vote and be elected. The law limits the right to strike; all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution, and strikers are not guaranteed immunity from state legal or administrative action against them. Foreign workers, regardless of union status, may submit any grievance to the Kuwait Trade Union Federation, which is authorized to investigate their complaints and offer free legal advice.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." Foreign nationals must obtain a Kuwaiti sponsor to obtain a residence permit, and cannot change employment without permission of the original sponsors. Domestic servants, not protected by Kuwait's Labor Law, are vulnerable to abuses of this rule. Sponsors frequently hesitate to grant permission to change employment because of the various expenses they covered to bring the servants into the country, often ranging from $700 to $1,000. "Runaway" maids can be treated as criminals under the law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Despite government protections, some sponsors continue to hold their servants' passports as a means of controlling their movement.

d. *Minimum Age for Employment of Children:* Minimum legal age is 18 years for all forms of work, both full and part-time. Employers may obtain permits to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of six hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least one hour. Compulsory education laws exist for children between the ages of 6 and 15. Some small businessmen employ their children on a part-time basis, and there have been unconfirmed reports of some South Asian domestic servants under 18 who falsified their age in order to enter Kuwait.

e. *Acceptable Conditions of Work:* In the public sector, the effective minimum monthly wage is approximately $774 for Kuwaiti citizens and $301 for non-Kuwaitis; there is no private sector minimum wage. Labor law sets general conditions of work for both public and private sectors, with the oil industry treated separately. The Civil Service Law, which also pertains to the public sector, limits the standard workweek to 48 hours with one full day of rest per week, and provides for a minimum of 14 workdays of leave per year and a compensation schedule for industrial accidents. The law also provides for employer-provided medical care, periodic medical exams to workers exposed to environmental hazards on the job, and compensation to workers disabled by injury or disease due to job-related causes. Legal protections exist for workers who file complaints about dangerous work situations. Laws establishing work conditions are not always applied uniformly to foreign workers, and foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse.

f. *Rights in Sectors with U.S. Investment:* Two significant U.S. investments in Kuwait in the oil industry, one in the partitioned neutral zone shared by Kuwait and Saudi Arabia and the other in Kuwait proper, operate under and in full compliance with the Kuwaiti labor law.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		-30
Food and Kindred Products	(1)	
Chemicals and Allied Products	-39	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	9	
Electric and Electronic Equipment	0	
Transportation Equipment	(2)	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		7
Services		13
Other Industries		(1)
TOTAL ALL INDUSTRIES		61

(1) Suppressed to avoid disclosing data of individual companies.
(2) Less than $500,000 (+/-).

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

MOROCCO

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	36,781	33,259	36,238
Real GDP Growth (pct)[3]	12	−2.2	6.7
GDP by Sector:			
Agriculture	7,098	5,093	6,570
Manufacturing	6,270	5,857	6,220
Services	7,063	6,451	6,883
Government	4,593	4,428	4,703
Per Capita GDP (US$)	1,372	1,218	1,273
Labor Force (urban 000s)	4,905	5,068	5,195
Unemployment Rate (pct)	18.1	16.9	18.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.7	9.2	8.0
Consumer Price Inflation	3.0	1.0	3.2
Exchange Rate (DH/US$ annual average)			
Official	8.69	9.60	9.63
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB[4]	6,893	6,931	7,319
Exports to United States[4]	165	164	174
Total Imports CIF[4]	9,022	8,862	9,259
Imports from United States[4]	614	509	510
Trade Balance[4]	−2,128	−1,931	−1,939
Balance with United States[4]	−449	−345	−336
External Public Debt (US$ billions)	22.0	19.8	18.6
Fiscal Deficit/GDP (pct)	3.2	4.1	3.2
Current Account Deficit/GDP (pct)	1.7	1.1	0.5
Debt Service Payments/GDP (pct)	8.8	8.5	8.3
Gold and Foreign Exchange Reserves	4,071	4,234	4,757
Aid from United States	20	20	20
Aid from All Other Sources	1,750	1,750	1,750

[1] 1998 figures are all estimates based on available monthly data in October 1998.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural and fisheries sector, a large tourism industry, a growing manufacturing sector, and a considerable inflow 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 government has pursued market-oriented economic reforms since the early 1980s. It has restrained spending, revised the tax system, reformed the banking system, pursued appropriate monetary policies, eased import restrictions, lowered tariffs, launched a privatization program and liberalized the foreign exchange regime. These reforms have helped restore macroeconomic equilibria: 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 to an economy heavily dependent on agriculture.

The new government has signaled its determination to intensify the economic reform process, and among other things, to reduce the weight of the public sector wage bill, streamline foreign and domestic investment procedures, and devolve more power to regional governments. The Moroccan Privatization Ministry has announced an extension of the deadline for completion of its 1993-1998 privatization program, to December 31, 1999, to allow time to resolve legal barriers to the remaining enterprises that have yet to be sold. The state budget forecasts $217 million in privatization receipts in FY99 (ending June 30, 1999), down from $534 million in FY98. Privatization via sale of state-owned firms since 1993 has caused the Casablanca stock exchange volume to grow by a factor of four. The new government is examining ways to pursue further such sales with regard to more hard-to-sell state-owned firms, while also increasing privatization via concessions. The Moroccan Government has embraced private financing, construction and operation of some highways, a new port for Tangier and other large infrastructure projects, including a $1.5 billion electric power project awarded to a joint venture between an American and a European firm.

GDP fell 2.2 percent in 1997 following erratic rains. Agricultural GDP fell 25 percent in 1997. The Moroccan economy is expected to grow by 6.7 percent in 1998, led by a rebound in the agricultural sector and increased exports to Europe. However, Morocco's grain production for next year is already projected to be hampered by recent dry weather which resulted in lower planting than normal. Foreign exchange reserves have bounced back to an estimated 4.7 months of import cover after falling to only three months during the 1994-1995 drought. The government has been implementing incremental liberalizations of exchange controls for Moroccan residents. Morocco's chronic merchandise trade deficit narrowed in 1997, but imports are rising faster than exports thus far in 1998, despite healthy growth in phosphate exports and a 34 percent fall in the value of petroleum imports. Receipts from remittances, tourism and foreign investment have increased steadily over the past three years. Foreign investment for 1998 is projected to total $1,223 million, up slightly from last year's record of $1,210 million, and tourism receipts are up three percent over 1997.

2. Exchange Rate Policies

The Moroccan Dirham is convertible for all current transactions (as defined by the International Monetary Fund'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 approval. Investment abroad by Moroccan individuals or corporations is subject to approval by the Foreign Exchange Board. Approval is routinely denied for projects that do not directly benefit Morocco.

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 remained steady since a 9 percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. Since Morocco's inflation rate has been greater than the other currencies, many economists believe that the dirham is now overvalued by approximately seven to ten percent. The large weight given to European currencies in the basket 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 committed Morocco to the principles of free trade, reversing the legal presumption of import protection. It replaced quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items such as flour, sugar, tea and cooking oil.

Interest rate policy has also changed in recent years. In 1994, the government revised the interest rate ceilings on bank loans. The new ceiling is set at a three to four percent markup over the rate received on deposits, including the below-market rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value-added tax, a corporate income tax, and an individual income tax. The investment code passed by the parliament in October 1995 reduced corporate and individual income taxes, as well as many import duties. The code also eliminated the value-added tax on certain capital goods and equipment. A plethora of minor taxes can significantly raise the cost of certain imported goods.

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 60 percent of GDP in 1997. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 29 percent in 1997. Those payments are projected to decline even more, to 25 percent of GDP, for 1998. The government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors, most recently in bilateral talks with U.S. Government officials this past October. Since 1996, France and Spain have authorized debt-equity swaps covering twenty percent of eligible Paris Club debt.

5. Aid

Less than two percent of the aid listed in the economic indicators section of the report is military assistance.

6. Significant Barriers to U.S. Exports

Import Licenses: Morocco has eliminated import-licensing requirements on a number of items in recent years. Licensing requirements remain for motor vehicles, used clothing and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. The maximum tariff is now 35 percent and the (trade-weighted) average tariff is about 13 percent. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods. Tariffs on most industrial products imported from the European Union will be gradually eliminated once the Association Agreement is implemented, with a target date of 2010 for complete elimination.

Services Barriers: Barriers in the services sector have been falling as Morocco conforms to its WTO engagements. 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 a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the 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 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 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.

7. 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 that 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 that were subsequently transformed and exported. Morocco is not a signatory of the GATT Subsidies Code.

8. Protection of U.S. Intellectual Property

Morocco is a member of the World Trade Organization (WTO) and appears to be in compliance with its obligations under the Trade Related Aspects of Intellectual

Property (TRIPs) Agreement. Morocco is also a member of the World Intellectual Property Organization and is a party to the Berne Convention for the protection of literary and artistic works (copyright), The Universal Copyright Convention, the Paris Convention for the protection of industrial property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks (as revised at Nice, 1957).

Copyright: The Moroccan Parliament is considering legislation that will increase protection for computer software. Morocco's new commercial courts recently ruled in Microsoft's favor in two cases against software pirates.

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. The proposed 1996 industrial property code, expected to be implemented in early 1999, will amend this provision and require that applications be filed only in Casablanca.

Trademarks: Counterfeiting of clothing, luggage, and other consumer goods is illegal, but not uncommon. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier, though this too will be amended in the new law.

9. 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. About six percent of Morocco's nine million workers are unionized, mostly in the public sector. The unions are not completely free from government interference. Narrowly focused strikes continue to occur, although strikers have encountered police harassment and arrest. Work stoppages are normally intended to advertise grievances and last 48-72 hours. Unions maintain ties to international trade secretariats.

b. *The Right to Organize and Bargain Collectively:* While the protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law, the government does not always enforce the protections fully, particularly in the informal sector. Observance of labor laws in larger companies and in the public sector is more consistent. The laws governing collective bargaining are inadequate. Collective bargaining has been a long-standing tradition in some parts of the economy, notably heavy industry, but the practice is not spreading to the service sector. A 1996 social dialogue between labor, government and management resulted in an agreement for a 10 percent pay raise, increased money for housing construction and an understanding to continue such tripartite discussions. Some of the provisions of this agreement have not yet been implemented.

The multiplicity of trade union federations creates competition to organize workers. As a result, a single factory may contain several independent locals. However, this also tends to weaken the unions' negotiating position with management. Labor laws are observed most often in the corporate and parastatal sectors of the economy. In the informal economy, labor regulations are routinely ignored. As a practical matter, the unions in Morocco have no judicial recourse to oblige the government to act when it has not met its obligations under the law.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is 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 but not in the informal sector. In September 1998, the Government of Morocco adopted the International Labor Organization's Convention 138 on the prohibition of child labor.

e. *Acceptable Conditions of Work:* The minimum wage is about $165 a month and is not considered adequate to provide a decent standard of living for a worker and his or her family. However, this figure is above the per capita income. The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly well 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 workweek 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		16
Total Manufacturing		53
Food and Kindred Products	26	
Chemicals and Allied Products	26	
Primary and Fabricated Metals	3	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	4	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		83

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

OMAN

Key Economic Indicators

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

	1996	1997	1998[2]
Income, Production and Employment:			
Nominal GDP[3]	15.3	15.8	14.4
Real GDP Growth (pct)[3]	4.2	2.9	−8.9
GDP by Sector:			
Agriculture and Fisheries	0.4	0.4	0.4
Petroleum	6.4	6.3	4.3
Manufacturing	0.6	0.6	0.7
Services[4]	7.6	5.8	6.4
Government Services[4]	1.8	1.8	1.6
Per Capita GDP (US$)	6,526	6,860	6,243
Labor Force (000s)	780.5	780.5	780.5
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2 Jan.-Dec.)[5]	8.1	24.5	−1.2
Consumer Price Inflation[6]	0.2	0.4	−0.1
Exchange Rate (Omani Rial/US$)	2.6	2.6	2.6
Balance of Payments and Trade:[7]			
Total Exports FOB	7.3	7.6	5.6
Exports to United States (US$ millions)[8]	447.4	251.8	240.1
Total Imports CIF	4.6	5.2	5.7
Imports from United States (US$ millions)[8]	201.9	403.3	293.9
Trade Balance	2.7	2.4	−0.1
Balance with United States (US$ millions)	245.5	−151.5	−53.8

Key Economic Indicators—Continued

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

	1996	1997	1998[2]
External Public Debt	2.9	3.0	N/A
Fiscal Deficit/GDP (pct)	4.5	0.2	4.6
Current Account Deficit/GDP (pct)	0.7	7.0	N/A
Debt Service Payments/GDP (pct)	2.1	2.0	N/A
Gold and Foreign Exchange Reserves[9]	2.0	2.1	1.8
Aid from United States (US$ millions)[10]	0.1	0.2	0.2
Aid from All Other Sources	N/A	N/A	N/A

[1] All 1997 GDP data is provisional.

[2] 1998 estimates are annualized based on January-June data from the Central Bank of Oman and the October 31, 1998 Ministry of National Economy statistical bulletin unless otherwise indicated.

[3] The 1998 GDP growth rate was determined by annualizing the January-June 1998 GDP, using October 31, 1998 statistics published by the Ministry of National Economy.

[4] Health and Education are included in services, although most government-provided. services shown are current (not capital) expenditures for public administration and defense.

[5] 1998 money supply data is based on January through June 1998. Source: Central Bank of Oman.

[6] Muscat Governate CPI.

[7] The trade balance with the U.S. does not include Omani oil purchased by the United States on the spot market. Trade data does not necessarily include all U.S. exports subsequently reexported to Oman from Dubai, UAE, primary entrance point for most U.S. goods to the southern Arabian Peninsula.

[8] 1998 trade data is annualized using January-September 1998 figures from the U.S. Department of Commerce.

[9] Data represents Central Bank assets. 1998 data is June 30, 1998 balance. The State General Reserve Fund does not publish its holdings.

[10] Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.3 million people (including as many as 750,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 1998, Oman cut oil production to 820,000 barrels per day (in line with OPEC production cuts although Oman is not a member of OPEC), in response to the ongoing oil price slump, which saw a 39 percent drop in the value of Omani oil exports in the first six months of 1998. Oil revenue accounted for 76 percent of government revenues in 1997. In step with rising oil prices at the time, Oman's per capita GDP rose from about $6,500 in 1996 to $6,860 in 1997. However, falling oil prices in 1998 will likely bring about negative GDP growth and a corresponding drop in per capita income. Preliminary figures released by the Ministry of National Economy indicate negative GDP growth of about −9 percent for 1998 and a drop of per capita income to approximately $6,200. These preliminary 1998 figures also indicate a decrease in total exports and increase in imports nearly reducing Oman's trade surplus to zero from $2.4 billion in 1997, and a drop in oil revenue of −24.9 percent for January through September 1998, compared to the same period in 1997.

A significant proportion of Oman's rural population lives in poverty. Annual population growth, estimated by the government to be about 2.5 percent, nearly matched GDP growth in 1997, which was 2.9 percent, and presents an ever greater demand on infrastructure. It is estimated that 53 percent of the Omani population is under the age of 15. Therefore job creation and "Omanization," i.e., transfer of expatriate jobs to Omanis, are major government priorities.

The Omani Government links developmental priorities and budgetary plans in five-year planning exercises. Oman's Fifth Five Year Plan, 1996-2000, laid out a program designed to shift economic development from governmental to private initiative; diversify the national economy from dependence on crude oil revenue, primarily through future natural gas sales and light industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue of $15 per barrel of petroleum. The government trimmed the 1996 deficit to $684.6 million, and narrowly missed a balanced budget in 1997, with a deficit of just $47 million. The sharp drop in oil prices in 1998 has necessitated further budget cuts as well as efforts to increase revenue through taxes and duties. Nevertheless, preliminary figures from the Omani Government project a 1998 deficit of nearly $640 million, or approximately 4.6 percent of GDP. Despite fiscal tightening, there is no personal income tax in Oman, and with the exception of the recent introduction of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including post-secondary school, vocational and higher education.

Among major public expenditure categories in 1997, defense and security accounted for 41 percent of current expenditures (military capital expenditures are not published). Current and capital expenditures for Petroleum Development Oman (PDO) accounted for 5.9 percent of current expenditures.

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 repatriated from Oman by foreign workers and by foreign companies in Oman help ease monetary pressures but also contribute to current account deficits. Outward workers' remittances decreased by 13 percent in 1997 to $1.5 billion, or 9.5 percent of GDP.

2. Exchange Rate Policies

The rial has been pegged to the dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 rial.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both as an employer and as a purchaser of goods and services. Contracts for goods and services for the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are done on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under 250,000 R.O., the Oman Development Bank, reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five-year tax holidays to newly established industries or expansion projects; a one time renewal is possible. Oman has fairly rigorous health, safety and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman revised its corporate tax structure in October 1996 to encourage foreign investment in joint ventures. It extended national treatment to certain joint ventures, i.e., the 7.5 percent maximum rate of corporate income tax applicable to wholly Omani-owned firms now also applies to public joint venture companies (SAOGs) with no more than 49 percent direct foreign ownership and at least 40 percent of shares publicly traded on the Muscat Securities Market. A graduated system of taxes, with a new ceiling reduced to 25 percent, applies to Omani/foreign joint venture companies with up to 90 percent direct foreign ownership. The tax rate for foreign petroleum companies is set in concession agreements. Most import duties are at the five percent level, none for essentials, higher for some few protected local products. There are no personal income taxes or property taxes. Employers pay 7 percent of a foreign worker's basic salary to a vocational training fund for Omanis, and 8 percent of an Omani's basic salary to a social security fund. The government imposes substantial fees for labor cards, and companies are liable for fines if they do not reach government-specified levels of "Omanization" by the end of target deadlines.

With a 90 MW power project near Nizwa, 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. Although Sultan Qaboos has proclaimed 1998 to be the "Year of Private Enterprise," the government made little progress on additional privatization projects in 1998 beyond a BOT tender for a 200 MW power plant in Salalah, expected to be awarded in 1999. Further plans for privatization following the Salalah power project are uncertain. The government has been involved in a number of joint-ventures with private sector firms in major infrastructure projects. November 1998 saw the opening of a world-class container transshipment port at Salalah, Port Raysut, a joint venture between the Omani Government, Sea-Land (U.S.), Maersk Lines (Denmark), and Omani investors under the operating name Salalah Port Services. The container port, already the largest on the Indian Ocean rim, is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area.

A free trade industrial zone adjacent to the port is under government consideration. As of late 1998, construction was ahead of schedule on the $6 billion Oman Liquefied Natural Gas (OLNG) plant at Sur, the largest project of its kind in the region. A joint venture between the Omani Government, Royal Dutch Shell, Total, and Korea Gas, OLNG is expected to begin deliveries in 2000. The 6.6 million ton/year LNG output of OLNG is nearly all sold to Korea, India (an affiliate owned by the U.S. firm Enron), and Japan. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360 km pipeline financed through the corporate developers, principally Royal Dutch Shell. A fertilizer plant, structured as a joint venture between Omani Government and Indian state investors, is among the spinoff industries expected to cluster around the LNG plant. The government is also planning gas-driven projects in the northern Omani port city of Sohar, including a $3 billion aluminum smelter complex (still seeking equity partners) and a $900 million polyethylene plant (a joint-venture with BP).

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In November 1998, the government began syndicating a new sovereign loan for $300 million via the Gulf International Bank, with syndication expected to close by the end of November. The debt is easily managed and is owed to a consortium of international banks. Oman has a solid reputation for credit worthiness. There are no International Monetary Fund or World Bank adjustment programs. The government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Oman does not publish figures on the level of its external debt or its fund to meet future contingencies, the State General Reserve Fund (SGRF). The 1998 budget crunch, however, which witnessed a 20 percent drop in oil revenue for the first six months of the year, will likely require a significant draw down of the SGRF.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceuticals, liquor and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996, Oman amended its agency law to allow non-exclusive representational agreements. Although currently not a member of the WTO, in 1996 Oman submitted its application for accession and has promised adherence with WTO requirements on intellectual property protection, tariffs and customs valuation before the beginning of year 2000.

Services barriers consist of simple prohibitions on entering the market. For example, entry by new foreign firms in the areas of banking, accountancy, law and insurance is not permitted (except as contracted for specialized services required by the government), although joint ventures for professional services are encouraged between Omanis and foreign firms. The central bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolio and is pressing for the BIS 12 percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to affiliation with U.S. firms. The U.S. firm Curtiss, Mallet-Prevost, Colt & Mosle is the only U.S. law firm with an office in Muscat and serves as legal counsel for the Salalah power privatization tender.

Tax policy discourages wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani majority ownership. It has a case-by-case approach towards major projects by wholly or largely foreign owned firms. For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk. The Oman Center for Investment Promotion and Export Development (OCIPED) opened early in 1997 to simplify and expedite investment project realization.

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 UK, British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on a high number of expatriates for managerial, technical, and physical labor.

Oman continues to promote "Buy Omani" 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 imported goods and services bid by Omani agents are said to 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 thereafter difficult for those firms to obtain a local agent and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. As part of "Omanization," only Omani nationals are permitted to clear shipments. 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 UAE seldom encounter problems.

In 1995, Oman substantially eased visa requirements by offering two-year multiple entry visas to attract American tourists and business representatives, and since then has tried to issue visas expeditiously. In general, these visas are only issued at Oman's Washington embassy, although U.S. professionals residing in GCC countries can receive multiple-entry visas at the port of entry. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996, the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizen employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors 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 offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman's record on intellectual property protection has improved in recent years, in tandem with its efforts to accede to the World Trade Organization (WTO). As a new member, Oman will have to meet its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately upon accession. Oman is a member of the World Intellectual Property Organization (WIPO), and in 1998 declared its accession to the Paris Convention for the Protection of Industrial Property (patents, trademarks and related industrial property) and Berne Convention for the Protection of Literary and Artistic Works. Nevertheless, the widespread prevalence of pirated software places Oman at odds with the WTO TRIPS agreement, and thereby remains a major obstacle to Omani WTO accession.

Oman has a trademark law which it enforces. It does not, however, protect well-known marks unless they are registered in Oman. Application for trademark protection also requires a local agent. Oman has pledged to begin enforcement of a 1996 Copyright Decree by the end of 1998, protecting copyrighted audiovisual and recorded works and banning the sale of pirated products in these categories. As of late 1998, pirated video and audio cassettes were selling at extremely low prices, as vendors attempted to empty their stocks of pirated works before the December 31 deadline. However, Oman has yet to issue similar protection for software, and sale of pirated software remains rampant, with over 90 percent of the software in use estimated to be pirated works. Government ministries and organizations, including Sultan Qaboos University, are also known users of pirated software. In addition, Oman's neighbors, in particular the UAE, have complained that pirated software and audio and video products are infiltrating their countries from Oman.

Oman affords little or no patent protection in critical areas such as pharmaceutical products. Oman has said it would recognize patents issued by the GCC patent office, but that offer will be of little value until the GCC patent office, which opened in November 1998, is running effectively.

Industry sources estimate that losses to U.S. firms resulting from the sale of pirated products in Oman total approximately $7 million annually. However, this figure does not account for the dropoff in the sale of pirated audiovisual and recordings expected to take place once Oman begins enforcement of copyright protection for these products on January 1, 1999.

8. Worker Rights

Sultan Qaboos issued a Basic Law November 6, 1996 that serves as Oman's first written basic framework, akin to a constitution but consistent with Islamic Shari'a Law. In theory, the Sultanate should have issued legislation implementing the Basic

Law's provisions within two years of its issuance. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. *The Right of Association:* Articles 33 and 34 of the Basic Law establish the right to assemble and freedom of association when consistent with legal limitations and objectives. Currently, Omanis and resident foreigners alike are free to join only the relatively few officially sanctioned associations.

b. *The Right to Organize and Bargain Collectively:* Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. *Minimum Age for Employment of Children:* The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. *Acceptable Conditions of Work:* The minimum wage for nonprofessional expatriate workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35 hour work week and generous leave of between 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40 to 45 hour private sector work week. The temperature during Oman's hot summer has never been officially recorded at the 50 degree (Celsius) mark, which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Muslim workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. *Rights in Sectors with U.S. Investment:* To date, U.S. firms have little direct investment in Oman. U.S. petroleum firms operating in Oman comply fully with Omani labor law.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		52
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and 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		75

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

SAUDI ARABIA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	136.0	145.9	125.0
Real GDP Growth (pct) [3]	1.4	2.7	N/A
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	6,900	7,200	6,100
Labor Force (millions)	7.2	6.7	6.5
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	9.9	7.0	1.6
Consumer Price Inflation	1.5	−0.4	−0.2
Exchange Rate (SR/US$ annual average)			
Official	3.75	3.75	3.75
Balance of Payments and Trade:			
Total Exports FOB [4]	N/A	N/A	N/A
Exports to United States [5]	8.9	9.4	5.1
Total Imports CIF [4]	N/A	N/A	N/A
Imports from United States [5]	7.3	N/A	6.3
Trade Balance [4]	N/A	N/A	N/A
Balance with United States [5]	1.2	N/A	1.2
Current Account Deficit/GDP (pct)	0	0	11.2
External Public Debt [6]	0	0	4.3
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	3.3	1.1	8.8
Gold and Foreign Exchange Reserves	16.9	17.8	N/A
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1998 figures are all estimates based on available data in October.
[2] GDP at factor cost.
[3] Percentage change calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through August.
[6] Does not include debt owed by parastatal corporations.

1. *General Policy Framework*

Saudi Arabia generally sets a framework for a free market economy. Government policies tend to encourage commercial enterprise, but a strict interpretation of Islamic mores limits the range of policy options as well as that of commercial endeavors. Since about 1970, Saudi Arabia has published a series of five-year development plans, focusing on infrastructure and industrialization. Development plans, however, are presented as planning tools, not as centralized controls, and the government takes pains to exhort that its development plans rely on heavy private sector involvement.

The oil and government sectors are the engines of the economy. Parastatal enterprises, including Saudi ARAMCO (oil) and Saudi Basic Industries Corporation (SABIC), among others, tend to dominate the corporate economy. Spending decisions taken by the few large state companies reverberate throughout the economy. Concerned with the security challenges posed by neighbors such as Iran and Iraq, Saudi Arabia seeks sufficient military and security resources to protect its territory. The Saudis also protect the pilgrims who visit the two Islamic holy cities of Mecca and Medina. These requirements have made the kingdom a large buyer of advanced military technology, as manpower resources are limited.

In 1997, oil sector revenues comprised an estimated 42 percent of GDP, and an estimated 75 percent of budget revenues. Other government revenues, including items such as customs duties, investment income, and fees for services, are to a large degree indirectly tied to oil, as capital available for consumption and investment is generally derived from oil receipts. In addition, the manufacturing and services sectors are largely dependent on petroleum and petrochemical activities.

Starting with the oil boom of the early 1970s, Saudi Arabia maintained annual budget surpluses until 1983, when the decline in oil prices led to a renewed deficit. These deficits have continued for the past 15 years. Initially, the deficits were financed by a drawdown of foreign exchange reserves. Starting in 1987, the government began financing deficits by issuing government bonds, and taking loans from domestic banks. The government has also accrued substantial arrearages to the private sector over the past decade, though these were paid down substantially in 1996 and 1997 with unanticipated oil revenues from these years.

Spending in 1996 exceeded the budgeted target by $12 billion, but because of high oil revenues, the government achieved its deficit target of $4.5 billion. Oil revenues were higher than anticipated for 1997 as well, allowing the government to end the year with a small $1.6 billion deficit. However, the collapse in oil prices in late November 1997 brought this favorable fiscal trend to an end. Saudi oil revenues are expected to drop by one-third in 1998. The government's hopes of achieving a balanced budget by 2000 appear problematical.

Money supply is regulated through the Saudi Arabian Monetary Agency (SAMA), which has statutory authority to set monetary reserve requirements for Saudi Arabian banks, impose limits on their total loan portfolio, and regulate the minimum ratio of domestic assets to their total assets. It also manages the bond market, and can repurchase development bonds and treasury bills as required. There is a limit to the amount of bonds that can be repurchased. SAMA oversees a financial sector consisting of 11 commercial banks. The Ministry of Finance oversees five specialized credit institutions.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian Riyal is SR 3.75 = US$1.00. This rate has been consistent since 1986. Officially, the riyal is pegged to the IMF's Special Drawing Rights (SDR) at SR 4.28255 = SDR 1. There are no taxes on the purchase or sale of foreign exchange.

Generally speaking, there are few foreign exchange controls for either residents or nonresidents, in keeping with the government policy to encourage an open economy. Of the few restrictions, the most noteworthy are: commercial transactions with Israel and Israeli-registered corporations are prohibited, as are most transactions with Iraq; and, local banks are prohibited from inviting foreign banks to participate in riyal-denominated transactions without prior SAMA approval.

3. Structural Policies

The government maintains price controls for basic utilities, energy, and many agricultural products. Water and electricity, for most consumers, are subsidized, with consumer prices often well below the cost of production, especially for potable water. Petroleum products and feedstocks for petrochemical industries are provided at below world market pricing, reflecting discounts for efficiencies in production and transport. The government maintains that local petroleum prices that are below world market averages (e.g., a gallon of gasoline sells for $.60 at the pump) reflect the low costs of production. Nonetheless, the effect of these low prices is that petroleum products, including many petrochemicals, are sold in Saudi Arabia at prices that effectively eliminate competing imports. Agricultural subsidies were dramatically curtailed in the early 1990s and have been reduced in the two most recent budgets, in line with the government's deficit reduction plans and its goal to reduce water consumption.

The Saudi Arabian Government imposes few taxes, relying on oil revenues, customs duties, and licensing fees for most government revenue. Saudi Arabian nationals pay no income tax, but are obliged to pay "zakat," a 2.5 percent Islamic assessment based on net wealth (not income). Zakat is designed to support the Islamic community (e.g., to pay for hospitals, schools, support for the indigent). Foreign companies and self-employed foreigners pay an income tax, but do not pay zakat. Business income tax rates range from 25 percent on annual profits of less than $26,667 to a maximum rate of 45 percent for profits of more than $266,667. Some foreign investors avoid taxation either in part or totally, by taking advantage of various investment incentives, such as 10-year tax holidays for investments in approved projects meeting specified requirements. Import tariffs are generally 12 percent ad valorem (CIF), except on products imported from other member states of the Gulf

Cooperation Council, which pay no tariff. Certain specified essential commodities (e.g., defense purchases) are not subject to custom duties. Saudi Arabia also levies 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 foreign assets of over $50 billion in its issues and banking departments, and an estimated $20 billion for autonomous government institutions, including the Saudi Pension Fund, the Saudi Fund for Development, and the General Organization for Social Insurance. Under SAMA's rules, about $17 billion of the $50 billion in foreign assets is designated to guarantee the Saudi Riyal. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $12.0 billion.

Foreign debt, which stood at a level of $1.8 billion at the beginning of 1995, was retired in May of that year. Domestic banks, Saudi ARAMCO, and other state-owned enterprises, however, have overseas liabilities.

Government domestic borrowing has a short history in Saudi Arabia. The government began borrowing to finance budget deficits in 1987 by selling government development bonds having two-to-five year maturities. After the massive defense expenditures of the 1991 Gulf War, the government expanded its borrowing by signing loan syndications with international and domestic banks, and by introducing treasury bills. This debt, owed almost entirely to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, ballooned to about $120 billion by mid-1998, or near the GDP level. In addition, the government issued a series of bonds to farmers and some other private sector creditors (mainly contractors) for past due amounts. Paying down this debt is now a focus of government concern.

5. Significant Barriers to U.S. Exports

Saudi Arabia is currently in the process of negotiating accession to the World Trade Organization (WTO). A number of current regulations have the potential to restrict entry of U.S. exports and investments.

Import licensing requirements protect Saudi Arabian industries or enhance Saudi Arabian businesses. In most cases, foreign companies must operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents. (This agency requirement does not apply to defense-related imports.) Saudi Arabia requires licenses to import agricultural products.

The recently implemented preshipment inspection regime, known as the International Conformity Certification Program (ICCP), is designed to protect Saudi Arabian consumers from shoddy foreign products. The ICCP has elements which can be viewed as barriers to free trade—such as an ad valorem-based fee schedule—and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

Restrictions on shelf life labeling standards in Saudi Arabia may make it difficult for some U.S. food producers to compete in the Saudi market.

Saudi Arabia gives preference to imports from other members of the Gulf Cooperation Council (GCC) in government purchasing, with a 10 percent price preference over non-GCC products for government procurement.

Saudi Arabia requires foreign civilian contractors to subcontract 30 percent of the value of government non-military contracts, including support services, to firms having Saudi-majority ownership. Many firms have reported that this has not been enforced consistently. Some U.S. businessmen have complained that this is a barrier to the export of U.S. engineering and construction services. Other service industries are restricted to government-owned companies, e.g., certain insurance and transportation services.

The "Investment of Foreign Capital Regulation" establishes the following conditions for a non-Saudi national to obtain a license for a business and for investment of foreign capital:

a. Foreign capital must be invested in a development project, or in projects within the framework of the development plan in effect at the time of the investment. Investments in oil and mineral sectors are subject to special regulations of the Ministry of Petroleum and Mineral Resources.

b. Foreign capital investment must be accompanied by foreign technical expertise. In addition, the "foreign capital investment committee," established by the "investment of foreign capital regulation," reviews license applications. The committee's screening of foreign investments is general; the criteria for screening, other than the two conditions listed above, appear to be limited to:

—Ensuring that an investment does not violate the social or religious mores of Saudi Arabia.
—Regulating the number of establishments in any one sector, to the level that the market will sustain.

There is no requirement that a non-Saudi investor have a Saudi partner. At the same time, businesses having a minimum of 25 percent Saudi ownership are eligible for soft government loans, which are generally unavailable to firms lacking Saudi ownership. The government is currently reviewing foreign investment and agency regulations.

Saudi labor law requires companies to employ Saudi nationals, but foreigners account for 95 percent of the private sector labor force. Small companies are supposed to be exempt from the requirement, and larger companies are required to increase their percentage of Saudi employees by a certain percentage annually or face restrictions. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases.

6. Export Subsidies Policies

Saudi Arabian planners say that there are no export subsidy programs for industrial projects. Because feedstock prices are relatively low in Saudi Arabia, industrial production of petroleum and related downstream products is comparatively attractive. The government argues that this is simply a reflection of the low cost of domestic oil production. On January 1 1998, the Saudi Government announced a 50 percent across-the-board increase in natural gas prices from $.50/million btu to $.75/million btu. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

Saudi Arabia has applied to join the World Trade Organization (WTO), and as a new member, it will be required to meet obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPs) immediately upon accession. Saudi Arabia is a member of the World Intellectual Property Organization (WIPO), but is not a contracting party to any of the treaties administered by WIPO. As of late 1998, Saudi Arabia remains on the USTR's "Watch List," having moved in 1996 from the "Special 301" program's "Priority Watch List" in recognition of progress made in intellectual property rights protection. The concept of intellectual property protection is relatively new to Saudi Arabia. The government has enacted some Intellectual Property (IP) regulations and has joined the Universal Copyright Convention, but efforts to protect intellectual property rights are uneven. Audio, video and software companies see a need for greater protection of their products in the Kingdom.

Saudi Arabia has enacted a patent regulation and established a patent office. The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The terms of patent protection are generally adequate, but the period of protection is 15 years, five years less than the international TRIPs standard. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons, on a wider basis than permitted under TRIPs. Further, the Saudi Patent Office is functionally inactive. The office has received several thousand patent applications since 1989, but has completed action on only about 10. The patent office lacks sufficient manpower to process the backlog of applications. A parallel patent office was established by the Gulf Cooperation Council (GCC) in October, 1998.

The embassy has noted a significant increase in trademark infringement complaints, particularly those involving consumer products. Registration is relatively uncomplicated, although some companies have complained that registration and search fees are high. Although legal remedies for infringement of a trademark exist, enforcement of trademark protection is inconsistent.

The embassy has received no verifiable reports of book piracy, and only one report of the unlicensed use of a published photograph. Piracy of U.S. produced audio and video cassettes has decreased due to government enforcement polices but remains a problem. Estimates of losses to computer software companies due to illegal copying vary widely, but are generally considered high.

8. Worker Rights

a. *The Right of Association:* Saudi regulations prohibit labor associations.

b. *The Right to Organize and Bargain Collectively:* Much skilled and almost all unskilled labor is performed by expatriates. Non-Saudi workers who seek to organize may be deported.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited. However, as most unskilled labor is performed by expatriates, and as Saudi employers have legal authority over the movement of their contracted laborers, implicit forced labor may occur, especially in the case of domestic servants and in remote areas. In 1997 and 1998, the government expelled many workers without proper work permits. One result of this may be to reduce the potential for abuse.

d. *Minimum Age for Employment of Children:* The labor law states that "a juvenile who has not completed 13 years of age shall not be employed." The minimum age for employment, therefore, is 14 hijri years. This restriction may be waived by application to the Ministry of Labor with the consent of the juvenile's parent or guardian. Children under 18 and women may not be employed in hazardous or unhealthy occupations. Wholly-owned family businesses and family-run farms are exempt from these rules.

e. *Acceptable Conditions of Work:* Saudi Arabian authorities consider that provisions of Islamic Law (the Shariah) provide more than adequate protection for laborers, and therefore additional regulation is unnecessary. Conditions of labor, while far from perfect, may in some cases be better than those found in countries from which most poorer expatriates come. Although Saudi Arabia has no minimum wage, generally speaking, expatriate laborers come to Saudi Arabia because they can earn more than they could at home. They receive time-and-one-half for hours (up to 12) over the 44 hours normally worked per week. The labor law requires employers to provide health insurance and to protect workers from job-related hazards and diseases.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week (i.e., 44 hours) with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		298
Total Manufacturing		139
Food and Kindred Products	13	
Chemicals and Allied Products	56	
Primary and Fabricated Metals	16	
Industrial Machinery and Equipment	1	
Electric and Electronic Equipment	1	
Transportation Equipment	4	
Other Manufacturing	49	
Wholesale Trade		86
Banking		(1)
Finance/Insurance/Real Estate		1,453
Services		(1)
Other Industries		330
TOTAL ALL INDUSTRIES		3,079

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

SYRIA

Key Economic Indicators

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

	1996	1997	1998
Income, Production and Employment: [1]			
Real GDP (at factor cost) [2]	121,507	116,072	118,625
Real GDP Growth at Factor Cost (pct change)	3.7	−4.4	2.2

Key Economic Indicators—Continued

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

	1996	1997	1998
Nominal GDP [3]	17.20	17.60	15.00
By Sector:			
Agriculture	4.88	4.57	N/A
Mining and Manufacturing	3.47	4.07	N/A
Building and Construction	698	724	N/A
Wholesale and Retail Trade	3.79	3.51	N/A
Transportation and Communication	1.85	2.19	N/A
Finance and Insurance	736	747	N/A
Services	332	379	N/A
Government Services	1.45	1.45	N/A
Per Capita GDP at Factor Cost (US$)	952	837	800
Labor Force (000s)	4,400	4,600	4,800
Unemployment Rate (estimated)	12	12	15
Money and Prices (annual percentage growth):			
Money and Quasi-Money	9.3	11.1	12.1
Consumer Price Inflation	8.9	2.0	4.0
Exchange Rate (US$/SP)			
Average Exchange Rate	39.3	41.3	45.0
Official	11.2	11.2	11.2
"Neighboring Country Rate"	43.5	45.0	46.0
Offshore Market	50	51	52
Balance of Payments and Trade: [4]			
Total Exports FOB	4.0	3.9	3.8
Exports to United States	0.02	0.03	0.03
Total Imports CIF	5.4	3.9	3.9
Imports from United States	0.23	0.18	0.17
Trade Balance	−1.40	−0.14	−0.10
Balance with United States	−0.21	−0.15	−0.14
External Debt	N/A	5.0	N/A
Debt Service Ratio	16.7	25.1	N/A
Gross Official Reserves	1.7	1.5	1.4
Aid from United States	0	0	0
Foreign Grants (billions of Syrian pounds)	0.3	N/A	N/A

[1] Although the Syrian Government released 1997 statistics in December 1998, these figures are not final. 1998 figures will not be available until December 1999 and estimates are based on embassy and IMF projections.
[2] Millions of Syrian Pounds in 1985 prices.
[3] US$ billions at average exchange rate.
[4] US$ billions.

1. General Policy Framework

In 1998, the Syrian Government continued to reduce administrative barriers to imports. The private sector, responding to these and other reforms, has increased its imports beyond those of the public sector; however, due to price competitiveness and continued U.S. economic sanctions, U.S. exports to Syria have lagged behind those of other countries.

Prospects for Syrian private sector investment and imports continue to improve slowly, spurred by economic reforms. Liberalization actions over recent years permit private exporters to retain foreign exchange export earnings to finance permitted imports. Likewise, the government has continued broadening both its list of permitted private sector imports and investments by private sector companies in areas such as shipping, power generation, and cement.

The United States first imposed trade controls on Syria in 1979 as a response to Syrian Government 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's Heathrow Airport. Among the items whose export requires a license are aircraft, aircraft parts, and computers of U.S.-origin (or containing 25 percent U.S.-origin components and technology). As a result of these restrictions, Syrians have sought alternate suppliers of dual-use technology products. Furthermore, under the 1986 sanctions, Syria is ineligible for the U.S. Government credits including USAID programs, the Export Enhancement Program (EEP), and the Commodity Credit Corporation (CCC) Program for Agricultural Products. The Syrian-U.S. Bilateral Aviation Agreement expired in 1987 and has not been renewed. Finally, EXIM Bank and OPIC suspended their programs in Syria, which puts U.S. exporters at some disadvantage vis-a-vis foreign competition, especially as some European countries have resumed (mainly short term) export credit programs.

The government uses its annual budget as its principal tool for managing the economy. Through 1992, the 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 the commitment of Syrian resources to capital expenditures, enabled it to reduce budget deficits, leading to a balanced budget in 1992. However, the last five budgets have been in deficit ($310.8 million in 1994, $294.4 million in 1995, $201 million in 1996, $183.6 million in 1997, and $230.1 million in 1998), due to Syria's maintenance of large military and public sector establishments, and its heavy (but slowly diminishing) subsidization of basic commodities and social services. Declining oil income in 1998 will exacerbate this problem.

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 five of the country's banks are nationalized. The central bank has no policy role and interest rates are fixed by law. Most rates have not changed in the last several years. Real interest rates only in 1997 reached a positive level, as high inflation had previously undercut returns.

The drop in world oil prices has had serious budget implications for the government. It is estimated that Syria's FY 1998 budget shortfall totaled $600 million as a result of oil's recent decline on world markets. Oil revenues had previously allowed Syria to remain within its command economy mode. In the face of depressed worldwide oil prices and declining production, Syrian authorities are scrambling to invest in exploring new reserves and taking steps to diversify the economy.

2. Exchange Rate Policies

The government continues to maintain a multiple exchange rate system. The official exchange rate remains fixed at 11.20 Syrian Pounds/US$ for valuations of some customs tariff rates and some bilateral debt payments. A second rate, the "Neighboring Country" rate, currently pegged at 46 SP/US$, applies to most state enterprise imports/exports except certain basic commodities and military/security items. This rate was devalued twice in 1997 to bring it more in line with the widely used offshore rate available in Lebanon, Jordan, and the Arab Gulf countries. During 1998, the offshore value of the pound fluctuated between 51 SP and 52.5 SP to the dollar. The government plans to devalue the Neighboring Country rate to 46.45 SP by the beginning of 1999, in a further step to unify the exchange rates.

Exchange controls are strict. Syrian currency may not be exported, although it may be imported. Outward private capital transfers are prohibited, unless approved by the Prime Minister or transacted under the Investment Law 10 (see 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 less favorable "Neighboring Country" rate. Since 1991, the Commercial Bank of Syria will convert cash, travelers checks, and personal remittances for non-Syrians at the "Neighboring Country" rate. In 1996, Syrian citizens were permitted to open bank accounts in foreign currencies at the Commercial Bank of Syria.

3. Structural Policies

By law, the Ministry of Supply and Internal Trade 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 prices are computed at the 46 SP/US$ 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 electricity. Farmers may retain a portion of production, but the balance must be sold to the government at official procurement prices. Between 1989 and 1996, the government continued to increase farm gate prices to encourage production and to enable state marketing boards to purchase larger quantities of locally-produced commodities. For the past two years, the Syrian Government's price of wheat has been significantly above the world price.

Most public sector 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 for finished and luxury products, exceeding 250 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.

Syria has agreed with other Arab countries within the Arab League to reduce customs duties by 10 percent every year as of January 1, 1999. In addition, Syria and Lebanon agreed to reduce customs duties by 25 percent every year as of the same date. Currently, Syria is negotiating an associationship agreement with the European Union. As part of this, in 1998, Syria signed a Framework Agreement with the EU which allowed extension of new credits under the EU's Mediterranean Development Initiative. It also launched a 2-3 year negotiating process that may result in a Free Trade Agreement with a 12-year phase period. EU access for Syrian agricultural products may prove a large hurdle.

4. Debt Management Policies

Syria's external debt amounted to $5 billion at the end of 1997 (equivalent to 30 percent of GDP in 1997, and including debt to Russia not denominated in rubles). About one-half is owed to bilateral creditors, notably Germany and Japan, with the remainder divided equally between 1) regional and international institutions; and 2) banks and suppliers. In addition, ruble-denominated debt owed to the Russian Federation—which is mostly in arrears—amounts to 2.5 billion rubles, which reflects the 65 percent discount provided under the Paris Club agreement with the Russian Federation. Negotiations on the size and settlement of the debt, and Syrian counterclaims, are continuing.

Syria has been pursuing a strategy to reduce its external arrears (which, as of May 1998, total $1.4 billion). Following an agreement with France in 1996, an agreement was concluded with the World Bank in July 1997 under which Syria repaid $272 million in principal arrears, while rescheduling the remaining $260 million in interest arrears over a five-year period. A resumption of World Bank technical assistance followed, although Syria still cannot borrow from the IBRD until the arrears are settled. (However, the IFC is about to resume operations in Syria.) An agreement with the U.K. was also concluded in 1997, involving a cash payment. Negotiations with Germany are hampered by difficulties over the valuation of claims of the former German Democratic Republic on Syria.

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, some public sector companies continue to favor barter arrangements which can be unattractive to U.S. suppliers. This trend, which had eased somewhat in recent years, appears to have resurfaced in 1998 as government revenues dropped with the decline in oil income.

In government tenders, a temporary bank guarantee must be submitted and then substituted with a performance bond for any successful bidder. Current bid bond forms stipulate that the guarantee becomes null and void if the tender is not awarded upon its expiration date. Some government tenders include a clause allowing the bidder to cancel his/her 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. In addition, problems remain in the prompt return of performance bonds.

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 would be well advised to obtain competent advice regarding the anti-boycott regulations be-

54-067 99 - 14

fore proceeding. The best source of advice is the U.S. Department of Commerce, Office of Anti-Boycott Compliance (telephone advice line: 202-482-2381.)

Syria does not maintain specific "buy national" laws. Some strategic goods, military equipment, and items not produced locally or in sufficient quantities, are still procured by public sector importing agencies on the international market, provided foreign exchange is allocated by the Supreme Economic Council. The private sector also contributes significantly to Syrian imports.

All investment projects are carefully screened by the "Higher Council for Investment" before approval. Joint ventures with government agencies are encouraged. Petroleum exploration and oil service companies operating in Syria now are able to convert their local currency expenditures at the favorable "Neighboring Country" rate of 46 SP/US$. Contracts for oil exploration concessions and service require arduous negotiations. 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 Investment Law of 1991 provides for tax holidays and exemptions on duties, as well as guarantees for the repatriation of profits. However, the law prohibits repatriation of capital unless it is generated by hard currency sales. One of the major obstacles to foreign trade and investment is Law No. 24 which criminalizes unauthorized foreign exchange transactions, and thus contradicts the intent of Law No. 10. Additionally, Syria's poor infrastructure, the lack of financial services, complex foreign exchange regulations, untrained workforce continue to pose commercial barriers.

Government monopolies in banking, insurance, telecommunications, water bottling, and other public sector service industries preclude foreign investment in those sectors. Motion pictures are distributed by a government agency and subject to censorship.

6. Export Subsidies Policies

Local export financing and export subsidies are not available to either the public or the private sectors. Indeed, Syria is one of the few countries in the world that levies taxes on some private sector exports. However, recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the overvalued 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 government is exporting wheat at prevailing international prices. Export prices are still below the cost to the government at the "Neighboring Country" rate of exchange.

7. Protection of U.S. Intellectual Property

Syria is not a contracting party to the World Trade Organization and does not meet international minimum standards for Intellectual Property protection set forth in the Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement. It is also not a member of the World Intellectual Property Organization (WIPO) or any of the treaties administered by WIPO.

Syria's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. There is, however, no copyright protection. Due to an unsophisticated industrial structure and existing limits on private industry, local industry has not yet been a cause of major concern for U.S. producers. 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, so there is little threat to U.S. publishers. However, there is fairly widespread marketing of pirated Western records, cassettes, and videos, as well as designer clothing/accessories/perfumes. As the personal computer market has expanded, there has been a corresponding increase in the availability of pirated software, which is usually brought in from Lebanon and Gulf countries. There has been one instance in the past two years of a Syrian company successfully prosecuting a case against a competitor who was manufacturing clothing under a false label for a Western (non-U.S.) retailer. However, litigation is rare and fairly cumbersome (expensive and time consuming). Government interlocutors have been reluctant to engage the embassy on intellectual property rights.

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 bylaws 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 1997, nor have there been for the past several years. 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 Generalized System of Preferences (GSP) privileges in June 1992, the Syrian Government has not made sufficient legislative and practical changes regarding worker 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 exports 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.

Workers are protected by law from antiunion 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 fifteen, though it is higher in certain industries. The minimum age varies widely in the private sector depending on the job. 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. Enforcement 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. With economic growth falling off in the past two years, there is growing evidence of children seeking employment including street peddling, which largely goes ignored by the authorities.

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. This includes rules and regulations which severely limit the ability of an employer to fire an employee without due cause. One exception to the heavily regulated labor field relates to day laborers. They are not subject to minimum wage regulations and receive compensation only for job-related injuries. They are commonly employed in small private firms and businesses in order to avoid the costs of permanent employees who are well protected, even against firing.

The statutory workweek consists of six 6-hour days, although in certain fields in which workers are not continuously busy, a 9-hour day is permitted. Labor laws also mandate a full 24-hour rest day per week. Public laws mandate safety standards in all sectors, and managers are expected to implement them fully. The ILO has also noted that a provision of the Labor Code allowing workers to be kept at the workplace for up to 11 hours per day could lead to abuse. In practice, the public sector is in conformity with the schedule noted above. There are no reports of private sector employees having to work as many as 11 hours per day. A special department of the Social Security Establishment works at the provincial level with inspectors at the Ministries of Health and Labor to ensure compliance with safety standards. In practice, workers have occasionally taken employees to judicially-empowered labor committees to win improvements in working conditions that affect their health.

Foreign workers theoretically receive the same benefits as Syrians 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 government officials are also able to acquire the necessary permits.

f. *Rights in Sectors with U.S. Investment:* There is significant direct U.S. investment in oil/gas exploration and development in Syria (including a $420 million gas project signed in November 1998). In addition, in 1997, one U.S. company (Mobil) established a lubricant manufacturing plant in Syria in a joint venture project with a group of Syrian investors. Mobil's share in this investment is 49 percent. 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		0
Food and Kindred Products	0	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and 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		(1)

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

TUNISIA

Key Economic Indicators

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

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	16,604.2	20,065.9	22,544.5
Real GDP Growth (pct) [3]	6.9	5.4	5.2
GDP by Sector:			
Agriculture	2,599.1	3,014.8	3,234.1
Manufacturing	3,455.9	4,425.4	4,767.8
Services	6,584.7	8,011.8	9,133.2
Government	2,518.0	2,986.9	3,323.8
Per Capita GDP (US$)	1,824.6	2,169.3	2,398.4
Labor Force (000s)	2,850	2,920	2,990
Unemployment Rate (pct)	16	16	16
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	13.9	16.0	7.0
Consumer Price Inflation	3.7	3.7	3.7
Exchange Rate (TD/US$ annual average)			
Official	.97	1.1	1.1
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4]	5,388.2	5,640.3	5,886.6
Exports to United States [4]	42.9	36.9	40
Total Imports CIF [4]	7,521.4	8,033	8,348.2
Imports from United States [4]	335.9	347.1	350
Trade Balance [4]	−2,133.2	−2,392.7	−2,461.6
Balance with United States	−293.0	−310.2	−310
External Public Debt	9,085	9,745	9,850
Fiscal Deficit/GDP (pct)	4.9	4.4	3.4
Current Account Deficit/GDP (pct)	2.9	2.9	2.8
Debt Service Payments/GDP (pct)	8.7	8.4	9.6
Gold and Foreign Exchange Reserves	1,520.4	2,062.3	2,016
Aid from United States	0.8	0.9	0.9
Aid from All Other Sources [5]	N/A	N/A	N/A

[1] 1998 figures are all estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Tunisia does not publish official aid figures.
Source: Tunisian Central Bank and other government sources.

1. *General Policy Framework*

Tunisia has made significant progress toward establishing a market economy over the past ten years. The European Union (EU)-Tunisian Free Trade Accord was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is ahead of schedule in reforming its economy as required by the Accord. Over a 12-year period, the terms of the Accord require the Tunisian Government to eliminate import tariffs and open the market to business competition (government tariff revenues decreased from $732 million in 1997 to $620 million in 1998). Initially, the government expects significant economic turmoil as state owned firms are privatized, jobs are eliminated and companies are forced to become more efficient. This should adversely affect unemployment which is officially 16 percent, but is widely believed to be higher, with some regions registering 30 percent. However, in the long run, the accord should help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products.

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 60 percent of the government's budget is allocated for social programs, providing subsidies for education, basic foodstuffs and support for the poorest sectors of society. Since 1996, annual minimum wage increases have kept pace with inflation, which has averaged less than four percent annually for the period. The government has been commended by the IMF for prudent fiscal monetary measures in 1997, including trimming government expenditures while implementing food and energy price increases, as well as lowering tariff and nontariff barriers to trade.

Tunisia needed to raise $806 million in 1998 to finance its budget deficit which is equal to 4.4 percent of the 1998 projected Gross Domestic Product (GDP) of over $22 billion. Tunisia's economic performance and low perceived commercial and political risk have been recognized in international financial markets, permitting the government to successfully float loans in the bond market. In 1997, the government tapped the U.S. market for the first time with the successful issuance of $400 million of "Yankee" bonds.

The government predicts GDP growth of more than five percent for 1998, after posting 5.4 percent GDP growth in 1997. Tunisia maintains significant trade barriers to control the growth of imports and contain its trade deficit, which increased approximately three percent from 1997 to 1998. Imports of goods and agricultural products rose during the last two years despite increased domestic agricultural production. Imports of consumer goods increased enough in 1997 that the government unofficially began restricting some imports. Customs duties and other import taxes will remain in place. U.S. goods represent only five percent of total goods and services imported, but the U.S. holds a nine to one trade surplus with Tunisia, primarily due to agricultural products. Trade with the U.S. has grown marginally over the past two years, but the recently announced U.S.-North Africa Economic Partnership has the potential to bring about a significant increase in U.S. investment and trade with Tunisia. Opportunities for U.S. exports include electrical power generation systems, construction and engineering services, telecommunications and computer equipment, and agricultural products and equipment.

The government, which exercises considerable control over the central bank, the stock market and other financial institutions, has kept tight control of the money supply. During 1997 and 1998, foreign exchange reserves have averaged about $2 billion, which represents between two and three months of imports. The government has continued its policy of not allowing the Tunisian Dinar to be traded on international markets. Government exchange controls extend to Tunisians traveling abroad by limiting them to take only 500 dinars per year out of the country.

2. Exchange Rate Policy

While the dinar is not traded internationally on the world market, it is commercially convertible for most trade and investment operations, though some restrictions apply. Central bank authorization is needed for large-scale foreign exchange operations.

The value of the dinar is tied to a basket of foreign currencies, primarily those of Tunisia's major trading partners, such as Germany, France, Italy, Japan and the United States. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float within a narrow band fixed by the Bank. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the dinar exist in Libya and Algeria. In 1998, the value of the dinar varied considerably versus the dollar. In January the dollar bought 1.12 dinars, and by July this reached 1.18. However, by November the rate had fallen to 1.06, giving the dinar a six percent appreciation relative to the dollar year-to-date.

3. Structural Policies

To meet the terms of the EU-Tunisian Free Trade Accord, the government is continuing to introduce structural economic reforms initiated in 1987 with the IMF and IBRD. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian companies will have to become more competitive or risk going out of business. In conjunction with the Accord and in response to World Bank suggestions, the government has vowed to accelerate its privatization program. The government privatized approximately 60 companies between 1987 and 1997 raising approximately $400 million. In 1998 alone, proceeds from privatization should reach $400 million with the sale of approximately 20 additional companies. The sale of two cement plants accounted for $380 million of this amount, and in the future the government plans to sell three more cement plants with an estimated value of $500 million.

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production, enjoying 10-year tax-free status and other benefits. Foreign companies that import materials for use or sale in the Tunisian market, however, have continued to see customs duties rise, in some cases dramatically, where permitted by World Trade Organization (WTO) rules. This has adversely affected Tunisian-based U.S. companies which depend on materials produced in the United States for their products. Tunisia has three Value-Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of good sold (i.e., luxury or staple products). In order to make up for the decline in import duties, the government raised its middle VAT rate in 1997 from 17 to 18 percent, and made greater efforts to enforce compliance on retailers, causing price increases on a wide range of domestic and foreign products.

As the government has continued to modernize its power generation utilities and industrial infrastructure, its official policy has been to make contract bidding transparent and open to foreign companies. U.S. firms have been actively encouraged to bid on a number of procurement contracts. Unfortunately, between 1996 and 1998, official tender policies were not always strictly adhered to and factors other than price and quality of technology offered appear to have played a role in the awarding of contracts. Examples, involving competing U.S. and foreign firms, include two contracts for telecommunication projects as well as a major airport expansion project. Such occurrences could deter U.S. companies from bidding on future public contracts. However, private sector sources gave the government high marks for its transparency and fairness in handling the bidding for the Rades II independent power plant. This project was won by a U.S.-led consortium and is worth between $400 and $450 million.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, the government has managed its external debt portfolio well and has never had to reschedule its debt payments. Tunisia has won high investment grade ratings from a number of international rating agencies, such as Standard and Poor's, which assigned its triple b minus long-term rating in 1997 to a 12.5 billion yen "Samurai" bond issue. In 1997, Tunisia tapped the U.S. bond market for the first time and raised $400 million. Several Tunisian commercial banks have worked with U.S. investment firms in 1998 to raise money in U.S. commercial markets.

In 1998, the government projected its foreign financing requirements to be approximately $516 million. In 1998, Tunisia's outstanding foreign debt increased by $105 million to $9.85 billion, representing approximately 44 percent of gross available domestic revenue. Debt service payments on foreign debt in 1998 are projected to be $1.9 billion. As mentioned above, the October 1998 privatization of two cement factories brought nearly $400 million to the Tunisian treasury, a timely infusion to address the budget deficit which saved the government from tapping the foreign debt market to meet that shortfall.

5. Aid

Tunisia's USAID program was terminated in 1998 due to the country's progress on economic growth and development. In 1998, U.S. aid to Tunisia amounted to $900,000 in military aid. All funds were used in the International Military and Educational Training Program. The government does not publish foreign aid figures, therefore, the amount of aid from other sources is unavailable.

6. Significant Barriers to U.S. Exports

Significant barriers do exist to U.S. exports to Tunisia. While Tunisia allows over 90 percent of goods to be imported without a license, import duties range from 10 to 290 percent. In addition, certain luxury consumer items and durable goods can be assessed a consumption tax that can be as high as 500 percent. At the retail level, the VAT can be applied to certain categories of goods.

Import licenses are sometimes required for goods that compete against those produced by developing Tunisian industries, such as textiles. Licenses are also required for expensive consumer goods, such as automobiles, payment for which could adversely affect the short-term balance of payments. The stated purpose of the licenses is to allow nascent local industries to grow, and U.S. exports have been limited or prevented when they are seen to compete with them.

Tunisia is moving to embrace ISO 9000 standards and testing. The Tunisian Consumer Protection Law of 1992 established standard labeling and marking requirements, and goods not specified under existing Tunisian regulations must meet international standards.

While foreign investment is welcomed, investment barriers exist. For on-shore companies (defined as those with more than 20 percent of output destined for the Tunisian market), the government must authorize a foreign capital share of more than 49 percent. Foreign investors are denied treatment on par with Tunisians in the agricultural sector, and although land may be secured for long-term leases (40 years), foreign ownership of agricultural land is prohibited. For foreign companies producing for the Tunisian market, local content provisions may apply, and hiring of foreign personnel is subject to regulation and usually limited to four employees. Normally, foreign companies cannot distribute products locally without a Tunisian distributor. The government does not allow the establishment of foreign franchise operations except in special circumstances. There is no limit on the amount of foreign currency which can be brought into the country, but any amount over TD 1,000 must be declared at the port of entry and only the unused dinar balance of declared foreign currency may be reconverted and taken out of the country.

Laws concerning government procurement practices are nominally designed to make contract bidding objective, competitive, and transparent. However, in several recent cases, factors other than those specified in the tender offer appear to have played a role in determining who won the contract. This has caused some concern that the government will allow factors other than price, competitiveness and quality of technology or services offered to be the determining factors in awarding government contracts.

Customs administrative procedures are often complex and burdensome, requiring time and patience to complete necessary paperwork demanded by the authorities. Most foreign companies choose to work with private customs agents to expedite the processing of their imports.

7. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies.

8. Protection of U.S. Intellectual Property

Tunisia is a member of the World Trade Organization (WTO), but may be availing itself of a transitional period provided to developing countries to phase in obligations under the WTO Trade Related Aspects of Intellectual Property (TRIPS) Agreement. Tunisia belongs to the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the protection of literary and artistic works (copyright) and the Paris Convention for the protection of industrial property (patent, trademark and related industrial property). As a member of the World Intellectual Property Organization (WIPO) and as a signatory to the UNCTAD agreement on the protection of patents and trademarks, Tunisia has pledged to protect foreign property rights.

In 1998, the U.S. Trade Representative named Tunisia to the "Special 301" Other Observations List (the lowest level of inclusion) because of concerns over an absence of patent protection for pharmaceutical products that allows dozens of top-selling medicines to be sold in the local market. Once a medicine is manufactured in Tunisia, its importation is restricted, hindering access to the market for U.S. firms. Recent complaints of trademark pirating, largely in the field of apparel, and copyright infringement, such as software, recordings, and movies also indicate that IPR violation is a growing problem in Tunisia.

Registration of foreign patents and trademarks is required with the national institute for standardization and industrial policy. However, Tunisia's patent and trademark laws are designed to protect only duly registered owners. In the area of patents, U.S. businesses are guaranteed treatment equal to that afforded to Tunisian nationals. Copyright protection is the responsibility of a separate government agency, which also represents foreign copyright organizations. Tunisian Copyright Law has been updated, but its application and enforcement have not been consistent with foreign commercial expectations. Print and video media are considered particularly susceptible to copyright infringement.

9. Worker Rights

a. *The Right of Association:* The Constitution and the Labor Code stipulate the right of workers to form unions and this right is generally observed in practice. The Tunisian General Federation of Labor (UGTT) is Tunisia's only labor federation. About 15 percent of the country's work force are members, but a greater number are covered by UGTT negotiated contracts. The UGTT is independent of the government but certain laws restrict its freedom of action. The current UGTT leadership has tried to cooperate with the government and support its economic reform programs, in return for regular wage increases and protection for workers.

b. *The Right to Organize and Bargain Collectively:* This right is protected by law and observed in practice. Wages and working conditions are set in triennial negotiations between the UGTT member unions and employers, and anti-union discrimination by employers is prohibited. Though the government does not participate in the negotiations, it must approve, but cannot modify, the agreements decided upon.

c. *Prohibition of Forced or Compulsory Labor:* Tunisia abolished compulsory labor in 1989, and ended the practice of sentencing convicts to "rehabilitation through work" in 1995.

d. *Minimum Age for Employment of Children:* In August 1996, the Labor Code raised the minimum age for employment in manufacturing from 15 to 16 years, while the minimum age for light work in agriculture and nonindustrial sectors is 13 years. The government requires children to attend school until age 16 and employers must observe certain rules to insure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist disguised as apprenticeship.

e. *Acceptable Conditions of Work:* The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in non-unionized sectors of the economy. Workplace health and safety standards are enforced by the government.

f. *Rights in Sectors with U.S. Investment:* Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		107
Total Manufacturing		25
Food and Kindred Products	25	
Chemicals and Allied Products	0	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		3
Finance/Insurance/Real Estate		0
Services		19
Other Industries		0
TOTAL ALL INDUSTRIES		153

Source: Department of Commerce, Bureau of Economic Analysis.

UNITED ARAB EMIRATES

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	47.5	48.0	50.7
Real GDP Growth (pct)	9.4	0.8	N/A
GDP by Sector:[3]			
Agriculture	1.4	1.4	N/A
Manufacturing	4.9	5.4	N/A
Services	9.4	9.7	N/A
Government	4.8	5.3	N/A
Per Capita GDP (US$)	18,600	17,800	17,800
Labor Force (000s)	1,109	1.131	1,250
Unemployment Rate (pct)	2.6	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	2.4	9.0	N/A
Consumer Price Inflation (pct)	3.3	2.8	2.1

Key Economic Indicators—Continued

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

	1996	1997	1998 [1]
Exchange Rate (Dirham/US$)			
Official	3.67	3.67	3.67
Balance of Payments and Trade:			
Total Exports FOB [4]	32.4	31.1	33.2
Exports to United States [5]	0.5	1.0	0.6
Total Imports CIF [4]	26.3	25.0	25.9
Imports from United States [5]	2.5	2.6	2.0
Trade Balance [4]	6.1	6.1	7.3
Balance with United States [5]	−2.0	−1.6	−1.4
Current Account Surplus/GDP (pct)	1.2	1.3	N/A
External Public Debt	0	0	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	13.0	3.9	N/A
Gold and Foreign Exchange Reserves (end of period)	8.0	8.3	N/A
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on available monthly data in November 1998.
[2] GDP at current prices.
[3] GDP at factor costs.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through August.
Sources: Ministry of Planning, Central Bank, Ministry of Economy and Commerce.

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. Each emirate has its own Customs Service, as well as its own Civil Aviation Authority. 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, accounting in 1997 for 30.3 percent of GDP and equaling roughly 40 percent of export and 86 percent of government revenue. Rising or declining oil prices have a direct effect on GDP statistics and an indirect impact on government spending but may, nevertheless, be less obvious in terms of overall economic activity. The great majority of the UAE's oil export income comes from Abu Dhabi Emirate, though Dubai and Sharjah also produce and export a modest amount of oil and gas products. The scarcity of oil and gas reserves in the UAE's northern emirates has led to continued—and successful—attempts at economic diversification. Important sectors under development include tourism, manufacturing, air travel and cargo services, and vessel fuel bunkering.

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. Companies located within the UAE's nine free zones are exempted from agency/distributorship, sponsorship, and national ownership requirements. However, if they lack 51 percent national ownership, they are treated as foreign firms and subjected to these requirements if they market products in the UAE.

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 United States. 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.

In recent years the UAE has run budget deficits. In 1994, the UAE budget deficit as a percentage of GDP was 7.9 percent; in 1996 that figure grew to 13.0 percent, before decreasing to approximately 4 percent in 1997. Assuming current policies remain unchanged, fiscal deficits will persist. Deficits are financed by domestic borrowing, principally by overdrafts from banks in which government entities have an ownership share, and by liquidation of or interest from overseas assets.

2. Exchange Rate Policies

There are no restrictions on the import or export of either the UAE Dirham or foreign currencies by foreigners or UAE nationals, with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions. Since November 1980, the dirham, though formally pegged to the IMF's Special Drawing Rights (SDR) at the rate of 4.76190 dirhams per SDR, 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. The exchange rate is 3.67 UAE Dirhams per 1 U.S. Dollar.

3. Structural Policies

Foreign workers make up approximately 90 percent of the UAE labor force. In an effort to stem the problem of illegal immigration and employment, better regulate the labor market and improve its efficiency of administration, a new Labor Law came into effect on 1 October 1996 which dramatically increased the severity of penalties applicable to immigration offenses. As a result of the new immigration rules, nearly 10 percent of the UAE's population (roughly 20 percent of its work force) left the country between the beginning of August and the end of October 1996, although most returned in subsequent months once their immigration status was clarified. Employment of UAE citizens—known as "Emiratization"—is a stated national objective. In addition to persuasion and encouragement, the UAE Government has begun to employ legislation as a tool for promoting job opportunities for UAE nationals. Beginning in January 1999, employment of UAE nationals in the banking sector must increase by 4 percent per year, with UAE nationals required to comprise 40 percent of total banking sector work force in 2009.

There is no income tax in the UAE. Foreign banks pay a 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the highest customs duty is 4 percent. More than 75 percent of imports still enter duty free. Gulf Cooperation Council (GCC) states continue to be engaged in discussions on unifying customs tariffs. Some progress has been made on this issue; the UAE, with its dependence on trade and its commitment to the free flow of goods, continues to push for lower rates than its GCC neighbors.

Prices for most items are determined by market forces. Exceptions include utilities, educational services, medical care and agricultural products, which are subsidized.

A passport and visa are required for entry into the UAE. Multiple entry visas for business or tourism and valid for up to ten years are available to U.S. passport holders from UAE embassies. Sponsors are not required, but applicants may be asked to provide an invitational letter to confirm the purpose of travel. These visas do not permit employment in the UAE.

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 the Abu Dhabi and Dubai governments and their official agencies are believed to be significantly larger than the reserves of the central bank.

5. Significant Barriers to U.S. Exports

The UAE maintains non-tariff barriers to trade and investment in the form of restrictive agency, sponsorship, and distributorship requirements. In order to do business in the UAE outside of one of the free zones, a foreign business in most cases must have a UAE national sponsor, agent or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights. They cannot be replaced without their agreement. Government tendering is not conducted according to generally accepted international standards. Retendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which at least 51 percent of the share capital is owned by UAE nationals. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for 5 percent of the value of the bid.

Except for companies located in one of the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent UAE/49 percent foreign Limited Liability Company (LLC). Subsidies for manufacturing firms are only available to those with at least 51 percent local ownership.

The laws and regulations governing foreign investment in the UAE are evolving. There is no national treatment for investors in the UAE. Foreigners cannot own land or buy stocks. There have been no significant investment disputes over the past few years involving U.S. or other foreign investors. Claims resolution is generally not a problem, because foreign companies tend not to press claims, knowing that to do so would jeopardize future business activity in the UAE.

6. Export Subsidies Policies

The government does not employ subsidies to provide direct or indirect support for exports.

7. Protection of U.S. Intellectual Property

The UAE is a member of the World Trade Organization (WTO) and should be in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPs) Agreement by January 1, 2000. The UAE is also a contracting party to the World Intellectual Property Organization (WIPO), and it signed the Paris Convention for the protection of industrial property (patent, trademark and related industrial property). The UAE remains on USTR's "Special 301" Watch List because of deficiencies in protection of Intellectual Property Rights (IPR). In April 1998, the 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. Enforcement efforts did not begin in earnest until 1994. As a result of these efforts, the UAE is largely clean of pirated sound recordings and films. While the government has also undertaken enforcement actions against local companies selling pirated computer software, U.S. industry remains concerned about reports of large-scale copying of business computer software by corporate end-users. Efforts to combat computer software piracy in the UAE have been successful; according to industry estimates, the rate of software piracy in 1997 declined 12 percentage points, to 60 percent. The UAE is recognized as the regional leader in fighting computer software piracy.

UAE patent law provides process, not product, patent protection for pharmaceutical products. The Ministry of Finance and Industry is currently in the process of amending the Patent Law; the amended version is expected to provide explicit product patent protection to pharmaceuticals. A local pharmaceutical manufacturer continues to produce patent protected products. The Ministry of Information is currently amending the Copyright Law to bring it up to international standards.

According to the International Intellectual Property Alliance, estimated 1997 losses to U.S. copyright-based industries were $27.4 million in the UAE, a slight decrease from the prior year.

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 work force, risk deportation if they attempt to organize unions or to strike. Since July 1995, the UAE has been suspended from U.S. Overseas Private Investment Corporation programs because of the government's lack of compliance with internationally recognized worker rights standards.

b. *The Right to Organize and Bargain Collectively:* The law does not grant workers the right to engage in collective bargaining, which 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 Ministry of Interior Naturalization and Immigration Administration is responsible for reviewing the contracts of domestic employees as part of residency permit processing. 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 to resolve 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. The government prohibits forced and bonded child labor and enforces this prohibition effectively. In 1996, the UAE ratified the International Labor Organization's 1957 Abolition of Forced Labor Convention.

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 1996, the UAE ratified the International Labor Organization's 1973 Minimum Age Convention. In 1993, the government prohibited the employment of children under the age of 15 as camel jockeys and of jockeys who do not weigh more than 45 kilograms. The Camel Racing Association is responsible for enforcing these rules. Children under the age of 15 working as camel jockeys have still been observed. In September 1998, a local newspaper reported the hospitalization of a five-year old, 20 kg camel jockey injured at work. The government prohibits forced and bonded child labor and enforces this prohibition effectively (see section "c" above). The government does not issue visas for foreign workers under the age of 16 years. Education is compulsory through the intermediate stage, approximately the age of 13 or 14 years.

e. *Acceptable Conditions of Work:* There is no legislated or administrative minimum wage. Supply and demand determine compensation. However, according to the Ministry of Labor and Social Affairs, there is an unofficial, unwritten minimum wage rate which would afford a worker and family a minimal standard of living. As noted above, the Ministry of Labor and Social Affairs 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 10 national and religious holidays. In addition, manual workers are not required to do outdoor work when the temperature exceeds 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 $1,090 per month required to obtain residency permits for their families. Employers have the option to petition for a 6-month ban from the work force against 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, the Ministry is understaffed and underbudgeted; complaints and compensation claims are backlogged.

Rulings on complaints may be appealed within 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, nonpayment of wages, and verbal and physical abuse.

f. *Rights in Sectors with U.S. Investments:* There is no difference in the application of the five worker rights discussed above between the sectors of the UAE economy in which U.S. capital is invested and other sectors of the economy. If anything, sectors containing significant U.S. investment, such as the petroleum sector, tend to have better working conditions, including higher safety standards, better pay, and better access to medical care.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		370
Total Manufacturing		59
Food and Kindred Products	0	
Chemicals and Allied Products	7	
Primary and Fabricated Metals	(1)	
Industrial Machinery and Equipment	3	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		91
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		97
Other Industries		(1)
TOTAL ALL INDUSTRIES		682

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

SOUTH ASIA

BANGLADESH

Key Economic Indicators

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

	1996	1997	1998[1]
Income, Production and Employment:			
Nominal GDP[2]	31,814	32,847	42,800
Real GDP Growth (pct)	5.3	5.9	5.6
GDP by Sector:[3]			
Agriculture	9,535	9,796	N/A
Manufacturing	3,042	3,039	N/A
Services	16,667	17,353	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)[2]	260	263	308
Labor Force (000s)	4,800	5,600	N/A
Unemployment Rate (pct)[4]	35.9	36.5	36.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.2	10.8	10.1
Consumer Price Inflation[5]	6.6	2.6	7.0
Exchange Rate (Taka/US$ annual average)			
Official	40.9	42.7	45.4
Balance of Payments and Trade:			
Total Exports FOB	3,882	4,418	5,111
Exports to United States[6]	1,343	1,679	N/A
Total Imports CIF	6,881	7,162	7,525
Imports from United States[6]	210	259	N/A
Trade Balance	−2,999	−2,744	−2,414
Balance with United States[6]	1,133	1,420	N/A
External Public Debt[7]	15,170	15,025	15,855
Fiscal Deficit/GDP (pct)	44.4	4.2	4.2
Current Account Deficit/GDP (pct)	4.1	2.2	1.8
Debt Service Payments/GDP (pct)	9.4	8.7	8.2
Gold and Foreign Exchange Reserves	2,039	1,719	1,768
Aid from United States[8]	65.0	73.6	77.0
Aid from All Other Sources[9]	1,444	1,481	1,419

[1] The Bangladesh fiscal year is July 1-June 30. Data for FY98 is mostly provisional.
[2] Due to change in methodology, the FY98 GDP figure is not comparable to FY97 and FY96.
[3] FY98 GDP by sector is not yet available; it is expected to be similar to the FY97 distribution.
[4] Includes estimated under-employment (34 percent).
[5] Calculated on new CPI, base year 1985-6.
[6] Figures are for the calendar year.
[7] Medium and long-term.
[8] Figures are for the U.S. fiscal year (October 1-September 30).
[9] Disbursements.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed countries; its per capita income for 1997 is estimated at $263. Most of its population of approximately 127 million is tied directly or indirectly to agriculture, which accounts for 35 percent of Gross Domestic Product (GDP) and about 70 percent of the labor force. While economic growth in fiscal year (FY) 1998 dropped 0.3 percentage points to 5.6 percent, primarily due to lower agricultural production, it remained above the historical average annual growth rate of 4.0 to 4.5 percent over the last ten years. The historical growth rate, though positive on a per capita basis, is inadequate to relieve the poverty faced by over half the population.

GDP growth has been dampened over the years by a number of factors: low productivity growth in the agricultural sector, political and policy instability, poor infrastructure, corruption, and low domestic savings and investment. The state's presence in the economy continues to be large, and money-losing state enterprises have been a chronic drain on the treasury. Nonetheless, during the 1990's Bangladesh has steadily liberalized its economy, and increasingly the private sector has assumed a more prominent role as the climate for free markets and trade has improved. The Awami League government, which came to power in June 1996, largely continued the market-based policies of its predecessor, the Bangladesh National Party. It placed a high priority on increasing foreign investment in the economy, and has made some regulatory and policy changes toward that end. However, implementation of new policy directives by the bureaucracy has been slow and uneven.

Bangladesh suffered its worst flood in history during the summer and fall of 1998. The economic damage is still being assessed, but preliminary estimates suggest a loss of $4.3 billion, or 10 percent of GDP. A large proportion of the winter rice crop could not be planted, which increased the food import bill dramatically despite the assistance of donor nations. The United States has pledged a donation of 700,000 metric tons of wheat. As of the end of October 1998, Bangladesh's foreign exchange reserves stood at about $1.7 billion, or less than three months of import cover. These reserves are expected to decrease in the coming months due to imports of food grain and the capital equipment needed to repair flood-damaged infrastructure. The World Bank and the International Monetary Fund (IMF) will provide emergency balance of payment relief of over $300 million, and in turn, Bangladesh has signaled a willingness to negotiate an Enhanced Structural Adjustment Facility (ESAF) with the IMF. Such an ESAF is likely to be conditional on government revenue enhancement measures, financial sector reform and public sector reform, including privatization.

Inflation surged to 7 percent in FY98 from 2.6 percent in FY97, reflecting food price hikes, public sector wage increases, and robust money growth towards the end of the fiscal year. Inflation is expected to rise to 8 percent in FY 99. Since Bangladesh has limited trade and investment links overseas, the economy has not been greatly affected by the Asian financial crisis. However, to maintain its export competitiveness, the taka was devalued a total of 6.1 percent during FY98 and an additional 2.97 percent in October 1998. Bangladesh's export performance, heavily concentrated in garments, has continued to be strong, with a trade surplus of $1.4 billion with the United States in calendar year 1997.

The FY98 government deficit narrowed to 4.2 percent of GDP, compared to 4.4 percent of GDP in FY97, as shortfalls in revenues were matched by lower Annual Development Plan (ADP) spending. (Note: The deficit is projected to widen to 4.7 percent of GDP in FY 99 due to the temporary decline in revenue collections and higher food imports.) Revenue shortfalls were the result of lower than expected VAT and customs duty collection due to weak customs administration, lower than forecast dutiable items, litigation relating to customs duty, and lower gas production. ADP spending was well below budget due to slow project implementation and conscious efforts by the government to control spending. The deficit was financed primarily by high-interest national savings certificates, which account for a growing domestic debt service component in government expenditures. Net foreign financing accounted for 2.6 percent of GDP in FY98. Tax revenues are estimated at $3.02 billion in FY98, or about 7.6 percent of GDP. This ratio has increased only marginally in the last five years.

In its FY99 budget, the government announced several incremental fiscal reforms, including expansion of VAT coverage and reduction in the number of personal income tax rate bands from 5 to 4, which should have a positive impact on the fiscal health of the economy over the medium term. The government's primary monetary policy tools are the discount rate and the sale of Bangladesh Bank bills, though central bank influence over bank lending practices also plays an important role. Broad money growth (M2) has been restrained in FY98, falling to 10.1 percent, as the central bank increased the rediscount rate to 8 percent and also applied pressure on banks to improve their capital adequacy requirements.

Although some liberal investment measures have been taken by the government to foster private sector involvement in the energy, power, and telecommunications sectors, poor infrastructure (e.g., power shortages, port bottlenecks), bureaucratic inertia, corruption, labor militancy, a weak financial system which keeps the cost of capital high, political unrest, and a deteriorating law and order situation continued to discourage some domestic and foreign investors in FY98. Gross investment, which stagnated at 12 to 13 percent of GDP in the 1985-1992 period, increased marginally from 20.9 percent in FY97 to 21.0 percent in FY98, although some of this increase may be attributable to a change in calculation methodology. If one subscribes to the view of some economists that an economy can begin to alleviate poverty on a large scale if it can achieve a threshold of a 20-22 percent investment/GDP ratio and a 7 percent GDP growth rate, then Bangladesh needs only a moderate acceleration in its growth rate to begin a meaningful assault on poverty.

2. Exchange Rate Policies

At present, the central bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of the real effective exchange rate, taking account of the nominal exchange rates and inflation rates of major trading partners. A level of reserves equal to 2.6 months of imports and a black market rate close to the official rate suggest the central bank has fixed the exchange rate close to the equilibrium level in the short term. Foreign reserves have stabilized at around $1.7 billion through 1997 and 1998. While this level is considered normal for Bangladesh, its foreign exchange position is vulnerable as flood-related food and capital equipment imports increase in the coming months. The World Bank and IMF emergency balance of payments funds will provide relief, but further devaluation of the taka is expected, possibly as part of an IMF-sponsored ESAF program. While the taka remains under pressure, its market value is bolstered by annual aid receipts and by remittances from overseas workers. The taka is nearly fully convertible on the current account. The official exchange rate on November 9, 1998 was Taka 48.7 to $1.

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, the country's central 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. Dollars are bought and sold in the black market, fueled by the informal economy. U.S. exports do not appear to have been negatively affected by the taka devaluations in 1998.

3. Structural Policies

In 1993, Bangladesh successfully completed a three-year ESAF program, meeting all the IMF fiscal and monetary targets. In view of the continuing need for structural reform, which was brought into focus by the recent flood-induced economic crisis, Bangladesh has indicated a willingness to enter into another three-year ESAF program, with negotiations scheduled in late 1998. A new ESAF program is expected to include three components: tax reform with better tax administration and a broadening of the tax base; financial sector reform with stronger oversight and supervision by the central bank, privatization of state-owned commercial banks, and improvement of loan portfolios; and, public sector reform with an acceleration in privatization of state-owned enterprises.

While Bangladesh has managed to maintain a laudable measure of macroeconomic stability since 1993, its macroeconomic position at the end of 1998 remains vulnerable, with relatively high (though falling) fiscal deficits, increased public sector borrowing from the banking system, an expected deterioration in the trade balance, and stagnant tax revenues. Progress on other important economic reforms has been halting, though the government has instituted reforms of the capital market and taken some market-friendly decisions to encourage foreign investment. Overall, however, efforts at reform often are successfully opposed by vested interest groups, such as the bureaucracy, public sector labor unions or highly protected domestic producers in import-competing industries. The public sector still exercises a dominant influence on industry and the economy; non-financial state-owned enterprises (SOEs) lost an estimated $364 million in 1997. 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 relatively high wages which their private sector counterparts often feel compelled to meet out of fear of union action. Despite pledges for action, the government failed to implement jute sector reforms under a World Bank adjustment credit program in 1997; the program has been suspended until reforms are carried out.

Private sector productivity is further stunted by the state's poor management of crucial infrastructure (power, railroads, ports, telecommunications, and the national airline), most of which is under government monopolies. Recognizing this shortcoming, and in order to increase foreign investment in the power sector, the government formalized in October 1996 its private power policy, which grants tax holidays and duty-free imports of plant and equipment for private sector power producers. As of November 1998, the government was purchasing power from one international Independent Power Producer, and was negotiating or had signed contracts with others. Private investment is also allowed in the telecommunications sector for cellular communications, and in the hydrocarbons sectors, where international companies initially expressed a high level of interest in a second round of bidding for remaining exploration rights. One international company started delivering natural gas to the government in mid-1998, and a second company is scheduled to do so in early 1999.

The government is also trying to attract foreign portfolio investment in domestic capital markets, but a stock market crash in late 1996 together with turbulence in other financial markets around the world, appears to have kept many international investors out of the market in 1997 and 1998. Long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay loans, the dysfunctional banking sector continues to be the subject of reform programs. The banking sector is dominated by four large nationalized commercial banks. However, entry of foreign and domestic private banks has been permitted; a good number of new banks have established a foothold in the market during the last four years.

4. Debt Management Policies

Assessed on the basis of disbursed outstanding principal, Bangladesh's external public debt was $15.9 billion in FY98, up slightly from 15.0 billion in FY97. 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. The external debt burden has eased during the 1990's with the external public debt as a percentage of GDP falling from 45.6 percent in FY94 to 37.1 percent in FY98. Debt service as a percentage of current receipts has also declined, from 20 percent in FY91 to an estimated 8.2 percent in FY98. Bangladesh maintains good relationships with the World Bank, Asian Development Bank, the International Monetary Fund and the donor community. There has been no rescheduling of the external debt during the last fiscal year.

5. Aid

No military aid is included in the figures in the tables.

6. 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. Even so, Bangladesh continues to raise a relatively high share of its government revenues—nearly 60 percent—from import-based taxes, custom duties, VAT and supplementary duties on imports. 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 with a maximum rate of 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 dropped from 40 percent in FY92 to 28 percent in FY94 to below 25 percent in FY97.

The FY99 budget further reduces tariffs on products covering 1,025 HS lines, but no estimate is currently available regarding the effect of these on the average weighted tariff rate. Other reforms announced in the FY99 budget include reduction in the number of non-zero duty rates from 6 to 5, the introduction of a rapid "green channel" clearance system for imported goods, and a reduction in the maximum tariff rate to 40 percent. There is no duty on import of cotton, textile machinery, certain machinery used in irrigation and agriculture, animal feed, and certain medicines and medical equipment. There is, however, a 2.5 percent import surcharge for infrastructure development, and some supplemental duties on luxury items were increased in the FY99 budget.

Bangladesh, a founding member of the World Trade Organization (WTO), is subject to all the disciplines of the WTO. Some barriers to U.S. exports or direct investment exist. Policy instability, where policies are altered at the behest of special interests, also creates difficulties for foreign companies. The government monopoly controls basic services and long-distance service in the telecommunications market, although the government granted three licenses to private cellular companies in late 1996 to end a private company's monopoly. In November 1998, the government also issued a temporary license to a U.S. company that is establishing a world-wide cellular telephone system. Non-tariff barriers also exist in the pharmaceutical sector, where manufacturing and import controls imposed by the national drug policy and the Drugs (Control) Ordinance of 1982 discriminate against foreign drug companies.

Bangladesh is not a signatory to the WTO plurilateral agreements on government procurement or civil aircraft. Government procurement generally takes place through a tendering process, which is not always perceived as a transparent process by foreign companies. Bangladesh has some countertrade arrangements with countries in Central and Eastern Europe, Central Asia, China and North Korea.

Customs procedures are lengthy and burdensome, and further complicated by corruption. The systems of customs valuation has been supplemented by the acceptance of Pre-Shipment Inspection (PSI) certificates from four international inspection companies, but customs' acceptance of these certificates is not yet mandatory and some products have been removed from PSI eligibility. The government removed more items from PSI eligibility in its FY98 budget.

Customs duty revenues are scheduled to be higher in absolute terms in the FY99 budget, although they have been falling as a share of total revenue over the last several years. Reform attempts of customs practices are ongoing.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, and uncertain law and order. 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 corruption, slows and distorts decision-making and procurement. Existing export processing zones have successfully facilitated investment but are still too small to have changed significantly the overall investment picture in the country.

Until recently, U.S. investment stock in Bangladesh was very small, totaling around $25 million, primarily in the assets of service companies and a few manufacturing operations. As work began in late 1997 or 1998 based on agreements between the government and U.S. companies in gas exploration and production, lubricants and energy production, the amount of U.S. investment has risen significantly. Many other opportunities for significant investment in gas exploration and production, in power generation and in private port construction/operation could further swell U.S. investment and trade.

7. Export Subsidies Policies

The government encourages export growth through measures such as duty-free status for some imported inputs, including capital machinery, and 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. The central bank offers a 25 percent rebate to domestic manufacturers of fabric for ready-made garment exports. 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 five years. Bangladesh has established Export Processing Zones (EPZs) in Chittagong and Dhaka, and has plans to open two more. The government in late 1996 gave the private sector the authority to build and operate private export processing zones; Korean investors have come forward with a plan for the first private EPZ, although progress has been slow.

8. Protection of U.S. Intellectual Property

Bangladesh is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2000. Bangladesh has also been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985.

Bangladesh has never been mentioned on a the U.S. Trade Representative's "Special 301" Watch List which identifies countries that deny adequate and effective protection for intellectual property rights or deny fair and equitable market access for persons that rely on intellectual property protection.

Even though Bangladesh has not been placed on the "Special 301" Watch List, it 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 computer software, motion pictures, pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts.

The WIPO and the United Nations Development Program (UNDP) in 1995-6 funded a small project providing automation and training for the patent office. The government and WIPO hosted seminars on IPR issues in 1997 and 1998. Bangladesh has begun reforms to increase the level of IPR protection in order to meet its obligations under the WTO TRIPS. In consultation with WIPO, the 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 is expected to take more than an year, with parliamentary passage taking further time.

9. Worker Rights

a. *The Right of Association:* Bangladesh's 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, government civil servants 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. Civil servants forbidden to join unions, such as teachers and 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. Some unions are militant and engage in intimidation and vandalism. General strikes were used successfully by the political opposition in early 1996 to pressure the government to call elections and step down. Rising political tensions again led to several general strikes during 1997 and 1998. General strikes cause economic and social disruption through lost production and, more significantly, transportation delays causing missed shipping dates for exports. Strikes motivated by labor issues are not uncommon. Port workers' strikes and/or "slowdowns" occurred regularly in 1998, partially in reaction to a proposed private container port.

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.

There have been numerous complaints of garment workers being harassed and fired in some factories for trying to organize workers. Workers in Bangladesh's EPZs are prohibited from forming unions, though some workers have skirted the ban by setting up associations. The government has not fulfilled promises that labor law restrictions on freedom of association and formation of unions in the EPZs would be lifted in 1997.

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 guard against forced labor, but resources for enforcement are scarce. Nevertheless, there is believed to be little use of forced labor, though conditions for some domestic servants resemble servitude, and some trafficked women and children work as prostitutes.

d. *Minimum 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 July 1995, Bangladesh garment exporters signed a memorandum of understanding that has virtually eliminated child labor in the garment export sector. Under the MOU, schools and a stipend program were established for displaced child workers. By November 1998, hundreds of schools serving thousands of former child workers were in operation. A system of fines and possible suspension of import/export privileges exists, and a monitoring system has been set up by the International Labor Organization.

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 of 1965 nominally sets occupational health and safety standards. The law is comprehensive but appears to be largely ignored by many Bangladeshi employers.

f. *Rights in Sectors with U.S. Investment:* There are few manufacturing firms with U.S. investment. Firms with U.S. investment generally try to avoid unions for their workforce. 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 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		−5
Food and Kindred Products	0	
Chemicals and Allied Products	−5	
Primary and Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		11
Banking		(1)
Finance/Insurance/Real Estate		−3
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		83

(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]

	1996	1997	1998 [1]
Income, Production and Employment:			
Nominal GDP [2]	315	332	378
Real GDP Growth (pct) [3]	7.5	5.1	5.5–6
GDP by Sector (pct estimated):			
Agriculture	27.1	27.5	N/A
Manufacturing	30.6	30.5	N/A
Services	42.3	42.0	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	379	396	398
Labor Force (millions)	378	397	410
Unemployment Rate (pct)	22.5	22.5	22.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.2	17.6	21.0
Consumer Price Inflation	10.0	8.3	12.5
Exchange Rate (Rupee/US$ annual average)			
Official	35.46	37.11	41.30
Parallel	35.50	37.16	41.36
Balance of Payments and Trade:			
Total Exports FOB [4]	33.5	34.0	35.0

Key Economic Indicators—Continued

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

	1996	1997	1998[1]
Exports to United States[5]	6.6	6.7	7.0
Total Imports CIF[4]	39.1	40.8	43.5
Imports from United States[5]	3.4	3.5	3.8
Trade Balance[4]	-5.6	-6.8	-8.5
Balance with United States[5]	3.2	3.2	3.2
Current Account Deficit/GDP (pct)	1.0	1.7	2.0
External Public Debt[6]	90.8	94.4	95.0
Debt Service Payments/GDP (pct)	4.0	4.3	3.9
Fiscal Deficit/GDP (pct)	5.3	6.2	5.6
Gold and Foreign Exchange Reserves	26.4	29.5	30.0
Aid from United States (US$ millions)	136.3	142.3	141.0
Aid from Other Countries	2.5	3.2	N/A

[1] Data are for Indian fiscal year (April 1 to March 31) unless otherwise noted. 1998-99 figures are all embassy estimates based on data available in October 1998.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; calendar year, exports FAS, imports customs basis; 1998-99 figures are estimates based on data available through October 1998.
[6] Includes rupee debt of $10 billion to the former USSR.
Sources: Indian Government economic survey, Indian Government budgets, Reserve Bank of India bulletins, World Bank, USAID, and private research agencies.

1. General Policy Framework

Economic reforms since 1991 have helped India achieve a large measure of macroeconomic stability and a moderate degree of liberalization of its trade, investment and financial sectors. The U.S. continues to be the largest investor in India and its biggest trading partner. With the formation of a new coalition government in March 1998 led by the Bharatiya Janata Party (BJP), all major parties have declared their support for the overall necessity of continued reform. Significant differences remain however, on the pace and emphasis of reform.

The Indian economy has the potential to perform well, and the long-term prospects remain encouraging. There are continuing concerns, though, about inadequate infrastructure and chronic large budget deficits. Growth has slowed during the past year due to falling demand, high real interest rates, political uncertainty and secondary effects from the economic crisis in other parts of Asia. GDP growth slowed to 5 percent in Indian Fiscal Year (IFY) 1997-98, compared to a growth of about 7 percent recorded in each of the preceding three years. For IFY 1998-99, embassy projects GDP growth of about 5.5 to 6 percent and industrial growth of about 4.5 percent. The central government deficit has hovered around 5 to 6 percent of GDP with the consolidated public sector deficit (including states) remaining at a relatively high level of 9 percent of GDP.

During the first six months of FY 1998-99, money supply (M3) rose by an estimated 20.6 percent. The Reserve Bank of India (RBI) hopes to peg M3 growth at 15 to 15.5 percent for the year. Credit policies for 1998-99 announced in April and October 1998 have been aimed at accelerating industrial investment and output, and reducing interest rates while improving credit availability to business. Government and private forecasters now predict an average inflation rate (as measured by the Consumer Price Index) of between 12 to 13 percent during FY 1998-99, following inflation of 8.3 percent in the previous year.

2. Exchange Rate Policy

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 their gradual removal is expected as foreign exchange reserves grow and India makes progress in merging its capital markets with international financial markets. In June 1997, the Tarapore Committee on Capital Account Convertibility recommended a three year (1998-2000) period for complete capital account convertibility of the rupee. The government recently stated however, that India is in no hurry to complete full convertibility, especially given the ongoing crisis in East Asian economies and the need to further strengthen the banking sector.

The RBI intervenes in the foreign exchange market to maintain a stable rupee. The rupee is tied to a basket of currencies with the U.S. Dollar playing a predominant role. In IFY 1997-98, the exchange rate moved in the range of rupees 35.45-39.49 per dollar. From April to September 1998, the rupee depreciated by 13.1 percent and is currently trading in the range of 42.25-42.38 per dollar. India has been shielded from the East Asian currency crisis due to a staged approach to liberalization and its relatively low degree of exposure to global markets. India's short term foreign borrowing is low and Indian banks and financial institutions have very little exposure to the real estate sector.

3. Structural Policies

Pricing Policies: Central and state governments still regulate the prices of most essential products, including food-grains, sugar, edible oils, basic medicines, energy, fertilizers, water, and many industrial inputs. Agricultural commodity procurement prices have risen substantially during the past seven years, while prices for nitrogenous fertilizer, rural electricity and irrigation are subsidized. Acute power shortages are forcing several states to arrest the financial decline of state electricity boards by moving to market pricing. The federal government has also begun to scrutinize more carefully the cost of its subsidies. The government in 1997 announced a plan to reduce subsidy rates on food, and fertilizers from the existing 90 percent to 25 percent over the next five years. In September 1997, the government increased the prices of several petroleum products and committed to dismantling the Administered Price Mechanism for petroleum products over the next two years. However, progress has been slow.

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. Regulation of basic drug prices has been a particular problem for U.S. pharmaceutical firms operating in India, although changes in national drug policy have sharply reduced the number of price-controlled formulations from 142 in 1994 to 72 at present.

Tax Policies: Public finances remain highly dependent on indirect taxes, particularly import tariffs. Between 1990 and 1997, indirect taxes accounted for about 75 percent of central government tax revenue. India's direct tax base is very narrow, with only 14 million taxpayers out of a total population of about 960 million. Marginal corporate rates are high by international standards, although the FY 1996-97 budget lowered the corporate income tax rate for foreign companies from 55 percent to 48 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. Over the last six years, the government has been 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 government also provides tax incentives for specific sectors, such as a 5-year tax holiday for infrastructure projects.

Regulatory Policies: The "new industrial policy" announced in July 1991 considerably relaxed government's regulatory hold on investment and production decisions. Under the new policies, industrial licenses are only required for 6 areas, defined as strategic. Some restrictions also remain for manufacturing in sectors which are reserved for the public sector or small-scale industry. Additionally, the government announced in 1994 and 1995 liberal policies for the pharmaceutical and telecommunications industries. Most plant location strictures have been removed. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. Government approval of foreign business investment projects often takes three to five years. As economic reforms take root at the federal level, the focus of liberalization is gradually shifting to state governments, which, under India's federal system of government, enjoy broad regulatory powers. The speed and quality of regulatory decisions governing important issues such as zoning, land-use and environment can vary dramatically from one state to another. Political opposition has slowed or halted important regulatory reforms governing areas like labor, bankruptcy, and company law that would enhance the efficiency of domestic and foreign investment.

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 (excluding gold and SDRs) during the FY 1990-91 balance of payments crisis, the equivalent of only two weeks of imports. By October 1998, India's reform program had succeeded in boosting reserves to $26.7 billion (excluding gold and SDRs).

External Debt Structure: India's total external debt reached $94.4 billion by March 1998. Debt service payments were estimated at $14.4 billion in 1997-98. 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 share of concessional debt in total debt is about 43 percent. 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 25 percent in FY 1997-98.

Relationship with Creditors: India has an excellent debt servicing record. However, Standard and Poor's (S&P) in October 1998 downgraded India's foreign currency debt from BB+ to BB, one notch below the highest speculative grade. On the other hand, S&P at the same time upgraded its outlook on India from negative to stable. In June 1998—after the U.S. imposed economic sanctions on India following nuclear tests—Moody's lowered India's foreign currency rating by two notches, from investment grade to speculative grade. Citing its growing foreign exchange reserves and ample food stocks, India chose not to negotiate an extended financing facility with the IMF when its standby arrangement expired in May 1993.

5. Significant Barriers to U.S. Exports

Import Licensing: U.S. exports have benefited from significant reductions in India's import-licensing requirements. Since 1992, 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 23 percent at present. U.S. exports to India rose from $2.0 billion in 1991-92 to approximately $3.5 billion in 1997-98, according to Indian Commerce Ministry trade data. The Government of India currently maintains import restrictions on more than 2,700 tariff line items. For this reason, the U.S. Government recently brought a World Trade Organization (WTO) dispute settlement case against the Government of India requesting that these restrictions be removed. In December 1998, the WTO dispute settlement panel issued an interim report agreeing with the U.S. position that these Indian restrictions are a serious impediment to U.S. exports of industrial and agricultural goods, and are clearly WTO-inconsistent and not justifiable by India on balance of payments grounds. If this part of the decision is carried forward to the final report, it will result in a significant market opening for U.S. exports.

Some commodity imports must be channeled ("canalized") through public enterprises, although many "canalized" items are now decontrolled. The main canalized items currently are petroleum products, bulk agricultural products such as grains and vegetable oils, and some pharmaceutical products. U.S. exporters face a negative list of items which cannot be imported, affecting roughly one-fourth of all tariff lines, and tariff protection that is still very high by international standards. Import licenses are still required for 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. The new Export-Import Policy effective April 1, 1998, allowed import of several additional consumer products.

Services Barriers: The government runs many major service industries either partially or entirely, but private sector participants are increasingly being allowed to compete in the market. Entry of foreign banks remains highly regulated, but approval has so far been granted for the operation of 25 new foreign banks or bank branches since June 1993, when the RBI issued guidelines under which new private banks may be established. Furthermore, financial authorities have permitted sweeping changes in non-bank financial services since then. India does not allow foreign nationals to practice law in its courts, but some foreign law firms maintain liaison offices in India. The 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 telecommunications, advertising, accounting, and a wide range of consultancy services. There is a growing awareness of India's potential as a major services exporter and increasing demand for a more open services market.

Standards, Testing, Labeling and Certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. However, India's food safety laws are often outdated or more stringent than international norms. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestic 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. The requirement for government approval for equity investments of up to 51 percent in 35 industries covering the bulk of manufacturing activities has been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes. In December 1996, thirteen industries were added to the 35 already eligible for automatic approval of FDI up to 51 percent of equity. In addition, automatic approval up to 74 percent of FDI was introduced for the first time for nine categories including electricity generation and transmission, and construction. However, government approval of foreign infrastructure projects is frequently stalled for lengthy periods of time.

Most sectors of the Indian economy are now open to foreign investors, except those that raise security concerns such as defense, railways and atomic energy. 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) was updated in 1997. OPIC operations resumed in December 1998, following the partial lifting of sanctions imposed on India after its nuclear tests in May 1998. In 1994, India became a member of the Multilateral Investment Guarantee Agency (MIGA), an agency of the World Bank. The Indian Government ratified the Uruguay Round GATT agreement on January 1, 1995 and is a member of the WTO.

Government Procurement Practices: Indian Government procurement practices are not transparent and 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. In 1996, the government switched to the harmonized system of commodity classification, removing ambiguities and providing more transparency to its export-import policy.

6. Export Subsidies Policies

The 1991 budget phased out most direct export subsidies, but a tangle of indirect subsidies remains. Export promotion measures include exemptions or concessional tariffs on raw materials and capital inputs, and access to Special Import Licenses (SIL) for restricted inputs. Concessional income tax provisions apply to exports (export earnings are tax-exempt). Commercial banks provide export financing on concessional terms.

7. Protection of U.S. Intellectual Property

India is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of in Intellectual Property Rights and Services (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2000. The government has announced its intention to take full advantage of the 2005 transition period permitted to developing countries under TRIPS before implementing full patent protection. India is a member of the Berne Convention for the Protection of Literary and Artistic Works, and in August 1998, it became a member of the Paris Convention and the Patent Cooperation Treaty.

In April 1998, the U.S. and India reached an agreement to resolve a long-running dispute over India's failure to implement its WTO TRIPs mailbox requirements for the filing of pharmaceutical and agricultural chemical product patent applications, and failure to implement a system for the granting of exclusive marketing rights. On November 23 1998, government officials introduced a patent bill establishing a "mailbox" system and allowing exclusive marketing rights. If passed, the bill will put India in compliance with its TRIPS obligations.

Over the past decade, USTR has targeted India as a Priority Foreign Country in the "Special 301" process, and despite some improvements, India is still included in the "Special 301" Priority Watch List. Based on past practices, India was identified in April 1991 as a "Priority Foreign Country" under the "Special 301" provision of the 1988 Trade Act, and a Section 301 investigation was initiated on May 26, 1991. In February 1992, following a nine-month Special 301 investigation, the USTR determined that India's denial of adequate and effective intellectual property protection was unreasonable and burdens or restricts U.S. commerce, especially in the area of patent protection. As a result, in April 1992, the President suspended duty-free privileges under the Generalized System of Preferences (GSP) for $60 million in trade from India. In June 1992, additional GSP benefits were withdrawn, increasing the trade for which GSP is suspended to approximately $80 million.

India's patent protection is weak and has especially adverse effects on U.S. pharmaceutical and chemical firms. Estimated annual losses to the pharmaceutical industry due to piracy are $450 million. India's Patent Act prohibits patents for any invention intended for use or capable of being used as a food, medicine, or drug or relating to substances prepared or produced by chemical processes. Many U.S.-invented drugs are widely reproduced since product patent protection is not available. Processes for making drugs are patentable, but the patent term is limited to the shorter of five years from the grant of patent or seven years from the filing date of the patent application. Product patents in other areas are granted for 14 years from the date of filing.

India continues to have high piracy rates for all types of copyrighted works. Strong criminal penalties are available on paper, and the classification of copyright infringements as "cognizable offenses" theoretically expands police search and seizure authority. However, the severe backlogs in the court system and excessive procedural requirements result in very few cases being brought to conclusion.

Trademark protection is considered good, and will be raised to international standards with the passage of a new Trademark Bill that codifies existing court decisions on the use and protection of foreign trademarks, including service marks. The bill was first introduced in 1995 but failed to win parliamentary approval. Passage of the bill is expected in 1999. Enforcement of trademark owner rights has been indifferent in the past, but is steadily improving as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights' holders.

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, and 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 implementation of the 1976 law, bonded labor continues in many rural areas. Efforts to eradicate the practice are complicated by extreme poverty and jurisdictional disputes between the central and state governments; legislation is a central government function, while enforcement is the responsibility of the states.

d. *Minimum Age for Employment of Children:* Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The government's 1991 census estimated that 11.3 million Indian children from ages 5 to 15 are working. Non-governmental organizations estimate that there may be more than 55 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, hundreds 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 workday and 48-hour workweek. This maximum is generally, observed by employers in the formal sector. Occupational safety and health measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors with U.S. Investment:* U.S. investment exists largely in manufacturing and service sectors where organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker-rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		175
Total Manufacturing		380
Food and Kindred Products	32	
Chemicals and Allied Products	143	
Primary and Fabricated Metals	−54	
Industrial Machinery and Equipment	183	
Electric and Electronic Equipment	47	
Transportation Equipment	16	
Other Manufacturing	14	
Wholesale Trade		43
Banking		598
Finance/Insurance/Real Estate		206
Services		47
Other Industries		235
TOTAL ALL INDUSTRIES		1,684

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

PAKISTAN

Key Economic Indicators

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

	1996	1997	1998
Income, Production and Employment: [1]			
Nominal GDP	58.1	56.5	59.2
Real GDP Growth (pct)	5.2	1.3	5.4
GDP by Sector (pct):			
Agriculture	25.2	24.7	26.0
Manufacturing	17.0	16.9	16.8
Services	8.0	8.1	8.5
Government	8.2	8.2	7.5
Real Per Capita GDP (US$)	129	109	102
Labor Force (millions)	36.1	37.2	38.2
Unemployment Rate (pct)	5.4	5.4	5.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	13.8	12.2	14.0
Consumer Price Inflation	10.8	11.8	7.3
Exchange Rate (Rupees/US$)			
Official	35.1	40.5	46.0
Parallel	37.9	41.6	54.2
Balance of Payments and Trade:			
Total Exports FOB	8.3	8.3	8.5
Exports to United States	1.4	1.5	N/A

Key Economic Indicators—Continued

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

	1996	1997	1998
Total Imports CIF	11.8	11.9	10.1
Imports from United States	1.1	1.4	N/A
Trade Balance	−3.5	−3.6	−1.6
Balance with United States	0.3	0.1	N/A
External Public Debt	28.9	30.0	31.7
Fiscal Deficit/GDP (pct)	6.3	6.2	5.0
Current Account Deficit/GDP (pct)	−4.3	−3.9	N/A
Debt Service Payments/GDP (pct)	9.0	10.4	10.3
Gold and Foreign Exchange Reserves	7.1	6.5	N/A
Aid from United States (US$ millions)	10	35	N/A
Aid from All Other Sources	2.7	1.8	1.8

[1] Rupee/Dollar conversion rates are 33.57 for 1996, 39.0 for 1997, and 42.81 for 1998.
Source: State Bank of Pakistan (SBP) and Ministry of Finance (MOF).

1. General Policy Framework

In late 1998, Pakistan's economy continued in financial crisis. Following the Pakistan-India nuclear tests of May 1998, the macroeconomic situation greatly deteriorated despite some reassuring indicators such as continued agricultural growth and low inflation. Foreign exchange receipts declined from export sales, worker remittances, and private capital investment. As early as July 1998, Pakistan's Government made a policy decision to enter technical default with some official creditors by delaying payments and accumulating arrears. By late November 1998, official foreign exchange reserves had fallen to $400 million. The government barely was able to sustain minimum essential debt service payments to International Financial Institutions (IFI). Both private investor confidence and the sovereign credit rating declined to among the world's lowest. Inappropriate policy choices and a lack of political commitment to economic reform exacerbated and prolonged the economic crisis. Efforts by various IFI to reopen balance of payments, support lending, and to reschedule outstanding debt had not been successfully completed by late November, and Pakistan teetered on the edge of losing access to IFI financing altogether.

2. Exchange Rate Policy

Pakistan continued a managed floating exchange rate system until July 21, 1998. From July 22, 1998 the government introduced a multiple exchange rate system comprising an official rate, a Floating Interbank Rate (FIBR), and a composite rate. The official exchange rate continued to tie the rupee to the dollar. The FIBR took a step forward toward a market determined exchange rate system. Supply components of the FIBR market include export proceeds, home remittances, and invisible flows. Demand components of FIBR include the "non-essential" imports and other outflows not using the official rate. A composite exchange rate combines the official and FIBR rates. As of late November 1998, the government had modified the new exchange rate mechanism several times, generally linking more transactions to the FIBR.

In years previous to the foreign exchange crisis of 1998, Pakistan significantly liberalized foreign exchange controls. The rupee was fully convertible on current account. Individuals and firms resident in Pakistan could hold foreign currency bank accounts and 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 approval. However, in response to the foreign exchange shortage, the government froze the foreign currency accounts and increasingly denied access to official reserves.

3. Structural Policies

Under the three-year IMF ESAF/EFF program of October 1997, Pakistan recommitted itself to structural adjustment policies and macroeconomic objectives, including: (a) to reduce the external current deficit (strengthen external reserves); (b) to raise the annual growth rate of real GDP; and, (c) to progressively reduce annual inflation. The key intermediate policy target was to be a reduction in the overall budget deficit.

At the six month review of the IMF ESAF/EFF plan in early 1998, the IMF approved of Pakistan's performance and continued the program. Unfortunately, the aftermath of the India-Pakistan exchange of nuclear tests in May 1998 undid the uneven but promising six-month economic performance, and precipitated further crisis in the already weakened economy.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs. The 1998 foreign exchange crisis led to protracted negotiations with the IFI aiming at restoring balance of payments support lending, and anticipating major debt rescheduling with Paris and London Club creditors.

Until mid-1998 Pakistan had an excellent record of honoring external debt obligations, even during periods of strained financial circumstances. In July 1998, however, as a result of declining official reserves and other pressures, including suspension of the IMF program and nuclear-related sanctions, Pakistan began to accumulate arrears on its foreign exchange obligations. By late November 1998, with negotiations for a resumed IMF program and other IFI lending still unresolved, Pakistan had accumulated over $1.5 billion of arrears and stood on the edge of general payments default.

5. Significant Barriers to U.S. Exports

Import Licenses: In recent years Pakistan has significantly reformed its previously restrictive import regime. Import licenses, formerly common, have been abolished on all "freely importable" goods, i.e. on all items not on the negative list which consists of 68 items banned mostly for religious, health or security reasons, or in accordance with international agreements. However, in the payments crisis of late 1998, the government was quietly but actively discouraging imports. Commercial banks were having difficulty opening normal letters of credit for trade transactions.

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. 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 barred, face severe obstacles. Meanwhile, those few foreign insurance companies operating in Pakistan face various tax problems, long delays in remitting profits, and problems associated with operating within a cartelized industry. Basic telephony is the monopoly of the state-owned Pakistan Telecommunications Corporation Ltd. (PTCL), and was to remain a monopoly for seven years after PTCL's privatization in 1997. Competition among private providers is allowed in cellular telephony. 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, especially the practice of including the royalty value in the dutiable value of films imported for showing in theaters, which have sharply cut their export into Pakistan.

Standards, Testing, Labeling, and Certification: Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, resulting in occasional discrimination against U.S. farm products.

Investment Barriers: Pakistan further liberalized its foreign investment regime in 1998 and officially encourages foreign investment. Where investment is allowed, repatriation of profits generally is allowed (when foreign exchange is available). Unfortunately, during 1998, the government pursued a campaign of harassment and intimidation against the heavily foreign invested independent power producers, which broadly and severely damaged the climate for both private direct and portfolio investment.

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, and these are 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, preferential tariff rates are usually subject to the proviso that the goods in question are not domestically manufactured. Disputes sometimes 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. Charges that customs officers demand bribes are also common.

6. Export Subsidies Policies

Pakistan actively promotes the export of locally produced goods with government financing measures, a tariff rebate scheme and other 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 exports are cotton textile products, and until 1994 the government taxed raw cotton exports in order to keep their price low for domestic manufacturers. Cotton exports are no longer taxed, but they must be registered and domestic textile producers continue to call for reimposition of the tax.

7. Protection of U.S. Intellectual Property

Pakistan is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and is obligated to bring its laws and enforcement efforts into TRIPs compliance by January 1, 2000. The U.S.-Pakistan Treaty of Friendship, Commerce and Navigation guarantees national and Most-Favored-Nation (MFN) treatment for patents, trademarks, and industrial property rights. Pakistan is a member of the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, and the World Intellectual Property Organization, but not a member of the Paris Convention for the Protection of Industrial Property.

Pakistan has been on the U.S. Trade Representative "Special 301" Watch List since 1989 due to widespread piracy, especially of copyrighted materials and slow efforts to implement its patent mailbox obligations under the TRIPs agreement. Present U.S. concerns include continuing high piracy levels; TRIPs inconsistent copyright law; nominal fines for infringers; lack of patent protection for pharmaceutical products; TRIPs inconsistent term of patent protection; and trademark infringement.

Patents: Current law protects only process patents, though the government has stated its commitment to eventually offering product patents in accordance with WTO obligations.

Trademarks: Since 1994, Pakistan has required that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name. This trademark labeling requirement serves to dilute in the minds of consumers the differences in quality, efficacy and safety among different products. There also 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. As a result of strengthened law enforcement, some other pirate outlets are taking steps to offer legitimate products. Sustained stronger enforcement needs to be paired with action by the courts to prosecute and sentence violators.

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 estimated 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 (IRO) 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. 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. However, the many restrictions on forming unions 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, 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. A government study done with the assistance of the ILO estimates there are some 3.6 million child laborers in Pakistan. 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. In 1998, the government made significant further 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. It has also encouraged the establishment of an independent child welfare foundation designed to rehabilitate child laborers and to oversee child labor-free certification programs.

e. *Acceptable Conditions of Work:* The law provides for a monthly minimum wage of about 42 dollars (1,650 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. In general, health and safety standards are poor.

f. *Rights in Sector with U.S. Investment:* Significant investment by U.S. companies has occurred in the power, 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 worker protection and entitlement. 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—1997

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		36
Food and Kindred Products	10	
Chemicals and Allied Products	11	
Primary and Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric and Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	14	
Wholesale Trade		28
Banking		164
Finance/Insurance/Real Estate		163
Services		(1)
Other Industries		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1997—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	630

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

ISBN 0-16-058179-6
90000
9 780160 581793