105th 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 1997

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

S362-7
S382-6
H782-13
H462-5

U.S. GOVERNMENT PRINTING OFFICE
37-686 WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Mail Stop: SSOP, Washington, DC 20402-9328
ISBN 0-16-054215-4

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* 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.

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LETTER OF SUBMITTAL

DEPARTMENT OF STATE,
Washington, DC, January 31, 1997.

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

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

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

Hon. NEWT GINGRICH,
Speaker, House of Representatives.

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

Hon. 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 United States 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 ninth 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 United States.
- *Significant Barriers to U.S. Exports and Investment:* The fifth section examines significant barriers, formal and informal, to U.S. exports and investment.
- *Export Subsidies Policies:* The sixth section focuses on government actions, policies, and practices that support exports from that country, including exports by small businesses.
- *Protection of U.S. Intellectual Property:* The seventh section discusses the country's laws and practices with respect to protection of intellectual property rights.
- *Worker Rights:* The final section has three parts.
  - —The first (subsections a through e) outlines the country's laws and practices with respect to internationally recognized worker rights.
  - —The second (subsection f) highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested.
  - —Finally, a table cites the extent of such investment by sector where information is available.

The country reports are based on information supplied by U.S. embassies, which is analyzed and reviewed by the Department of State in consultation with other U.S. Government agencies. The reports are intended to serve as general guides to economic conditions in specific countries. We have worked to standardize the reports, but there are unavoidable differences reflecting large variations in data availability. In some 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 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 preliminary abridged versions of section 6 in the *Country Reports on Human Rights Practices for 1997*, submitted to the Committees on International Relations of the House of Representatives and on Foreign Relations of the U.S. Senate in January, 1997. For a comprehensive and authoritative discussion of worker rights in each country please refer to that report.

Subsection f. of the Worker Rights section highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested. A table cites the extent of such investment by sector where information is available. The Bureau of Economic Analysis of the U.S. Department of Commerce has supplied information on the U.S. direct investment position at the end of 1995 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—Genreal 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
USD—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]

	1994	1995[1]	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	5.1	6.0	6.2
Real GDP Growth (pct)[3]	3.8	4.5	5.0
GDP by Sector:			
Agriculture	2.3	2.8	2.5
Manufacturing	0.5	0.6	0.5
Services	1.6	1.9	1.6
Government	0.4	0.5	0.4
Per Capita GDP (USD)	314	363	364
Labor Force (000's)	5,900	6,000	6,150
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	46.3	37.5	40.0
Consumer Price Inflation	34.2	70.8	35.0
Exchange Rate (Cedis/USD—annual average)			
Official	957	1,200	1,680
Balance of Payments and Trade:			
Total Exports (FOB)[4]	1.2	1.5	1.5
Exports to United States (USD millions)[5]	199	196	175
Total Imports CIF[4]	1.7	1.7	1.9
Imports from United States (USD millions)[5]	125	167	288
Trade Balance[4]	−0.5	−0.2	−0.3
Balance with United States (USD millions)[5]	74	29	−113
Current Account Deficit/GDP (pct)	4.9	2.2	3.4
External Public Debt	5.0	5.1	5.2
Debt Service Payments/GDP (pct)	7.6	10.0	8.0
Fiscal Deficit/GDP (pct)	2.5	0.9	1.8
Gold and Foreign Exchange Reserves	0.6	0.7	0.7
Aid from United States (USD millions)	50	45	44
Aid from All Other Sources	0.6	0.7	0.7

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchant trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Ghana operates in a free market environment under a civilian government headed by elected President Jerry John Rawlings. Rawlings headed a "provisional" regime from the end of 1981 until January 1993 when democratic government under a written constitution was restored. A popularly elected Parliament took office in January 1993. Opposition parties boycotted the parliamentary elections because of a belief that the Presidential election was fraudulent. An independent judiciary acts as the final arbiter of Ghanaian laws. On December 7, 1996, President Rawlings was reelected with 57 percent of the vote in a contested election that was generally seen as free and fair. Rawling's party, the National Democratic Congress, won 133 of the 200 seats in the parliamentary election held at the same time.

Since 1983 Ghana has pursued an economic reform agenda aimed generally at reducing government involvement in the economy and encouraging private sector development. In 1992 fiscal discipline was relaxed during the runup to the Presidential and parliamentary elections. A large public sector wage increase resulted in a fiscal deficit and contributed to a worsening of inflation. In the past, undisciplined spending by parastatals has also contributed to excessive monetary growth and intensified inflationary pressures. During 1996, another election year, government spending has focused on infrastructure projects such as roads and the electric power distribution grid. As of mid-year 1996, the government was showing another sizable fiscal deficit requiring continued high levels of domestic borrowing from the banking system and the public.

The Bank of Ghana is currently pursuing a high interest rate policy in an attempt to absorb excess liquidity and contain inflationary pressures. Short-term interest rates are now in the 40–50 percent range. Inflation measured about 70 percent at year-end 1995 and was about 50 percent in late 1996. Adequate rains and good harvests in 1996 moderated upward pressure on food prices. However, year-on-year growth in the money supply was 42 percent in June 1996 compared with 36 percent in June 1995. This could have serious consequences for inflation and inflationary expectations in 1997.

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, but at a slow pace. Growth in the mining sector has been particularly brisk in recent years while agriculture (which still accounts for about 40 percent of GDP) 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 of virtually all local production subsidies is further indication of the government's intention to move toward a market orientation for the economy. Ghana is a member of the World Trade Organization.

2. Exchange Rate Policy

The foreign exchange value of the Ghanaian cedi is established through the mechanism of an interbank market, and foreign exchange is easily obtained. The foreign exchange auction procedure was abandoned in 1992. As the demand for imports has risen steadily, the government has allowed the cedi to depreciate. The cedi has declined from 822 per U.S. dollar at the end of 1993 to approximately 1,710 per dollar in November 1996. Since November 1995, the value of the cedi relative to the dollar has fallen by 21 percent. Nevertheless, Ghana's high rate of inflation has resulted in an appreciation of the cedi's real exchange rate. 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 (Economic Community of West African States) Trade Liberalization Program. With the elimination of import licensing in 1989, importers now are merely required to sign a declaration that they will comply with Ghanaian tax and other laws. Imported goods currently enjoy generally unfettered access to the Ghanaian market.

The government professes strong support for the 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 repealed a 17.5 percent value-added tax shortly after it was introduced in March 1995. The implementation of the tax was handled badly and resulted in widespread public protests and some street violence. The government has reverted to several previously imposed taxes, including a sales tax. It is widely believed that the need to generate additional tax revenue will force the government to revisit the question of introducing a VAT after the December elections.

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. During the second quarter of 1996 gold accounted for 36 percent of total export receipts, while cocoa accounted for 34 percent and timber for 6 percent. On the import side capital goods are the largest category, followed by intermediate goods, fuel and consumer goods.

Ghana's total external debt outstanding, including obligations to the IMF, totaled approximately $5.1 billion at the end of the first quarter of 1996. Outstanding obligations to the IMF under medium-term facilities stood at $645 million at the end of the first quarter of 1996. At that time long-term debt outstanding was about $3.9 billion (about 76 percent of total debt) of which $1 billion and $2.8 billion were owed to bilateral and multilateral institutions respectively. In 1991 Ghana cleared all external debt arrears. In June 1995 Ghana negotiated a new $245 million ESAF arrangement with the IMF.

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 1996 was 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 ban on the importation of a narrow range of products that do not significantly affect U.S. exports.

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

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

Investment barriers: 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, imports or credit. Separate legislation treats investments in mining and petroleum and applies equally to foreign and Ghanaian investors. The investment code no longer requires prior project approval from the Ghana Investment Promotion Center.

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

7. Protection of U.S. Intellectual Property

After independence in 1957 Ghana instituted separate legislation for copyright (1961) and trademark (1965) protection based on British law. The government passed new copyright and patent legislation in 1985 and 1992 respectively. Prior to communications. Labor conditions in these sectors do not differ significantly from the norm, save that wage scales in the metals and mining sector are substantially higher than elsewhere in the Ghanaian economy. U.S. firms have a good record of compliance with Ghanaian labor laws.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	3	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		170

[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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	41.6	65.6	N/A
Real GDP Growth (pct)[3]	1.0	2.1	4.0
Share by Sector: (pct)			
Agriculture	30.7	31.0	32.0
Manufacturing	6.9	6.9	7.4
Services	22.9	22.9	23.0
Government	10.3	10.2	10.6
Per Capita GDP (USD)	280	260	N/A
Labor Force (millions)	42.9	42.8	43
Unemployment Rate (pct)	28	30	27
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	39.1	10.3	N/A
Consumer Price Inflation	57	73	30
Exchange Rate: (naira/USD—annual average)			
Official	22	72	82
Parallel	85	83	83
Balance of Payments and Trade:			
Total Exports (FOB)[4]	9.4	10.6	N/A
Exports to United States[5]	4.4	4.8	6.0
Total Imports CIF[4]	7.3	9.3	N/A
Imports from United States[5]	0.5	0.6	0.8
Trade Balance	2.0	1.3	N/A
Trade Balance with United States[5]	3.9	4.2	5.2

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Current Account Deficit/GDP (pct)	−5.5	−5.6	N/A
External Public Debt	29.4	32.5	N/A
Debt Service Payments/GDP (pct)	17.2	16.4	N/A
Fiscal Deficit/GDP (pct)	7.7	0.05	N/A
Gold and Foreign Exchange Reserves	1.7	1.4	N/A
Aid from United States (USD millions)	113.5	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures, except exchange rates, are all estimates based on available monthly data in October 1996.
[2] GDP at factor cost. Conversion to U.S. dollars done with official exchange rate of 21.9 naira to the dollar.
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Nigeria is Africa's most populous nation and the U.S.' fifth largest oil supplier. It offers investors a low-cost labor pool, abundant natural resources, and the largest domestic market in sub-Saharan Africa. However, it also suffers from an autocratic military government, inadequate infrastructure, confusing and inconsistent regulations, and endemic corruption. Nigeria's crucial petroleum sector provides the government with over 90 percent of all foreign exchange earnings and about 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.

After a period of relative fiscal austerity in the late 1980's, the Nigerian Government ran budget deficits of up to 12 percent of GDP beginning in 1990. The deficit decreased to 7 percent in 1994 and, by postponing government spending (including for debt service), in 1995 shrank to negligible proportions. For the first 6 months of 1996, the budget ran a reported surplus. The deficit reduction and ensuing surplus came about primarily through austerity—e.g., foregoing government projects and infrastructure maintenance—as well as stronger-than-expected oil revenue. Recommendations by international financial institutions include reducing large government fuel price subsidies (the official price of gasoline was equivalent to about 55 cents per gallon in November 1996), shelving a number of government projects which are of doubtful economic value, and reducing leakages from government income due to corruption.

In previous years, monetary policy had 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 had been financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held 84 percent of the government's domestic debt at the end of 1995. Since the Central Bank 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 1996 Nigeria has continued the policy of "guided deregulation" instituted in the 1995 budget. In conjunction with his 1994 budget announcement, head of state General Sani Abacha announced the abandonment of most 1986 structural adjustment program reforms and instituted tight government control over key economic variables. In response to the economic downturn caused by those measures, Abacha's 1995 budget abandoned the tightly regulated economic policies enacted in 1994. Under the new policy, the Nigerian Government reopened the Autonomous Foreign Exchange Market (AFEM), loosened controls on foreign investment and reduced tariffs and bans on some imports. The 1996 budget continued the trend of fiscal austerity and the slow deregulation of the economy. Although the 1996 budget retained the cap on interest rates, the dual exchange rate mechanism, and subsidies for some commodities (such as fertilizer), in the second half of the year Minister of Finance Anthony Ani announced the removal of interest rate caps and mandatory sectoral credit allocations for banks. He also indicated that privatization of the telecommunications and electrical generating parastatals would commence in 1997.

2. Exchange Rate Policy

In 1996 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 80 naira to the dollar in November 1996). The official exchange rate of 22 naira to the dollar has been retained for some official government transactions. Companies can now hold domiciliary accounts in private banks, with account holders having "unfettered" use of the funds. Foreign investors may bring capital into the country without prior Finance Ministry approval, and may service foreign loans and remit dividends. Currency exchange offices are functioning, albeit with a limitation of $2,500 per transaction. The Central Bank has continued to intervene in the AFEM at regular intervals, going from monthly interventions in 1995 to weekly interventions in 1996. The Nigerian Finance Minister pledged to end the dual rates in the near future.

3. Structural Policies

As stated in the December 1986 circular, "Industrial Policy of Nigeria," the Nigerian Government maintains a system of incentives to foster the development of particular industries, to encourage firms to locate in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials. The Industrial Development (Income Tax Relief) Act of 1971 provides incentives to "pioneer" industries deemed beneficial to Nigeria's economic development. Companies given "pioneer" status may enjoy a non-renewable tax holiday of 5 years, or 7 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 the existing joint-venture agreement or production-sharing contracts with the Nigerian Government, though there has been discussion of the Nigerian Government selling off some or all of its part 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 begun to implement the 1995 money laundering decree, which introduced procedures designed to inhibit this practice, as well as a decree against advance-fee fraud, called 419 fraud after the section of the Nigerian criminal code that deals with it. The scope of 419 business fraud has brought international notoriety to Nigeria and constitutes a serious disincentive to exporters, since any international transaction must be thoroughly vetted and confirmed.

4. Debt Management Policies

Nigeria's foreign debt ballooned from $13 billion in 1981 to $24 billion in 1986, when sharply lower oil revenues and continued high import levels created larger balance of payments deficits. Debt service due including payment of arrearages is projected to be over $8 billion annually for the next several years. The 1996 budget allowed only $2 billion for foreign debt payments, thus ensuring continued buildup of arrears.

In January 1992 in an effort to reduce its external stock of debt, the Nigerian 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 45 cents to the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria was able to reduce its external debt by $3.9 billion, but the accumulation of arrears on other debt (especially Paris Club debt) since that time has kept external debt levels high. Including arrears, official foreign obligations exceeded $36 billion as of November 1996.

During the period 1986 to early 1992, on the basis of a comprehensive structural adjustment program, Nigeria reached three standby agreements with the IMF. The most recent of these was approved in January 1991 and lapsed in April 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.) Nigeria's record on debt repayment, meanwhile, has also deteriorated. In 1992 Nigeria made debt service payments of $2.7 billion against interest and principal payment obligations of $5 billion. Faced with similar obligations in the following years, external debt service payments were only $1.6 billion for 1993, $1.8 billion for 1994, $2 billion for 1995, and the budgeted debt service payments for 1996 was also $2 billion. Although discussions with the IMF and World Bank have begun on a medium term economic program, and Nigeria is making some progress at meeting their criteria, no new rescheduling agreement will be reached until an IMF program is in place again and a successful track record has been established.

5. Significant Barriers to U.S. Exports

Nigeria abolished all export licensing requirements and cut its list of banned imports in 1986. However, as of November 1996, the importation of approximately 20 different items is still banned, principally agricultural items and textiles. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although the bans are compromised by widespread smuggling, the reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. In addition, due to corruption, little of the heavily subsidized fertilizer reached the farmers.

In 1995 Nigeria announced a new tariff structure to be operated for the next 5 years. The revision was aimed at narrowing the ranges of many custom duties, increasing rate coverage in line with WTO provisions, with fewer 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; fruits and fruit juices, 75 percent; jute bags, 45 percent; sorghum, 100 percent; cigarettes, 200 percent; cotton, 60 percent; wheat, 10 percent; and passenger vehicles, from 30 to 100 percent. However, a 35 percent across the board reduction in import tariffs became effective on July 31, 1995, and is now being implemented, thus temporarily reducing the above listed duty rates. This action followed complaints of importers that customs 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 October 1995 the Nigerian ports authority reduced port charges by 60 percent in Lagos and 70 percent at the other delta ports.

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

In April 1996, in an effort to reduce congestion and corruption in Nigerian ports and following a reported shortfall in customs duties, the Nigerian Government changed the procedures by which goods enter or leave the country. The new regulations require a preshipment inspection for all unaccompanied imports and exports regardless of value, certifying the price, quantity, and quality before shipment; and imports must be accompanied by an import duty report (IDR). Goods arriving without an IDR will be confiscated by the Nigerian Government. In addition, all goods will be assessed a 1-percent surcharge to cover the cost of inspection by the port authorities.

Nigeria generally uses an open tender system for awarding government contracts, and foreign companies incorporated in Nigeria receive national treatment. Approximately 5 percent of all government procurement contracts are awarded to U.S. companies.

6. Export Subsidy Policies

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

The NEPC also administers the export expansion grant program, a fund which provides grants to exporters of manufactured and semi-manufactured products. Grants are awarded on the basis of the value of goods exported, and the only requirement for participation is that the export proceeds be repatriated to Nigeria. Though the grant amounts are small, ranging from two to 5 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 early 1993, Nigeria became a member of the World Intellectual Property Organization (WIPO) thereby becoming party to most of the major international agreements on intellectual property rights. Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Despite active participation in international conventions and the apparent interest of the government in intellectual property rights issues, little has been done to stop the widespread production and sale of pirated tapes, videos, computer software, and books in Nigeria.

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

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

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

8. Worker Rights

a. *The Right of Association:* Nigerian workers, except members of the armed forces and employees designated essential by the government, may join trade unions and may strike. Essential employees include firefighters, police, employees of the Central Bank, the security printers (printers of currency, passports, and government forms), and customs and excise staff. Nigeria has signed and ratified the International Labor Organization's (ILO) convention on freedom of association. However, the government has decreed a single central labor body, the Nigerian Labour Congress (NLC), and deregistered other unions. In 1994, the government dissolved the NLC executive council and imposed a sole administrator. Under Nigerian labor laws, any non-agricultural enterprise that employs more than 50 employees is obliged to recognize trade unions and must pay or deduct a dues checkoff for employees who are members. However, in the past, the government has threatened to withdraw the dues checkoff provision and make payment of union dues completely voluntary if unions pursue strikes. Furthermore, the government continues to hold labor leaders in detention without charge. As a result of the government's failure to abide by ILO conventions to which it has subscribed concerning worker rights and freedom of association, it was the subject of an ILO "special paragraph" censuring the Nigerian Government. The Nigerian Government has yet to accept an ILO fact finding mission or take other steps to mitigate the adverse findings that led to the ILO censure.

b. *The Right to Organize and Bargain Collectively:* The labor laws of Nigeria permit the right to organize and the right to bargain collectively between management and trade unions. Collective bargaining is common in many sectors of the economy. Nigerian labor law further protects workers against retaliation by employers for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court, which handles complaints of anti-union discrimination. Trade unionists have complained, however, that the Nigerian judicial system's slow handling of labor cases constitutes a denial of redress to those with legitimate complaints. The government retains broad authority over labor matters, and can intervene forcefully in labor disputes which it feels contravene its essential political or economic programs. It has taken such action in the case of the 1996 banning of the University Lecturers' Union to force an end to their strike, and in August 1994 when it dismissed the executive councils of the NLC and the two leading petroleum sector unions and replaced them with "sole administrators." The administrators remain in control pending national executive council elections that have yet to be held.

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

d. *Minimum Age for Employment of Children:* Nigeria's 1974 labor decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The law further stipulates that no person under the age of 16 may be employed for more than 8 hours per day. The decree allows the apprenticeship of youths aged 13 to 15 under specific conditions. The government does not specifically regulate service of apprentices over the age of 15. Primary education is compulsory in Nigeria, though rarely enforced, and studies have reported declining enrollment due mainly to the continuing deterioration of public schools. The lack of sufficient public school infrastructure has forced more children into the employment market.

e. *Acceptable Conditions of Work:* Nigeria's 1974 labor decree established a 40 hour 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 also states that workers who work on Sundays and legal public holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. The last government review of the minimum wage, undertaken in 1991, raised the monthly minimum wage from 250 naira to 450 naira ($20.45 in 1991 but only $5.60 in 1996). The 1974 decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents. Enforcement of these laws by the Ministry of Labor has been largely ineffective.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		58
Food & Kindred Products	(1)	
Chemicals and Allied Products	15	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	0	
Electric & Electronic Equipment	2	
Transportation Equipment	(1)	
Other Manufacturing	−3	
Wholesale Trade		(2)
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	595

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

SOUTH AFRICA

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
GDP (at current prices)	108.5	118.6	117.1
Real GDP Growth (pct)	2.5	2.8	2.3
GDP by Sector:			
Agriculture	5.6	5.2	5.4
Mining and Quarrying	9.3	9.2	9.3
Manufacturing	25.4	28.8	28.3
Wholesale/Retail Trade	17.3	19.3	18.9
Financial Services	17.8	20.2	20.5
General Government	16.7	18.0	17.3
Per Capita GDP (USD)	1,930	1,910	1,763
Labor Force (millions) [2]	12.3	12.3	12.3
Unemployment Rate (pct) [2]	40.0	40.0	40.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.6	13.9	17.9
Consumer Price Index	9.0	8.6	6.7
Exchange Rate: (rand/USD—annual average) [3]			
Financial	4.1	N/A	N/A
Commercial	3.6	N/A	N/A
Unified	3.6	3.6	4.1
Balance of Payments and Trade:			
Total Exports FOB [4]	22.9	26.4	N/A
Exports to United States [5]	2.0	2.2	2.3
Total Imports CIF [4]	23.5	29.2	N/A
Imports from United States	2.2	2.8	3.1
Trade Balance [5]	−0.6	−2.8	N/A
Trade Balance with United States [5]	−0.2	−0.6	−0.8
Current Account Deficit/GDP	0.3	2.1	N/A
External Public Debt [6]	27.9	32.0	N/A
Debt Service Payments/GDP (pct) [4]	55.5	56.9	N/A
Fiscal Deficit/GDP (pct)	5.7	N/A	N/A
Gold and Foreign Exchange Reserves	3.1	4.2	2.3
Aid from United States (USD millions)	212	187	176
Aid from Other Countries	N/A	N/A	N/A

[1] Estimates for 1996 are year-end projections based on second quarter estimates. The decline in the 1996 GDP estimate (at current prices) from the 1995 figure, which is presented in USD terms, is due to the almost 23 percent drop in the value of the South African rand against the USD over 1996.

[2] All estimates regarding population and unemployment are speculative due to incomplete censusing during apartheid era. The South African Government will soon release census statistics gathered in 1996 which will greatly improve official estimates.

[3] Prior to 1995, South Africa maintained an exchange rate for non-residents' financial transactions and another for all others. The dual exchange rate was eliminated under a unified rand in mid-March 1995.

[4] All South African trade statistics include export and import data for the five member countries of the Southern African Customs Union (SACU) (i.e., Botswana, Lesotho, Namibia, South Africa, and Swaziland). Trade within the SACU is not included.

[5]Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6]During the apartheid era, debt estimates were deflated by the South African Government as a matter of policy. Since late 1994 the accuracy of South African debt estimates released by the South African Reserve Bank has dramatically increased.

1. General Policy Framework

South Africa is a middle-income developing country with an abundant supply of natural resources, well-developed financial, legal, communications, energy, and transport sectors, a stock exchange which ranks among the ten largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. With nearly 3 years having passed since the historic election of President Nelson Mandela in the country's first multi-racial elections, South Africa remains the most advanced, broadly-based, and productive economy in Africa, with a Gross Domestic Product (GDP) nearly four times that of Egypt, its closest competitor on the African continent.

Despite decades of apartheid-era policies which ensured the inefficient use of human resources, underinvestment 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, resource inputs, and imported goods resulting from international sanctions, the South African economy is enjoying a strong period of recovery. After more than 4 years of negative real GDP growth from 1988-1992, the South African economy responded in 1993 with 1.1 percent real growth. Since the election of President Nelson Mandela in early 1994 the economy has posted real growth rates of 2.5 percent in 1994 and 2.8 percent in 1995. Estimates for 1996 growth hover around 3 percent. Most sectors of the economy have shared in this economic recovery.

The South African Government recently demonstrated its commitment to open markets, privatization, and a favorable investment climate with the release of its long-awaited macroeconomic strategy in June 1996. This strategy includes the introduction of tax incentives to stimulate new investment in labor-intensive projects, the expansion of infrastructural services, the restructuring of state assets, and continued reduction of tariffs to promote greater competition and industrial revitalization. Together with South Africa's demonstrated commitment to its World Trade Organization (WTO) commitments, South Africa has moved slowly but steadily toward free market principles. Implicit in these policies is recognition of the SAG's daunting developmental problems resulting from decades of apartheid-era policies. Black economic empowerment, promotion of small, medium, and microenterprises (SMMES), the extension of telecommunications, transportation, and other infrastructural links to unserved rural areas, and extensive job creation to offset rapid population growth estimated at 2.4 percent remain the SAG's highest governmental objectives.

Recent economic news, however, has not all been rosy. In the first half of 1996, the South African rand lost 22.65 percent against the US dollar (with the exchange rate going from approximately 3.62 R/$ to 4.68 R/$)."Public opinion has credited the Rand's decline with international concern over recent cabinet shufflings, speculation on the possible lifting of exchange controls, growing labor unrest, the proliferation of crime, and concern for South Africa's future after President Mandela. As a result, South Africa's balance of payments situation worsened significantly in 1996 as the deficit on the current account soared from $551 million to $3.5 billion in mid-1996.

Still, the South African Government has made steady progress in redressing many structural problems in the South African market. Over the last decade, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African Reserve Bank now operates in much the same way as western central banks, influencing interest rates and controlling liquidity through its rates on funds provided to private sector banks, and to a lesser degree through the placement of government paper. In the past 4 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 South African Government primarily finances its sizable debt through the issuance of R150 denomination government bonds. To a lesser extent due to its adverse effect on reserves, the government has opted to finance some short-term debt through the sale of foreign exchange and gold reserves. As a corollary of its restrictive financial policies, the South African Government has not opted for financing deficit spending through loans from either domestic or international commercial banks.

2. Exchange Rate Policy

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

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

Nonetheless, South Africa still maintains several capital controls to prevent large capital outflows. A cautious and gradual approach to further liberalization is the most likely scenario as current South African gold plus foreign exchange reserves provide for about only 1 month coverage of imports. Most salient among the remaining foreign exchange controls is the requirement that all South African nationals intending to purchase foreign exchange apply for a license to do so with the South African reserve bank. The South African Government is more likely to approve foreign exchange purchases for investment abroad if the foreign partner of the South African party conducts an asset swap, whereby an equivalent amount of foreign exchange is invested in South Africa by the foreign partner as collateral. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the SAG will do so until foreign reserve levels approach the three-month coverage level.

3. Structural Policies

Prices are generally market-determined with the exception of petroleum products and certain agricultural goods. Purchases by government agencies are by competitive tender for project or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content. Parastatals and major private buyers, such as mining houses, follow similar practices, usually inviting only approved suppliers to bid.

The main sources of government revenue in South Africa are incomes 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 South African 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 the increasing expenditure mandated by the socio-economic policies of the Reconstruction and Development Program (RDP). While maintaining the maximum personal income tax rate at 45 percent on incomes in excess of R80,000 (about $17,000) for married taxpayers and R56,000 (about $11,900) for single taxpayers, the government did, however, impose in 1994 a "one-time" levy of 5 percent on all income over R50,000 (about $10,600)—both corporate and individual—to finance overruns associated with the governmental transition. Although officials promised that this tax would be a "one-time only" assessment, rumors of a second levy have already surfaced.

On a more positive note, the South African Government has undertaken some measures in the past 2 years to ease the tax burden on foreign 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 1 October 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 South African Government declared a unilateral standstill on amortization payments to private concerns. Interest payments, however, were continued, and amortization payments to international organizations and foreign governments were unaffected, obviating the need for a Paris Club rescheduling. The debt "standstill" was regularized in an arrangement with private creditors in 1986. In 1990, South Africa and its private creditors negotiated a third extension of that arrangement through the end of 1993. In September 1993, the government, with the consensus of South Africa's major political parties, finalized a debt agreement with major western banks on $5 billion worth of mostly private debt caught inside the "standstill net."

During the apartheid era, actual debt estimates were considered state secrets of the South African Government. Those debt estimates released by the government and reported by international financial authorities during the apartheid years must, therefore, be viewed with skepticism. With the election of President Mandela, the South African Reserve Bank has sought to redress this problem and issue revised estimates of foreign and domestic debt. Although these revisions reflect a significant upward adjustment of previous estimates, they, nonetheless, indicate relative debt stability in recent years. At the end of 1995, the SARB reported that total foreign debt, including rand-denominated debt held by non-residents, amounted to approximately $32 billion. The ratio of total foreign debt to GDP has remained steady at around 25–27 percent over the past 4 years, while interest payments as a percentage of total export earnings have also been steadily declining slightly from 6.6 percent in 1993 to 6.3 percent in 1994 to 6.9 percent in 1995.

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

5. Significant Barriers to U.S. Exports

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

Although the South African Government eliminated the much-maligned import surcharge on all goods effective October 1, 1995, in conformance with its WTO commitments, it still maintains a complex tariff structure. Nonetheless, the South African 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.

6. Export Subsidies Program

The primary subsidy regime of the South African Government has been 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 South African 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 again in early 1996, and is expected to eliminate the program wholesale before the end of 1997. Under the most recent revision in June 1996, all export subsidies, except for those applied to fully manufactured products were eliminated. An export subsidy of 6 percent of local content remains in effect for certain manufactured goods until 31 March 1997.

Instead, the South African 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 is the government's newest means of promoting 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 Rights

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

The SAG attempted to pass three new IPR laws in 1996 to improve further its efforts to reach full WTO standards for IPR protection, but only managed to push one through during this parliamentary session. The "Intellectual Property Laws Rationalization Act, 1996" integrates existent intellectual property rights in the former homelands into the South African system and extends IPR rights to the former homelands.

Two other bills were submitted to committee but failed to make a floor vote due to the press of business in Parliament. The "Intellectual Property Laws Amendment Bill" proposes amendments to the Patents Act of 1978, the Trademarks Act of 1993, the Copyright Act of 1978, the Designs Act of 1993, the Merchandise Marks Act of 1941, and the Performers' Protection Act of 1967. It is intended to ensure, inter alia, complete compliance with the provisions of the WTO's agreement on the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Article 6 of the Paris Convention. The "Counterfeit Goods Bill" creates for the first time in South Africa the offense of "dealing in counterfeit goods." It conveys new powers to the police, customs and excise, and DTI inspectors to exercise powers of search and seizure of counterfeit goods and store them pending outcome of a trial. It permits a court to order forfeiture of couterfeit goods even if the claim against the defender is not substantiated, and for a civil court to grant ex parte search and seizure orders to preserve evidence for civil proceedings. It also makes provision for application to customs by IPR holders to impound counterfeit goods upon importation. These two bills are expected to be passed during the first session of Parliament in 1997.

In recognition of progress made on the IPR front, U.S. Trade Representative Charlene Barshefsky announced on October 2, 1996, that South Africa would remain off the Special 301 Watch List, from which it was provisionally removed last April.

South Africa is a member of international intellectual property treaties such as the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Artistic and Literary Works, and the World Intellectual Property Rights Organization (WIPO).

8. Worker Rights

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

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

The right to strike is also guaranteed in the constitution, and is given statutory effect by the new Labor Relations Act. The LRA has established a simple procedure for a protected strike, with the requirement that the dispute first be referred for conciliation. If conciliation fails to resolve the dispute, then a trade union is entitled to engage in a legal strike. Such a strike is not liable to criminal or civil action. The LRA does, however, permit employers to hire replacement labor for striking employees after giving 7 days notice to the striking trade union.

The LRA also accords the right to strike to public sector employees, with the exception of essential services and the three components of the security services mentioned above. While this right was first asserted in the public sector Labor Relations

Act of 1993, the new LRA simplifies and rationalizes collective bargaining in the public sector and the resort to industrial action.

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

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

Several recently-created fora have served to strengthen and institutionalize the role of collective bargaining in recent months. The creation of the National Economic Development and Labor Council (NEDLAC), a tripartite negotiating forum, has served to solidify the role of trade unions as social partners with government and business in the formation of economic and labor policy. In addition, the new LRA creates workplace fora which will allow for better shopfloor communication between management and labor over issues of work organization and production. To receive statutory protection, these fora can only be initiated by trade unions in businesses with more than 100 employees. It is hoped that these provisions will be expanded in time to include workplaces with smaller workforces.

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

South Africa has no export processing zones.

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

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

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

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

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

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		672
Food & Kindred Products	39	
Chemicals and Allied Products	173	
Metals, Primary & Fabricated	64	
Machinery, except Electrical	126	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	206	
Wholesale Trade		123
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		142
TOTAL ALL INDUSTRIES		1,269

(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]

	1994	1995	1996 [2]
Income, Production and Employment:			
Nominal GDP [3]	300.3	312.1	340.5
Real GDP Growth (pct)	5.5	3.5	3.4
GDP by Sector: [4]			
Agriculture	11.2	10.5	12.9
Manufacturing	86.0	88.2	94.1
Services	186.7	199.3	218.9
Government	11.0	11.3	12.2
Per Capita GDP (USD)	16,700	17,300	18,900
Labor Force (000s)	8,775	9,001	9,008
Unemployment Rate (pct)	9.7	8.5	8.6
Money and Prices (annual percentage growth):			
Money Supply (M3)	10.4	9.2	8.6
Consumer Price Inflation	2.5	5.1	1.6
Exchange Rate (Aust$/USD)—annual average)			
Market	1.37	1.35	1.28
Balance of Payments and Trade:			
Total Exports FOB	47.4	52.8	59.5
Exports to United States [5]	3.2	3.3	3.8
Total Imports CIF	49.8	57.3	59.7
Imports from United States [5]	9.8	10.8	12.0
Trade Balance	−2.4	−4.4	−0.1
Balance with United States [5]	−6.6	−7.5	−8.3
Current Account Deficit/GDP (pct)	5.0	6.3	4.2
External Public Debt	69.5	74.6	83.5
Debt Service Payments/GDP	2.4	2.7	2.5
Fiscal Deficit/GDP (pct) [6]	2.9	2.1	1.1
Gold and Foreign Exchange Reserves	14.3	15.0	17.5
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 are calculated in Australian dollars.
[2] 1996 figures are all estimates based on available monthly and quarterly data in November 1996.
[3] GDP at factor cost.
[4] Production measure of GDP—does not sum to income measure used for nominal GDP
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] Fiscal deficit is for Australian Financial Year. Underlying deficit equals headline deficit minus asset sales and debt repayments.

1. General Policy Framework

Australia has a developed market economy, dominated by the services sector, which accounts for around 65 percent of GDP. The agricultural and mining sectors combined represent only 4 percent of GDP, yet account for 58 percent of the total value of goods and services exports. While occupying a continent the size of the contiguous United States, Australia has only a relatively small domestic market (population: 18.1 million).

The Australian economy is currently experiencing a cyclical downturn, with economic growth strong and inflation low, but weak employment growth. In July 1996, the Reserve Bank of Australia (RBA) decided that monetary policy could be loosened without igniting inflationary pressures, and announced the first of two cuts in official interest rates (the second came in November). The official cash rate is currently 6.5 percent.

In its AFY 1996–97 budget (Australian fiscal year ends June 30), the new coalition government announced its plan to return the Federal budget to an underlying balance by AFY 1998–99. (The underlying balance removes debt repayments and asset sales from the standard headline balance, and is used by the Australian Government as the standard measure of the its fiscal position). The Federal Treasurer delivered an underlying budget deficit of US$4.4 billion in AFY 1996–97 (1.1 percent of GDP), and a marginal headline budget surplus. The reduction in the underlying deficit was achieved almost entirely through cuts in government outlays; if the GOA wishes to meet its balanced budget target, it will almost certainly have to make changes to taxation and revenue arrangements.

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 (US$3,900) in cash is to be taken out of Australia at any one time, or A$50,000 (US$39,000) 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 Australian Government is continuing a program of economic reform, begun in the 1980's, that includes an accelerated timetable for the reduction of import protection and microeconomic reform. Initially broad in scope, the program now focuses on industry-by-industry changes. The government is also continuing with the privatization of government assets, with the national air carrier Qantas fully privatized, the partial float of the Commonwealth Bank completed in mid–1996, and the one-third float of the government telecommunications carrier Telstra planned for 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 (25 and 37 percent respectively). These tariffs are scheduled to decline to 15 and 25 percent respectively by 2000. Other forms of industry support (such as production subsidies and export promotion schemes) have generally been either eliminated or reduced.

There have been no major reforms in the Australian taxation system in recent years, with the only change of any note being a rise in the tax on corporate profits from 33 to 36 percent (announced in 1996).

4. Debt Management Policies

Australia's net foreign debt throughout 1995 and 1996 has averaged between USD 140 and 150 billion, or just below 40 percent of GDP. Australia's gross external public debt in 1996 is estimated to be USD 83 billion, or 24 percent of GDP. Public debt accounts for 45 percent of Australia's gross external debt; the remaining 55 percent is owed by 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. Standard and Poor's general credit rating for Australia remained AA during 1996.

5. Significant Barriers to U.S. Exports

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

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

Services barriers: The Australian services market is generally open, and many U.S. financial services, legal and travel firms are established 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 50 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. This ruling has little effect on sales of U.S. programming to Australian broadcasters. 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. State governments restrict the development of private hospitals as a means of limiting public health expenditures (medical expenses for private hospital care are paid through government health programs).

Standards: 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 under the WTO.

Labelling: 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 labelling requirements are being reconsidered in light of compliance with WTO obligations, lack of utility and effect on trade.

Investment: The government registers (but normally raises no objections to) proposals above certain notification thresholds where the relevant total assets/investments involved fall below A$50 million (US$39 million). Notification thresholds are A$3 million for purchases of rural properties, A$5 million for acquisitions of substantial interests in other existing businesses, A$10 million for the establishment of new businesses, and A$20 million for offshore takeovers. 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 uranium mining, 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$8–32 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 Australian Government agencies in planning and implementing information technology (IT) purchases. The ITSCUCP comprises a broad range of private companies (unlike its Restricted Systems Integration Panel predecessor). 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.

The Australian Government's 1994 Employment and Industry Policy Statement requires industry impact statements to be drafted for government procurements of A$10 million (US$8 million) or more, and establishes a two-envelope system for such tenders. Bidders are required to submit detailed information regarding Australian industrial development separately (in the second envelope), and bids are judged both on price/product specifications and industrial development grounds.

Quarantines: Australia's geographic isolation has allowed it to remain relatively free of animal diseases, such as rabies and foot-and-mouth disease. Australia imposes extremely stringent animal and plant quarantine restrictions. The Australian Government is still examining measures that would allow the lifting of phytosanitary barriers to the importation of U.S. salmon and cooked chicken.

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

As a WTO member, Australia is subject to WTO rules on subsidies and has joined with the United States in negotiations to limit export subsidy use.

The new coalition government severely curtailed assistance schemes to Australian industry in its Federal budget for AFY 1996–97. Under the Export Market Development Grants Scheme, the Australian Government gives grants to qualifying firms of up to A$200,000 (US$160,000) 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. Consultations under WTO procedures on export subsidies granted under the latter program to leather upholstery products for automobiles were resolved without resort to formal dispute proceedings after the Australian Government agreed to remove the products from the scheme. Grants schemes and tariff concessions were subject to expenditure reductions in the 1996–97 Federal budget. The Research and Development Tax Concession (available to firms undertaking eligible R&D) was also reduced from 150 percent to 125 percent. "Bounties" (i.e. production subsidies) were also cut heavily in the August budget. The only remaining bounty is one assisting producers of computer components, and it is due to expire on July 1, 1997.

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

Patents, trademarks, designs and copyrights of integrated circuits are protected by Australian law. Australia is a member of the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Geneva Phonogram Convention, the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations, and the Patent Cooperation Treaty. Australian law is broad and protects new technology, including genetic engineering.

Patents: Patents are available for inventions in all fields of technology (except for human beings and biological processes 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). In 1995, a disagreement surfaced between the United States and Australia regarding the application of a WTO requirement under the TRIPs agreement to protect test data. USTR has placed Australia on the Special 301 watch list because it does not provide adequate protection for test data submitted to regulatory authorities for marketing approval of pharmaceutical and agricultural chemicals. Discussions on this issue continue.

Trademarks: Trade names and trademarks may be protected for 10 years and renewed at will by registration under the Trademark Act, 1995. Once used, trade names and trademarks may also be protected by common law without registration. Some protection also extends to parallel importing, that is, imports of legally manufactured products ordered by someone other than a person or firm having exclusive distribution rights in Australia. Parallel importation is allowed for books under strictly limited conditions, and has been proposed for sound recordings. Australia has undertaken a review of compact disc pricing with a view to eliminating its ban on parallel imports. In September 1993, the Australian Copyright Law Review Committee recommended that parallel importation of computer software be allowed under strict limitations. No action has yet been taken on that recommendation.

Copyrights: Copyrights are protected under the Copyright Act, 1968. Works do not require registration and copyright automatically subsists in original literary, artistic, musical and dramatic works, film and sound recordings. Computer programs are considered legally to be literary works. Copyright protection is for the life of the author plus 50 years. The Australian Copyright Act provides protection regarding public performances in hotels and clubs and against video piracy and unauthorized third-country imports. No complaints about unauthorized public showings of films have been received for over 5 years.

New technologies: Illegal infringement of technology does not appear to be a significant problem. Australia has its own software industry and accords protection to foreign and domestic production. Australia manufactures only basic integrated circuits and semiconductor chips. Australian television networks, which pay for the rights to U.S. television programs, jealously guard against infringement. The fledging Australian cable TV networks appear to be doing the same.

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 the 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 ILO conventions which Australia has ratified, and are not practiced in Australia.

d. *Minimum Age for Employment of Children:* The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but the enforced requirement in every state that children attend school until age 15 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2.643
Total Manufacturing		8,466
Food & Kindred Products	1,829	
Chemicals and Allied Products	2,323	
Metals, Primary & Fabricated	465	
Machinery, except Electrical	745	
Electric & Electronic Equipment	236	
Transportation Equipment	709	
Other Manufacturing	2,159	
Wholesale Trade		2,250
Banking		1,949
Finance/Insurance/Real Estate		2,425
Services		1,055
Other Industries		5,914
TOTAL ALL INDUSTRIES		24,713

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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	549	702	830
Real GDP Growth (pct)	11.8	9.5	10.0
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 (USD)	457	579	674
Labor Force (millions)	647	655	663
Unemployment Rate (‸)[2]	2.8	2.9	3.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	34	29	25
Consumer Price Inflation	24.1	17.1	9.0
Exchange Rate (RMB/USD—annual average)			
Official[3]	8.5	8.3	8.3
Balance of Payments and Trade:			
Total Exports (FOB)[4]	121.0	148.8	150.0
Exports to United States[5]	38.8	45.5	51.9
Total Imports (CIF)[4]	115.6	132.1	136.0
Imports from United States[5]	9.3	11.8	11.6
Trade Balance [4]	5.4	16.7	14.0
Balance with United States[5]	29.5	33.7	40.2
Current Account Surplus/GDP (pct)[6]	1.0	2.4	1.7
External Public Debt	92.8	106.6	120.0
Debt Service Payments/GDP (pct)	9.1	7.3	7.0
Fiscal Deficit/GDP (pct)[7]	1.2	1.0	0.9
Gold and Foreign Exchange Reserves	51.6	73.6	103.0
Aid from United States	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in November 1996. Sources: State Statistical Bureau Yearbook, PRC General Administration of Customs statistics, IMF and World Bank Reports, U.S. Department of Commerce trade data and Embassy estimates.

[2] China's official unemployment rate reflects only those persons who have officially registered as unemployed in urban areas, and does not reflect serious disguised unemployment in state-owned enterprises and in rural areas. Unofficial estimates of urban unemployment range from 10 to 15 percent.

[3] Prior to 1994 China maintained a dual exchange rate system China - 2with an official rate and a parallel "swap market" rate. In January 1994 these two rates were unified.

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

[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

[6] China does not have reliable data on trade in services. The numbers reported for this line represent China's merchandise trade surplus as a percentage of GDP.

[7] Based on official revenues; does not include off-budget receipts from government-owned investments which the World Bank estimates could be roughly equal to official revenues.

1. General Policy Framework

The Chinese economy has grown at an average rate of 9 percent per year since the 1979 economic reforms. Real GDP growth may reach 10 percent in 1966, according to official projections. (Though China's official GDP figures tend to overstate growth, official data in general reflect significant economic trends.) China appears to have achieved a "soft landing" of single-digit inflation and stable growth in 1996. Retail price inflation, which exceeded 20 percent in 1994, stood at only 7.1 percent at mid-1996 compared to the year-earlier period. Price increases for services and agricultural products have been running somewhat higher, however. China continues to attract large inflows of foreign direct investment based on tax incentives, policies generally focused on the use of market forces to sustain growth, and the economic dynamism of the rapidly growing private sector. China's foreign direct investment inflows are expected to be about $40 billion in 1996, second only to those of the United States.

The government's five-year plan for 1996–2000 reaffirmed the importance of China's economic expansion by calling for 8 to 9 percent annual GDP growth through 2000 and a further doubling of GDP during 2000–2010. Economic reform and opening to the outside world are central to China's development. However, the Five-Year Plan reconfirmed the role of state-owned enterprises, which still directly account for roughly 40 percent of total industrial output. About one-half of China's state-owned enterprises are reporting losses in 1996. The central government is cautious about promoting further state sector reform. Although such reform could lead to greater efficiency, it might also result in much greater unemployment and social instability. Substantial underemployment (estimated at 23 million persons) in the state sector workforce is not reflected in the official estimate of an urban unemployment rate of 3 percent. "Triangular debt" incurred by state-owned enterprises, their banks and their suppliers remains large and inhibits economic and banking reform; many of these debts are unlikely ever to be paid with cash or goods. Accounts receivable held among Chinese firms in October 1996 stood close to RMB 1 trillion (roughly 15 percent of GDP), compared to RMB 760 billion 1 year earlier.

As China deepens its reforms, new challenges will include the establishment of legal and political structures to sustain high levels of foreign as well as private domestic investment. China must also develop capital markets and financial institutions to allocate more efficiently the large amounts of savings in the economy and to fund, both domestically and internationally, infrastructure essential to sustained growth.

China made significant import tariff adjustments affecting approximately 5,000 commodities on April 1, 1996. China's simple average tariff rate declined from 35.9 percent to 23 percent. The government maintains that it will reduce this simple average rate to 15 percent by the year 2000. However, a number of important U.S. export commodities, such as grains, to which China had previously accorded duty-free treatment saw import duties of 1 percent imposed. Furthermore, China announced that grains, oilseeds, and vegetable oils became subject to tariff-rate quotas (in-quota imports pay a very low duty; over-quota imports may face prohibitively high tariff rates exceeding 100 percent). More than a half-year later, China has not formulated and published its quota levels and quota administration procedures for these high-volume imports for which the United States is an internationally competitive supplier. Customs revenues increased sharply in 1996, but still high nominal tariff rates on automobiles, spirits and other goods continue to encourage smuggling, with its attendant government revenue losses and enticement for corruption.

A key national priority of the 1996–2000 five-year plan is to deal with growing regional income disparities. This requires strengthening the government's fiscal capacity and its ability to redistribute wealth equitably. Tax reform has led to a more simplified code and has reduced the gap in tax rates for state-owned and other enterprises. However, tax reforms and the new tax system have yet to raise significantly real government revenues or the share of government revenues in GDP, two key objectives.

China's financial system remains small in comparison to the nation's economic ambitions and inhibits the efficient allocation of capital. However, China is moving forward with the legal framework needed to improve the banking sector, including laws governing the central bank and commercial banks in 1995. China now has about 170 foreign bank branches and representative offices concentrated in coastal areas and large inland cities, including Beijing and Chengdu. The entry of these banks reinforces China's efforts to carry out financial sector liberalization. Their presence in the market is an important channel for technology and know-how to drive further 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. China's large state banks are grappling with this problem, but liquidating state enterprise assets would raise unemployment in the near term.

2. Exchange Rate Policies

Foreign-invested enterprises and authorized Chinese firms generally have liberal access to foreign exchange for current account transactions. China maintains favorable foreign exchange rules for foreign-invested enterprises (FIEs), which can have foreign currency deposits and keep their foreign exchange earnings. Chinese enterprises are required to sell their foreign exchange earnings to Chinese banks. One effect of this policy is an artificially high level of foreign exchange reserves held at the central bank (the People's Bank of China).

The People's Bank of China announced that, effective December 1, 1996, the renminbi would be convertible on current account (trade) transactions. The move marks an important step forward on currency convertibility, though China still falls short of full convertibility on its capital account. This liberalization clearly removes foreign exchange balancing from the agenda of China's financial authorities and places it squarely on its trade agencies and the State Planning Commission. In the past, balancing requirements placed on most foreign investors in China have been "justified" by China's perceived need to accumulate greater amounts of foreign exchange reserves. In preparation for convertibility, China has accumulated over $100 billion in foreign exchange reserves. The new policy should obviate any need to impose new or audit old foreign exchange balancing requirements. Whether China will invalidate existing foreign exchange balancing requirements placed on earlier investment approvals (and which remain as specific provisions in individual approval documents) is still uncertain.

Chinese authorities describe the exchange rate as a "managed float." Through 1996, the renminbi/dollar exchange rate has rarely and only shortly moved from 8.3:1. The exchange rate is permitted to fluctuate in a narrow band around central rates announced by the People's Bank of China. China uses the RMB/dollar exchange rate as the basic rate, and RMB rates against other currencies are calculated by referring to international market rates of the previous day. China still lacks a foreign exchange market where foreign exchange dealers interact directly with international markets. China lacks market interest rates.

3. Structural Policies

Chinese officials claim that prices have been freed for about 95 percent of consumer goods and 85 percent of industrial inputs. As part of its effort to control inflation, however, the Chinese Government has intervened in pricing for daily necessities, basic urban services, and key commodities. China continues to maintain discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. At the same time, foreign-invested enterprises often may use incentives, tax holidays, and grace periods to pay less than the 33 percent corporate income tax to which they would otherwise be subject. Chinese firms pay a corporate income tax of 30 percent. State Planning Commission officials have stated that the central government is trying to curb local governments' use of tax incentives (such as holidays or lowered rates tied to export performance) to attract foreign investment.

In 1994, China issued a "Framework Industrial Policy for the 1990's" which announced plans to develop policies for the automotive, telecommunications and transportation, machinery and electronics, and construction sectors. The automotive industrial policy, issued in July 1994, contains trade-restrictive import controls, local content and other performance requirements for foreign investors, and temporary price controls for sedans. In autumn 1996, China's State Council was reviewing draft industrial policies for the electronics, machinery and construction industries. Industrial policies for telecommunications services and water resources (including irrigation) may follow in the near term.

In 1996, the State Tax Administration implemented further reductions in the value-added tax rebate on exports begun in 1995. This contributed to negative growth in China's exports in the first half of 1996, but exports picked up later in the year, perhaps not coincidentally as tax authorities made progress in paying off past-due value-added tax rebates to many exporters.

4. Debt Management Policies

At the end of 1995, China's external debt stood at about $107 billion, or 72 percent of annual exports, according to official Chinese data. In the context of China's strong export performance and high foreign exchange reserve levels, its current external debt burden remains within acceptable limits. China's 1995 debt service ratio was 11.2 percent (ratio of repayment of principal and interest on foreign debt to foreign exchange receipts of exports plus services), down from 9.1 percent in 1994, according to Chinese data. China's ratio of foreign debt to GDP declined from 17 percent in 1994 to 15 percent in 1995. The Asian Development Bank, the World Bank, and Japan are China's major creditors, providing approximately 60 percent of all China's governmental and commercial loans.

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

China's government bond market is still in its infancy. China established a system of primary dealers in 1994 and there are officially about 50 dealers. The Ministry of Finance authorizes them to underwrite bonds on a contract basis for domestic customers. In July 1995, China "auctioned" bonds on a very small scale, but financial experts do not regard these transactions as standard competitive bidding because priority was assigned not according to interest rates but to dealers who most quickly turned in their funds. Domestic interest rates on government bonds are fixed at about 1 percentage point above bank savings rates, which are "policy," not market, rates. In the last several years, China has introduced a wider variety of maturities and instruments to manage its external and internal debt, but the trend is generally toward more short- and medium-term maturities (six months and 1-5 years). Some experts have observed that the sharp rise in government borrowing in 1994 and 1995 (about RMB 103 billion and RMB 150 billion, respectively) reflects the decision of the Third Plenum of the 14th Communist Party Congress that fiscal deficits should be covered by bonds and not indiscriminate "policy loans."

5. Significant Barriers to U.S. Exports

Although reforms are liberalizing its trade regime, China continues to impose serious barriers to U.S. exports. Notwithstanding April 1, 1996, tariff rate adjustments, China's prohibitively high nominal tariffs discourage many imports. Chinese officials note that customs collections, while increasing, are still considerably below published tariff rates. China maintains several hundred formal nontariff barriers to restrict imports, such as import licensing requirements; import quotas, restrictions, and controls; as well as standards and certification requirements. China's restrictive system of trading rights, which severely limit the ability of domestic and foreign-invested enterprises to directly import and export, raises the cost of imported goods in China by restricting the sorts of goods that may be imported by a particular firm and by funneling many imports through fee-collecting foreign trade companies. In many transactions, U.S. suppliers are unable to sell directly to their ultimate customers in China. Lack of regulatory transparency remains an important problem, although China has made important progress in publishing trade-related rules. Use of unscientific sanitary and phytosanitary measures, quotas and high tariffs are barriers to exports of some U.S. agricultural goods.

On October 10, 1992, the United States and China signed a memorandum of understanding (MOU) on market access that commits China to dismantle most of these barriers and gradually open its markets to U.S. exports. The actions China has committed to take are consistent with the obligations that would be required for accession to the World Trade Organization (WTO). In implementing the 1992 Market Access MOU, China has published numerous previously "confidential" trade laws and regulations, both at the national and subnational levels. Publication of trade-related laws and regulations does not always precede implementation. Information on China's import quotas, crucial for foreign and domestic traders, has not been published on an itemized basis. However, during negotiations on its WTO accession in Geneva in November 1996, China committed to a "standstill" on WTO-inconsistent regulations.

As a direct result of the market access MOU, China has removed over 1,000 quotas and licenses on a wide range of key U.S. exports such as telecommunications digital switching equipment, computers, many agricultural products, and medical equipment. The latest tranche of nontariff measures (NTMs) was eliminated on January 1, 1996, as scheduled in the agreement. China currently retains NTMs on 384 tariff line items, according to Chinese trade officials. Under the 1992 MOU, China is scheduled to remove more of these NTMs by the end of 1996 and the end of 1997.

Despite the removal of these quotas and licenses, China is still erecting significant new barriers to imports. Examples include new procedures for purchases of large-size medical equipment and registration requirements for imported (but not domestically manufactured) chemicals. The automotive industrial policy includes a number of clauses that affect car and car part imports. In addition, continued restrictions on trading rights can act as a barrier for imports after quotas have been removed, as in the case of crude oil imports. The United States is also seeking market access liberalization in the context of its bilateral agreement on textile trade with China, which was under negotiation as of January 1997.

High and unpredictable tariffs make importing into the Chinese market difficult. Tariffs on imports can run as high as 120 percent on goods such as automobiles. Although foreign-invested enterprises have been able to import capital equipment for their projects duty free, phase-out of this exemption (with longer time allowed for bigger projects) began in the spring of 1996. Under commitments in the 1992 Market Access MOU, China lowered tariffs on several thousand items of interest to U.S. exporters. As part of China's effort to accede to the WTO, the United States is negotiating with China on further reduction of tariffs of interest to U.S. companies.

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), live cattle, bovine embryos and bull semen. As a result of negotiations, China has signed a number of protocols covering the import of agricultural commodities not included in the MOU.

For manufactured goods, China has required quality licenses before granting import approval, with testing based on standards and specifications often unknown or unavailable to foreigners and not applied equally to domestic products. In the market access MOU, China committed to applying the same standards and testing requirements to both foreign and domestic nonagricultural products. New safety standards implemented in October 1996 have prompted fresh allegations that imported products are treated discriminatorily.

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

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

China has only recently begun to reform and open its services sector, and in most areas severely restricts or prohibits access to the market. China has initiated limited experiments in such areas as insurance, retailing, legal services, and tourist resorts. In insurance, Guangzhou was added to Shanghai in 1995 as a second city with limited (one company) foreign participation. In retailing, the Ministry of Internal Trade announced late in 1996 a plan to open all provincial capitals to joint venture department stores approved at the central level (with full trading rights). The earlier restriction had been 22 stores in 11 cities and special economic zones, although many joint venture department stores have been approved at the provincial or municipal level (without trading rights). Access in two key areas of interest to U.S. companies, value-added telecommunications and financial services, remains severely restricted.

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

Significant barriers to investment in China warrant further reform. Multiple, time-consuming approval procedures adversely affect establishment of investments. Depending on the locality, investments above $30 million require national as well as local approval. Export requirements, local content requirements, and foreign exchange balancing requirements detract from China's investment climate. China also encourages the development of favored domestic industries through tax incentives and tariff exemptions. China permits repatriation of profits when a joint venture has earned sufficient foreign exchange to cover the remitted amount. China published investment guidelines in June 1995 cataloguing those sectors in which foreign investment is encouraged, allowed, restricted, or prohibited. China does not provide national treatment to foreign investors on establishment or operation of investments. In some key areas, such as input costs, foreign investors are often treated less favorably than Chinese firms. Foreign investors may not own land in China, though long-term land use deals may be approved. In at least one case, a U.S. company has thus far been unable to have an international arbitration award enforced in China.

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

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

6. Export Subsidies Policies

China abolished direct subsidies for exports on January 1, 1991. Nonetheless, many of China's manufactured exports receive indirect subsidies through guaranteed provision of energy, raw materials or labor supplies. Other indirect subsidies are also available such as bank loans that are not repaid or enjoy lengthy or preferential terms. Import/export companies also cross-subsidize unprofitable exports with earnings from more lucrative products. Tax rebates are available for exporters as are duty exemptions on imported inputs for export production. China reduced the level of its value-added tax rebates to exporters in 1995, and fell billions of dollars behind in making payments on the rebates.

In its on-going negotiations to accede to the World Trade Organization, China maintains that it should have the right to reintroduce export subsidies for agricultural goods at some point in the future.

7. Protection of U.S. Intellectual Property

With the June 17, 1996 report on Chinese enforcement actions under the February 1995 bilateral intellectual property rights (IPR) enforcement agreement, China agreed to continue making efforts to improve enforcement of its IPR laws and regulations. Under a Section 301 review leading up to the report, the United States had begun to examine possible retaliatory action because China had not made significant progress in meeting its commitments under the 1995 agreement, but the U.S. Trade Representative determined that action was not needed in light of China's renewed commitment to the agreement. Of particular interest and importance will be China's continued efforts against pirated compact discs and CD-ROMs, seizures of bulk cargo shipments of pirated products at China's borders, and expanded market access for legitimate U.S.-IPR products and producers, including computer software, sound recordings, motion picture products, and motion picture producers. In the weeks before China issued this report, Chinese officials closed or closed again a number of the most notorious Chinese producers of pirated CDs and CD-ROMs, most of them in southern China. The number of U.S.-made movies shown in China on a revenue-sharing basis has increased in 1996. In July, a U.S. firm entered into a licensing agreement which allows for distribution in China of its home videos, animated programs, and documentaries. One of the results of a national conference on IPR issues conducted by Chinese officials in October was that the Ministry of Culture ordered Guangdong Province officials in southern China to extend the Ministry's crackdown on IPR piracy there and intensify IPR enforcement efforts.

U.S. businesses in China have been generally pleased that Chinese authorities are taking U.S. concerns about IPR infringement more seriously than in the past. China's regulatory changes of recent years and improved training of IPR enforcement officials (sometimes provided by U.S. Government agencies or U.S. Government-funded speakers and trainers), has led to greater numbers of seizures of infringing goods and production equipment used by IPR pirates, and greater numbers of civil and criminal prosecutions within China against IPR offenders. Chinese police officials have launched enforcement raids and Chinese prosecutors are taking more cases to court. Courts are also imposing higher fines, though the latter continue to remain a cost of doing business. China has taken important steps to try to prevent further importation by unauthorized firms of specialized equipment required for manufacture of CDs, for instance. China has established a title verification system for sound recordings, which though still in a rudimentary phase, should contribute to an increase in legitimate sound recordings in China. Progress on approval of joint ventures in audiovisual production has been disappointing, however.

Many of these changes flow from the February 26, 1995, IPR enforcement agreement, in which China took a significant step forward in its commitment to take effective measures to reduce IPR piracy. China established a State Council IPR working conference and enforcement task forces at the local level to carry out antipiracy efforts. More than 30 provincial and municipal task forces comprised of enforcement agencies and police were established. The agreement also called for new rules for border enforcement, a copyright verification system for audiovisual products and CD-ROMs incorporating computer software, and training in IPR enforcement.

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

China's Copyright Law went into effect in 1991 and a trade secrets law went into effect in 1993. In addition, China joined the World Intellectual Property Organization and acceded to a number of intellectual property conventions, including the Paris Convention on industrial property, the Berne copyright convention, and the Madrid pact on trademarks.

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

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

Pervasiveness of copyright infringement remains among the most serious issues facing U.S. rightholders. Compact disc (CD) plants shut down just prior to the signing of the 1995 IPR agreement reopened and others began production before the June 1996 report and associated reinvigoration of Chinese enforcement efforts. Although China has had real success in the reduction of piracy at the retail level, more work is required to counter piracy at the manufacturing and distribution levels. A copyright title verification system, which was to be established as part of the action plan, is being implemented slowly. Furthermore, codes which act as unique identifiers of factories that produce CDs have not been placed in all CD moulds. U.S. business representatives have had limited access to IPR task forces, and many have complained that they must provide complete evidence of infringements before their cases can be considered.

U.S. industry associations estimated an annual production of about 45 million pirated CDs for both the Chinese market and for export during the 1994–95 period. In 1994, they estimated that total lost sales of audio-visual products in China reached $850 million and that software was pirated at a rate of 98 percent. Pirated production has also shifted to higher valued CD-ROMs and video CDs, with exports surging to higher levels between the 1995 IPR agreement and the June 1996 IPR report.

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

8. Worker Rights

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

b. *The Right to Organize and Bargain Collectively:* China's National Labor Law, which entered into force on January 1, 1995, permits workers in all types of enterprises in China to bargain collectively. The law supersedes a 1988 law that allowed collective bargaining only by workers in private enterprises. The National Labor Law provides for workers and employers at all types of enterprises to sign individual as well as collective contracts. Collective contracts should be worked out between ACFTU or worker representatives and management, and specify such matters as working conditions, wage distribution, and hours of work. Individual contracts should then be drawn up in line with the terms of the collective contract. Collective contracts must be submitted to local government authorities for approval within 15 days. As of August 1996, approximately 44 percent of China's industrial workforce was officially on collective contracts. According to the ACFTU, collective bargaining will first be implemented mostly at foreign invested enterprises where capital interests are clearly delineated.

c. *Prohibition of Forced or Compulsory Labor:* In addition to prisons and reform through labor facilities, which contain inmates sentenced through judicial procedures, China also maintains a network of "reeducation through labor" camps, to which inmates are sentenced through nonjudicial procedures. Inmates of reeducation through labor facilities are generally required to work. Reports from international human rights organizations and foreign press indicate that at least some persons in pretrial detention are also required to work. Chinese justice officials have stated that in reeducation through labor facilities there is a much heavier emphasis on education than on labor. Most reports conclude that work conditions in the penal system's light manufacturing factories are similar to those in ordinary factories, but conditions on farms and in mines can be harsh.

d. *Minimum Age for Employment of Children:* China's National Labor Law forbids employers to hire workers under 16 years of age and specifies administrative review, fines and revocation of business licenses of those businesses that hire minors. Chinese law also provides for children to receive 9 years of compulsory education and to receive their subsistence from parents or guardians. Laborers between the ages 16 and 18 are referred to as "juvenile workers" and are prohibited from engaging in certain forms of physical work, including labor in mines. In poorer isolated areas, child labor in agriculture is widespread. China's vast reserve of surplus adult labor minimizes incentives to employ children, and urban child labor is not considered to be widespread. No specific Chinese industry is identifiable as a significant violator of child labor regulations.

e. *Acceptable Conditions of Work:* The National Labor Law codifies 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. There is no national minimum wage. Rather, the Labor Law allows local governments to determine their own standards on minimum wages. China reduced the national standard work week in May 1995 from 44 hours to 40 hours, excluding overtime. The Labor Law mandates a 24-hour rest period weekly and does not allow overtime work in excess of 3 hours a day or 36 hours a month. The law also sets forth a required scale of remuneration for overtime work. Unemployment insurance schemes cover a majority of state sector workers in urban areas.

Every work unit must designate a health and safety officer, and the International Labor Organization has established training programs for such officers. Although the 1982 Constitution does not provide for the right to strike, the Trade Union Law explicitly recognizes the right of unions to "suggest that staff and workers withdraw from sites of danger" and participate in accident investigations. It is unclear, however, to what extent workers can actually remove themselves from dangerous situations without risking loss of employment. Pressures for increased output, lack of financial resources to maintain equipment, lack of concern by management, and a poor understanding of safety issues by workers have contributed to a continuing high rate of accidents. According to one official survey, 18,160 people died and 6,005 people were injured in China in 1995 due to work-related accidents.

f. *Rights in Sectors with U.S. Investment:* Worker rights practices do not appear to vary substantially among sectors, but safety standards are much 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—1995

[Millions of U.S. dollars]

Category	Amount
Petroleum	794
Total Manufacturing	899

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Food & Kindred Products	59	
Chemicals and Allied Products	173	
Metals, Primary & Fabricated	19	
Machinery, except Electrical	68	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	114	
Wholesale Trade		95
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		135
TOTAL ALL INDUSTRIES		1,997

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

HONG KONG

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	131.0	142.9	159.9
Real GDP Growth (pct)	5.3	4.8	4.7
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	11.3	N/A	N/A
Services	102.5	N/A	N/A
Government	10.8	12.3	13.8
Per Capita GDP (USD)	21,617	23,086	25,432
Labor Force (000s)	2,973	3,068	3,251
Unemployment Rate (pct)	1.9	3.2	3.1
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	12.9	14.0	8.6
Consumer Price Inflation (pct)	8.1	8.7	6.5
Exchange Rate (HK$/USD)			
Official	7.73	7.73	7.76
Balance of Payments and Trade:			
Total Exports (FOB)[4]	151.4	173.8	197.2
Exports to United States[5]	9.7	10.3	9.9
Total Imports (CIF)	161.8	192.8	217.2
Imports from United States[5]	11.4	14.2	13.8
Trade Balance	−10.4	−19.0	−20.0
Balance with United States[5]	−1.7	−3.9	−3.9
Current Account Deficit/GDP (pct)	1.6	−2.5	−2.6
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct)[6]	2.3	0.3	−1.0[4]
Gold and For. Exch. Reserves (end of period)[7]	49.3	55.4	62.1[5]
Aid from United States	0	0	0

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Aid from All Other Sources	0	0	0

Sources: Census and Statistics Department.
[1] Estimates based on available monthly data in October 1995
[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 19.0 percent (1994), 17.2 percent (1995) and 14.1 percent (1996 estimate based on data through August).
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996. Hong Kong Hong Kong - 2merchandise trade includes substantial re-exports (mainly from China) to the United States, which are not included in these figures.
[6] As of Q2 1996.
[7] As of Q3 1996.

1. General Policy Framework

The Hong Kong Government pursues economic policies of noninterference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, competition subject to transparent laws (albeit without antitrust legislation) and consistent application of the rule of law. 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. 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 1980's to about 19 percent by the early 1990's.

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.

On July 1, 1997, Hong Kong will become a Special Administrative Region of the PRC. China will assume responsibilities for Hong Kong's foreign affairs and defense, but Hong Kong will remain a separate customs territory with a high degree of economic autonomy. It will continue to manage its financial and economic affairs, to use its own currency, and to participate independently in international economic organizations and agreements.

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 said they support Hong Kong's policy of maintaining the link after 1997.

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. Its personal and corporate tax rates remain low, and it does not impose import or export taxes. Over the past 2 years, Hong Kong has completed its deregulation of interest rates covering almost 99 percent of deposits, removing interest rate caps for deposits of 7 days or less. 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.

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 agreements on government procurement and civil aircraft. (In late 1996, it announced that it intends to join the Agreement on Government Procurement.) 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.

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

Services barriers: There are some barriers to entry in the services sector:

—Hong Kong has liberalized its telecommunications policy, but still maintains a government-regulated monopoly on international voice services.

—Foreign ownership of local broadcasting stations or cable operators cannot exceed 49 percent. Moreover, the government stipulates that broadcasters use the Hong Kong Telecom International satellite uplink rather than their own uplink.

—A new bilateral civil aviation agreement gives U.S. air carriers important new rights. However, the agreement does not permit codesharing 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.

—In 1995, the Hong Kong Works Branch announced a new policy under which, during 1996, government contractors must be certified by a local company that they meet ISO9000 quality standards, notwithstanding the fact that U.S.. and other foreign certification companies have long operated without complaint in the Hong Kong market.

—In 1995, Hong Kong adopted legislation that streamlined the licensing procedures for foreign doctors. However, there is concern that U.S. specialist training may be discriminated against by the non-governmental Hong Kong Academy of Medicine, which has been asked to help establish Hong Kong's first specialist register.

—Foreign law firms are barred from hiring local lawyers to advise clients on Hong Kong law, even though Hong Kong firms can hire foreign lawyers to advise clients on foreign law. In amendments passed in 1994, foreign law firms may now become "local law firms" and hire Hong Kong attorneys, but they must do so on 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 back office at separate sites. Foreign banks may 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

With respect to the legislative arena and international conventions, Hong Kong's framework is world class. Hong Kong has acceded to the Paris Convention on industrial property, the Berne copyright convention, and the Geneva and Paris Universal Copyright Conventions. For those conventions that only allow sovereign state participation, China has stated that it would apply all of them to Hong Kong post-1997 (a continuation of current practice by the United Kingdom). Enforcement of copyright and rights to new technologies, however, remains a problem.

Copyrights: The Hong Kong market is flooded with pirated software and recordings illegally produced in China. Retail sale of pirated products is widespread and blatant. The United States has urged the government at senior levels to crack down on hawkers and retailers and the criminal syndicates behind them. Hong Kong has responded by beefing up enforcement manpower in the customs agency and by conducting more retail-level raids. So far, these actions have had no demonstrable impact on the availability of pirated goods. Despite a 1995 move to amend upwards the fines for copyright theft, the judiciary has not significantly increased sentences or fines on infringers. Thus there is still no effective deterrent to piracy. There is evidence that Hong Kong residents are involved in the production in China of infringing works and in exporting the products to the rest of the world.

New technologies: Hong Kong authorities have conducted several raids against factories engaged in "re-marking" of computer central processing units. U.S. computer chip manufacturers have urged the government to take stronger action.

There are no reliable figures on the total losses to U.S. firms from piracy in and through Hong Kong. A major U.S. software company estimates that the sale of pirated versions of three of its top programs results in lost sales totaling US$1.7 million per month. The U.S. music industry estimates that twenty 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 with the government, which must also approve affiliations with foreign unions. No application for such affiliation has so far been refused. Unions are defined as corporate bodies and enjoy immunity from civil suits arising from breaking of contingent contracts or interference with trade by work stoppages on the part of their members. The government does not discourage or impede union formation or discriminate against union members. Workers who allege anti-union discrimination have the right to have their cases heard by a government labor relations body.

b. *The Right to Organize and Bargain Collectively:* The International Convention on the Right to Organize and Bargain Collectively has been applied to Hong Kong without modification since 1975. However, collective bargaining is not widely practiced and there are no mechanisms to specifically encourage it. Instead, a dispute settlement system administered by the government is generally resorted to in the case of disagreements. In the case of a labor dispute, should initial reconciliation efforts prove unsuccessful, the matter may be referred to arbitration with the consent of the parties or a board of inquiry may be established to investigate and make suitable recommendations.

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

d. *Minimum Age for Employment of Children:* 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. The government continues inspections to safeguard against the employment of children. Few violations have been found in recent years.

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

f. *Rights in Sectors with U.S. Investment:* U.S. direct investment in manufacturing is concentrated in the electronics and electrical products industries. Aside from hazards common to such operations, working conditions do not differ materially from those in other sectors of the economy. 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		600
Total Manufacturing		1,980
Food & Kindred Products	−8	
Chemicals and Allied Products	119	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	492	
Electric & Electronic Equipment	597	
Transportation Equipment	(1)	
Other Manufacturing	627	
Wholesale Trade		4,953
Banking		1,323
Finance/Insurance/Real Estate		3,772
Services		565
Other Industries		587
TOTAL ALL INDUSTRIES		13,780

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

INDONESIA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	175.5	198.1	221.7
Real GDP Growth (pct)	7.5	8.1	7.6
GDP by Sector:[2]			
Agriculture	30.5	33.5	36.8
Manufacturing	41.8	50.2	60.3
Services	62.6	71.0	80.5
Government	10.6	10.4	10.5
Per Capita GDP (USD)	913	1014	1116
Labor Force (millions)	86	90	94
Unemployment Rate (pct)	3.7	4.4	4.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.2	27.6	30.8
Consumer Price Inflation (pct)	9.6	9.0	8.0
Exchange Rate: (rupiah/USD)			
Official	2161	2249	2335
Balance of Payments and Trade:			
Total Exports (FOB)	40.2	45.5	50.4
Exports to United States[3]	6.5	7.4	8.2
Total Imports (CIF)	32.3	39.8	44.9
Imports from United States[3]	2.8	3.4	3.7
Trade Balance	7.9	5.7	5.5
Balance with United States[3]	3.7	4.0	4.5
External Public Debt	101.3	108.5	116.5
Debt Service Payments/GDP (pct)	7.9	7.9	7.4
Current Account Deficit/GDP (pct)	1.7	3.6	3.9

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Fiscal Deficit/GDP (pct)	−0.2	−1.0	−0.1
Gold and For. Exch. Reserves (end of period)	13.2	14.7	17.1
Aid from United States (millions of USD)	55.0	96.0	71.0
Aid from All Other Sources	5.2	5.3	5.2

Sources: Government of Indonesia, US Department of Commerce, IMF.
[1] Estimates based on available monthly data in November 1996.
[2] GDP at market prices.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Indonesia has made remarkable economic progress over the last 30 years. When President Soeharto took power in 1967, it was one of the world's poorest countries, with per capita GDP of $70 per person. Indonesia's estimated per capita GDP passed $1000 in 1995, life expectancy has risen to 63 years from 41 years in 1965, and infant mortality and illiteracy rates have fallen dramatically. Real GDP growth has averaged over 7 percent per year since 1991, while inflation has been confined to the 5–10 percent range.

In the latter part of 1995, the economy began to show signs of overheating. Inflation threatened to exceed 10 percent, imports grew by more than 25 percent, and the current account deficit more than doubled, growing from $3.0 billion (1.7 percent of GDP) in 1994 to $7.2 billion (3.6 percent of GDP) in 1995. In early 1996, the government took a series of actions designed to cool the economy, including raising the reserve requirements for commercial banks and running a fiscal surplus by using proceeds of privatization to repay high-interest official debt. By September 1996, those actions appeared to be making an impact as inflation dropped to 7.1 percent and the current account deficit stabilized as a percentage of GDP.

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

The Indonesian Government has made considerable progress in trade and investment deregulation, usually by periodically implementing "deregulation packages" of liberalization measures. In mid-1994, Indonesia lowered investment barriers, and in May 1995 the government unveiled a comprehensive tariff reduction package which covered roughly two-thirds of all traded goods and will reduce most tariffs to under 5 percent by 2003. The June 1996 deregulation package detailed a schedule of tariff reductions to meet the government's goal of reducing 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. However the government's deregulation packages have made comparatively little progress in reducing non-tariff barriers.

Indonesia's economic development offers promise for U.S. business. U.S. exports to Indonesia have quadrupled since 1987. In 1995, the United States enjoyed the benefit of a 27 percent increase in total Indonesian imports. U.S. exports to Indonesia grew by nearly 20 percent in 1995 to $3.4 billion. The best prospects for U.S. exporters include equipment used in the construction of infrastructure, machinery, agricultural products for consumption and as manufacturing inputs, aviation equipment, and household consumer goods.

2. Exchange Rate Policies

The Indonesian currency, the rupiah, is on a managed float, depreciating slowly against a basket of trading partners' currencies. In the past several years, Bank Indonesia has steadily widened the band between its buying and selling rate on the rupiah in an effort to encourage the development of an interbank foreign exchange market and discourage short term capital flows. At the end of October 1996, the exchange rate was 2320 rupiah per dollar.

3. Structural Policies

In general, the government allows the market to determine price levels. The government enforces a system of floor and ceiling prices for certain "strategic" food products such as rice. In some cases, business associations, with government support, establish prices for their products. Direct government subsidies are confined to a few goods such as fertilizers.

Individuals and businesses are subject to income taxes. In 1995, the government reduced the highest marginal income tax rate to 30 percent for earnings in excess of $33,000. A value-added tax and import duties are other important sources of government revenue. Companies can apply for an exemption from or a rebate of import duties and VAT paid on inputs used to produce exports. A few products remain subject to export taxes, usually with the goal of job creation. For example, in October 1989 export taxes on sawn lumber were raised to prohibitive levels and in May 1992 a previous export ban on logs was replaced by high export taxes.

In late 1995 President Soeharto issued a decree encouraging all taxpayers with incomes above $45,000 to donate 2 percent of after-tax income to charity. While the legal situation remains murky, a December 1996 Presidential decree indicates that contributions may be obligatory and apply to foreign companies.

4. Debt Management Policies

Indonesia's medium and long term foreign debt totals about $110 billion, with about $63 billion owed by the state sector and $47 billion by the private sector. In 1996 Indonesia will pay approximately 35 percent of total export earning to principal and interest payments on its foreign debt. The government is fully committed to meeting its debt service obligations and has no plans to seek a debt rescheduling.

A Cabinet-level team was set up by the government in September 1991 to oversee foreign borrowing. The team is charged with reviewing applications for foreign commercial credits to finance projects in which the government or a state owned enterprise is involved. Financing for purely private projects is not affected.

5. Significant Barriers to U.S. Exports

Import licenses: The government has been reducing the number of items subject to import restrictions and special licensing requirements. Since the January 1996 deregulation package, 203 tariff lines remain subject to restrictive import licenses, down from 261 in 1994 and 1,112 in 1990.

Services barriers: Despite some loosening of restrictions, services trade entry barriers continue to exist in many sectors, particularly in the financial sector. Foreign banks, securities firms, and life and property insurance companies are permitted to form joint ventures with local companies, but in most cases the capitalization requirements are higher than for domestic firms. Foreign accounting firms must operate through technical assistance arrangements with local firms, and citizenship is 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.

Distribution in the domestic market remains quite restricted. The June 1996 deregulation package included a first step in opening the distribution sector to majority foreign investment by allowing foreign firms with plants in Indonesia to import and sell complementary goods from affiliated companies. Majority owned foreign plants may also sell their own products down to the wholesale level. Indonesia imposes a quota on the number of foreign films which may be imported in a given year. Films may be imported and distributed only by fully Indonesian-owned companies.

Standards, testing, labeling and certification: In May 1990, the government issued a decree which states that the Department of Health must decide within 1 year of receipt of an application whether to grant registration for new foreign pharmaceutical products. In practice, registration can take longer, although companies report that the process is slowly improving. Foreign pharmaceutical firms have seen copied products available on the local market before their products were registered. Through changes in its patent law, the government is addressing such problems.

Investment barriers: The government is committed to increasing foreign investment and to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. The most substantial measure was taken in June 1994, when the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law now provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of 5 percent. In addition, the government opened several previously restricted sectors to foreign investment, including harbors, electricity generation, telecommunications, shipping, airlines, railways, roads, and water supply. Some sectors remain restricted or closed to foreign investment and are carried on the so-called negative list. They include retail trade, television and radio broadcasting, aircraft manufacture, logging, and wood processing.

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

In March 1996, Indonesia announced a "pioneer" auto industry policy intended to promote the establishment of an indigenous Indonesian auto industry. The program grants import tariff and tax preferences to only one company which meets certain requirements, including that it be fully Indonesian owned and that it meet specified domestic content levels within 3 years. In addition, the company may import up to 45,000 completely built-up units duty free until it has established production capacity. The United States is engaged in consultations on this policy under the World Trade Organization.

Government procurement practices: In 1994, the government enacted a new 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 7 years' grace. 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 Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, 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.

Customs procedures: In response to grave concern about the effectiveness of its Customs Service, the government decreed in 1985 that all imports valued at more than $5,000 must bear a verification report issued by the Swiss inspection firm Société Generale de Surveillance (SGS) regarding the type of good, quality, quantity, and applied cost. These inspections are carried out at the point of exit of all shipments to Indonesia and duties calculated based on the effective price contained in the examination report. Beginning in April 1997, all pre-shipment inspection will be phased out and the Customs Department will resume full authority over customs valuation.

6. Export Subsidies Policies

Indonesia joined the GATT Subsides 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.

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization and is a party to certain sections of the Paris Convention for the Protection of Intellectual Property. It withdrew from the Berne Convention for the Protection of Literary and Artistic Works in 1959.

Indonesia is making progress in intellectual property protection. In April 1996, the U.S. Trade Representative named Indonesia on its Special 301 Priority Watch List for software piracy and failure to protect trademarks. 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 protected intellectual property is very rare. New patent, trademark, and copyright laws submitted to Parliament in December 1996 are designed to bring Indonesia's laws into compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property. They appear likely to address many of the remaining legal deficiencies which pose problems for U.S. companies.

—*Patents:* Indonesia's first patent law came into effect on August 1, 1991. Several areas of concern remain, including compulsory licensing provisions, a relatively short term of protection (14 years), and a provision which allows importation of 50 pharmaceutical products by non-patent holders. When enacted, the new patent law may address many of these concerns.

—*Trademarks:* The April 1993 trademark law provided for determination of trademark rights by registration rather than first use. The law provides protection for well known marks but because the judicial process is time-consuming and unreliable, companies continue to find it difficult to protect well known marks in Indonesia. After registration, marks must actually be used in commerce and cancellation actions must be lodged within 5 years of the trademark registration date.

—*Copyrights:* In 1987, Indonesia enacted amendments to its copyright law which largely brought it into conformity with international standards for copyright protection. A bilateral copyright agreement between the United States and Indonesia went into effect in August 1989 extending national treatment to each other's copyrighted works. The government has demonstrated that it wants to stop copyright piracy and that it is willing to work with copyright holders to this end. There is good enforcement of the ban on pirated audio and video cassettes and textbooks, but enforcement efforts against software piracy are still in an early stage.

—*New technologies:* Biotechnology and integrated circuits are not protected under Indonesian intellectual property laws. The government is in the process of preparing laws on trade secrets, industrial design, and integrated circuits.

—*Impact:* U.S. industry has placed considerable emphasis on improvement of Indonesia's intellectual property regime, but it is difficult to estimate prospective losses incurred by current inadequacies in protection.

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. However, government policies and current numerical requirements for union recognition constitute a significant barrier to freedom of association and the right to engage in collective bargaining. The Federation of All-Indonesian Trade Unions (SPSI), the only trade union federation recognized by the government, and single company "plant-level unions" can legally bargain on behalf of employees or represent workers in the Department of Manpower's labor courts. 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.

Two labor groups other than SPSI are active but not recognized by the government: the Serikat Buruh Sejahtera Indonesia (SBSI, Indonesian Prosperity Trade Union), and the Alliance of Independent Journalists (AJI). The government considers the SBSI and AJI to be illegal and has harassed them by arrests, interrogations, and disbanding meetings, but has not formally banned them. The leader of the SBSI, Muchtar Pakpahan, was arrested on subversion charges in July 1996; his trial began in early December.

Civil servants are not permitted to join unions and must belong to KORPRI, a nonunion association whose central development council is chaired by the Minister of Home Affairs. State enterprise employees, defined to include those working in enterprises in which the state has a holding of 5 percent or more, usually are required to join KORPRI, but a small number of state enterprises have SPSI 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:* Recognized trade unions and plant level unions can legally engage in collective bargaining. 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 2 years and can be extended for 1 year. According to NGO's 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 against 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.

On June 1, 1996 the Minister of Manpower issued a new regulation permitting unions affiliated with the SPSI to collect union dues directly through the check-off system, rather than having the Department of Manpower collect dues.

The armed forces, which include the police, continue to involve themselves in labor issues, despite the 1994 revocation by the Minister of Manpower of a 1986 regulation allowing the military to intervene in strikes and other labor actions. A 1990 decree giving the Agency for Coordination of National Stability (BAKORSTANAS) the right 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, there are credible reports of teenage children being forced to work under highly dangerous conditions on fishing platforms off the coast of northeastern Sumatra. These platforms are miles off shore, with access controlled by the employers, and in many cases the children are held virtual prisoners on the platforms and forced to work for up to 3 months at a time for well below the minimum wage. According to knowledgeable sources, hundreds of children may be involved. The local government has done little to address the problem.

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 per cent of Indonesian children between the ages of 10 and 14 work, and another four per cent work in addition to going to school. 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), and it signed a memorandum of understanding with the ILO on May 29, 1992, to guide collaboration under this program. One hundred thirty government labor inspectors received ILO-sponsored training on child labor matters under the IPEC program. However, 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. While Indonesia has succeeded in dramatically lowering the level of poverty throughout the country, until recently the minimum wage rates have usually lagged behind the basic needs figures. The government raised minimum wage rates the last 3 years, and in 1996 required employers to pay workers for 30 days during a month. In Jakarta the minimum wage is about $2.28 (rupiah 5200) per day. An additional increase is planned for late 1996.

There are no reliable statistics on the number of employers paying at least the minimum wage, though government efforts at enforcement have increased in recent years. Estimates by observers range from 30 to 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 1 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 are 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 Indonesian labor laws but, with some exceptions, they do not have the right to strike, join labor organizations, or negotiate collective agreements. Some companies operating under other contractual arrangements, such as 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		5,132
Total Manufacturing		204
Food & Kindred Products	30	
Chemicals and Allied Products	105	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	1	
Electric & Electronic Equipment	31	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		64
Banking		(1)
Finance/Insurance/Real Estate		36
Services		(1)
Other Industries		1,404
TOTAL ALL INDUSTRIES		7,050

(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]

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	4,688.5	5,118.9	4,650.7 [1]
Real GDP Growth (pct)	0.6	1.4	3.7 [2]
GDP by Sector:			
Agriculture	98.8	N/A	N/A
Manufacturing	1,167.3	N/A	N/A
Services	720.1	N/A	N/A
Government	330.0	N/A	N/A
Per Capita Income (USD)	29,244	N/A	N/A
Labor Force (millions)	66.5	66.7	67.1 [3]

Key Economic Indicators—Continued

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

	1994	1995	1996
Unemployment Rate (pct)	2.9	3.2	3.4 [3]
Money and Prices (annual percentage growth):			
Money Supply (M2 + CD)	2.1	3.2	3.3 [3]
Consumer Price Inflation	0.7	−0.1	0.0 [3]
Exchange Rate: (yen/USD)	102.21	93.90	108.80 [4]
Balance of Payments and Trade:			
Total Exports (FOB)	397.2	443.1	404.1 [5]
Exports to United States (FOB)	119.2	123.5	115.1 [6]
Total Imports (CIF)	275.7	336.0	342.2 [5]
Imports from United States (CIF)	53.5	64.3	67.8 [6]
Trade Balance	121.5	107.1	62.0 [5]
Trade Balance with United States	65.7	59.2	47.4 [6]
Current Account Surplus/GDP (pct)	2.8	2.2	1.5 [4]
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct)	2.1	N/A	N/A
Gold and Foreign Exchange Reserves	122.8	182.8	215.0 [7]
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] January–September, seasonally adjusted, annualized.
[2] January–September, year-over-year.
[3] January–September, non-seasonally adjusted average.
[4] January–September, non-seasonally adjusted.
[5] Japanese customs basis.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] End of September.

1. General Policy Framework

Japan's economy, the world's second largest at roughly $4.7 trillion, has grown at 3.7 percent in real terms in the first three quarters of 1996, after registering less than 2 percent growth for 4 years from 1992 to 1995. The government, however, officially projects 1.9 percent growth for fiscal year 1997, the lowest official forecast for growth in the postwar era.

The current economic slowdown, which began in mid-1991, is one of the longest in Japan's postwar history. (Until 1992–3, Japan had never experienced two consecutive years of less than 3 percent real growth in the postwar period.) The surge in asset prices to unsustainable levels and high rates of capital investment and hiring in the late 1980's gave way by 1991 to sharply slower growth, corporate restructuring, and balance sheet adjustment by businesses and consumers.

In recent years, the Japanese Government has used public spending to offset weak or negative private demand growth. Six fiscal stimulus packages between August 1992 and September 1995 have boosted public investment spending substantially, while temporary tax cuts have supported private demand.

Japan's 1995 external accounts posted global trade and current account surpluses of $132 billion (BOP basis) and $111 billion, respectively. Through the first 8 months of 1996, import volume grew at a double digit rate in spite of sluggish domestic demand growth, while exports rose at a more moderate pace. The current account surplus through the first 8 months of 1996 fell to an annualized level of approximately $66 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. Nominal interest rates have set new record lows during 1996; still, bank lending has remained sluggish.

2. Exchange Rate Policy

The yen has generally depreciated against the dollar in 1996. The average exchange rate through the first 9 months of 1996 was 107 yen per dollar, versus 94 yen per dollar in 1995. The U.S.-Japan financial services agreement of February 1995 resulted in significant relaxation of foreign exchange controls, and Japanese authorities are considering adopting additional decontrols in the near future.

3. Structural Policies

Pricing policy: Japan is 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 exhibit 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, energy) some prices are still set by government policy.

Tax policy: Japanese corporate taxes are generally high by OECD standards. Income tax levels vary by income bracket; the scale is highly progressive. Temporary income tax cuts totaling 2 trillion yen per year expired at the end of 1996, while the current 3 percent consumption tax is scheduled to be increased to 5 percent in April 1997.

Regulatory Policy: Japan's economy remains highly regulated, and the Japanese Government and business community recognize that deregulation is a high priority issue. 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.

Deregulation: In April 1995 the government issued a 3-year action plan aimed at deregulation. The plan was revised in March 1996, and the final revision will take place in March 1997. To date deregulation efforts have made limited progress, inadequately addressing important issues in a wide range of sectors including distribution, transportation, legal services and labor. Examples of regulations that act as impediments include: the large scale retail store law, designed to protect local merchants from large retail competition; highly restrictive harbor practices; severe restrictions on foreign lawyers; and the Japanese Government's tight regulation of all nongovernmental employment services, including job placement, executive search, recruitment, personnel counseling and training, and temporary worker services.

4. Debt Management Policies

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

5. Significant Barriers to U.S. Exports

Telecom and Broadcast: Access to the telecommunications and broadcasting services market remains constrained by both regulatory barriers and monopoly practices. NTT's exploitation of its monopoly power has severely restricted domestic competition and hinders U.S. firms' efforts to enter this market. A 33 percent foreign investment limit in cable TV significantly restricts access to a market where U.S. companies excel. Similar investment restrictions, and a primitive regulatory regime, hinder access to the direct-to-home satellite broadcasting market. Japan's deviance from international standards for telecommunications equipment hampers foreign equipment makers' efforts to sell in Japan.

Foreign direct investment (FDI): FDI into Japan has remained extremely small in scale relative to the size of the economy. In 1995, FDI totaled $2 billion, or 0.02 percent of GDP, as compared to $60 billion, or 1.0 percent, in the United States. The low level of FDI reflects the high costs of doing business, formerly explicit investment barriers, 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, and a difficult regulatory and opinion environment for foreign or domestic acquisitions of existing Japanese firms.

Recently, the Japanese Government has implemented some potentially useful measures from the perspective of increasing foreign direct investment, including easing restrictions on foreign capital entry. Still, most Japanese Government investment promotion measures to date have been dictated by domestic priorities, or grafted onto programs designed for regional economic development, restructuring of ailing industries, foreign technology acquisition, and other purposes. 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.

Insurance: In 1996, Japan and the United States resolved a dispute regarding domestic market opening efforts by Japanese regulators and implementation of the 1994 bilateral insurance agreement.

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 import quotas.

Government Procurement Practices: Japan is a WTO member and a party to the WTO Government Procurement Agreement (GPA). While government procurement in Japan generally conforms to the letter of the WTO agreement, certain practices cause concern. For example, some government entities appear to be shielding some procurement from open bidding through questionable interpretation of existing WTO and bilateral agreements. Some local governments covered by GPA procedures do not yet appear to be fully complying with GPA procedures.

Customs Procedures: Slow import clearance into Japan hinders access by Japanese companies and consumers to competitive U.S. products. U.S. air cargo companies incur high costs in handling and processing imports into Japan and face clearance bottlenecks as well. For many commodities import clearance requires approval from agencies in addition to customs. While Japanese customs has made progress in automating its own clearing procedures, and efforts are underway to integrate the procedures of other Japanese Government agencies over the next several years, the speed of import clearance is still determined by the agency with the slowest procedures.

6. Export Subsidies Policies

Japan conforms to the OECD export credit arrangement, including the agreement on the use of tied aid credit. The Japanese Government subsidizes exports as permitted by the arrangement, which allows softer terms for export financing to developing nations. Of the $14.49 billion that Japan allotted for official development assistance in 1995, approximately 28.4 percent was earmarked for loan aid.

Japan has eliminated tied aid credits and now extends about 98 percent of its loan aid under officially untied terms. But U.S. exporters continue to face difficulties in competing due to the use of less developed country untied aid where bidding is restricted to Japanese and local firms and tied feasibility studies (funded by grant aid) for untied loan aid projects where specifications are targeted to Japanese bidders. Japan exempts exports from the 3 percent consumption tax in force since 1989.

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, and the Patent Cooperation Treaty. Japan's intellectual property rights (IPR) regime affords national treatment to U.S. entities. Average patent pendency in Japan is one of the longest among developed countries, averaging over 5 years from application to grant. This long period 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 limited legal protection. Bilateral talks on this lengthy pendency period have led to some reduction, and efforts for a further reduction continue.

Many Japanese companies use the patent filing system as a tool of corporate strategy, making many applications to cover slight variations in technology. The rights of U.S. subscribers in Japan can be circumscribed by filings of applications for similar inventions or processes.

A U.S.-Japan IPR agreement, signed in August 1994, has provided some relief from problems posed by the lengthy pendency period and the practice of multiple opposition filing. In December 1994, the Japanese Diet passed legislation introduced by the Japanese Patent Office to revise the system effective January 1, 1996. The revised system allows opposition filings only after a patent is granted. Multiple opposition filings are consolidated and addressed in a single proceeding, minimizing time and costs. In addition, revised guidelines for patent examiners were introduced. These new guidelines directed them to grant patents based on prophetic as well as working examples (similar to U.S. and most other countries' practice) and, importantly, applied these guidelines to the substantial backlog of outstanding applications.

Trademark applications are also processed slowly, averaging 2 years and 3 months but sometime stretching to three or 4 years. Unauthorized use of a trademark carries no penalty until an application is approved. Service marks were included in trademark law in 1992. End user software primacy remains a major concern of U.S. software producers. A campaign has been undertaken by these companies to help ensure compliance in licensing arrangements. The process has met with limited success in the Japanese courts.

In the area of copyright protection for sound recordings, the Japanese Government amended its copyright law in December, 1996, to extend protection of sound recordings to 50 years. This will comply with its WTO TRIPs obligations.

8. Worker Rights

a. *The Right of Association:* The Constitution of Japan provides for the right of workers to associate freely in unions. Approximately 24 percent of the work force belongs to unions, which are free from government control and influence. However, members of the armed forces, police and firefighters are not permitted to form unions or to strike.

b. *The Right to Organize and Bargain Collectively:* The constitution provides unions with the right to organize, bargain, and act collectively. These rights are exercised freely, and collective bargaining is practiced widely. The right to strike is implicitly assumed by the constitution and is exercised freely, if infrequently. As noted above, the collective bargaining rights of public employees are limited. Government employee pay raises are determined by the government, based on the recommendation of the Independent National Personnel Authority.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Standards Law prohibits the use of forced labor, and there are no known cases of forced or compulsory labor.

d. *Minimum Age for Employment of Children:* Under the 1987 Revised Labor Standards Law, minors under the age of 15 may not be employed, and those under the age of 18 may not be employed in dangerous or harmful work. The Ministry of Labor rigorously enforces child labor laws.

e. *Acceptable Conditions of Work:* Minimum wages are set on a regional (prefecture) and industry basis, with the input of tripartite (labor, management, public interest) advisory councils. Employer compliance with minimum wages is considered widespread. The Ministry of Labor effectively administers various laws and regulations on hours of work and workplace health and safety.

f. *Rights in Sectors with U.S. Investments:* Internationally recognized worker rights, as described above, are incorporated into the constitution and laws of Japan and apply to all workers. They do not differ in firms or sectors with U.S. investments from rights 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		6,346
Total Manufacturing		16,664
Food & Kindred Products	962	
Chemicals and Allied Products	2,909	
Metals, Primary & Fabricated	337	
Machinery, except Electrical	4,759	
Electric & Electronic Equipment	2,174	
Transportation Equipment	2,080	
Other Manufacturing	3,445	
Wholesale Trade		7,561
Banking		451
Finance/Insurance/Real Estate		6,736
Services		686
Other Industries		753
TOTAL ALL INDUSTRIES		39,198

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

REPUBLIC OF KOREA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	381.5	456.4	490.5
Real GDP Growth (pct)	8.6	9.0	6.8
GDP by Sector:			
Agriculture	26.8	30.0	31.0
Manufacturing	102.4	122.8	133.0
Services	126.0	151.7	167.0
Government	30.3	35.7	38.0
Per Capita GDP (USD)	8,483	10,196	10,800
Labor Force (000s)	20,326	21,112	21,500
Unemployment Rate (pct)	2.4	2.0	2.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	15.6	15.5	14.5
Consumer Price Inflation (pct)	6.2	4.5	5.2
Exchange Rate: (won/USD)			
Official	802	770	805
Balance of Payments and Trade:			
Total Exports (FOB)[3]	96.0	125.1	130.0
Exports to United States[4]	19.6	24.2	22.7
Total Imports (CIF)[3]	102.3	135.1	146.0
Imports from United States[4]	18.0	25.4	26.3
Trade Balance[3]	−6.3	−10.1	−16.0
Balance with United States[4]	1.6	−1.2	−3.6
Current Account Deficit/GDP (pct)	1.2	2.0	4.4
External Public Debt	6.3	5.9	5.4
Debt Service Payments/GDP (pct)[5]	1.7	1.9	2.1
Fiscal Deficit/GDP (pct)	0.5	0.4	0.2
Gold and For. Exch. Reserves (end of period)	25.7	32.7	32.4

Sources: Bank of Korea, Korea Customs Service, U.S. Embassy.
[1] Estimates based on available monthly data in November 1996
[2] GDP at market prices.
[3] Merchandise trade; Korean Government statistics.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[5] Including public and private debt.

1. General Policy Framework

The Korean economy has enjoyed a remarkable, sustained expansion over the last 30 years, averaging around 9 percent real GDP growth per year. Korea today is on the downside of an macroeconomic cycle, in which its real GDP annual growth rate is expected to fall to below 7 percent in 1996, well below the 9 percent attained just last year. Much of this downturn can be ascribed to a sharp worsening in Korea's terms of trade (particularly lower prices for such key exports as semiconductors, chemicals and steel, and higher prices for grains and fuels) and the recent weakening of the Japanese yen.

Meanwhile, the rate of growth of imports has been far stronger than that of exports, resulting in a widening trade deficit. Imports of food and consumer goods (about 10 percent of total imports) have grown rapidly, the result of new market openings and changing consumer tastes. Imports of industrial materials and fuels are up as well, in part due to sharply higher prices. Growth in the import of capital goods has fallen, corresponding to a slackening in investment spending.

Import growth has helped to restrain upward pressures on prices which might otherwise result from generally high wages and low levels of unemployment. Price stability has also been achieved through the government's stringent monetary policies, with reserve requirement adjustments and open market operations as the favored tools. Recently, due to the economic downturn, there have been signs of easing in monetary policy. However, the government maintains price stability as one of its top economic priorities.

The public sector's role in the economy is relatively small, with taxes and expenditures amounting to only 31 percent of GDP in 1996. Since the mid-1980's the government has reduced its intervention in the economy (subsidies, trade barriers, directed credit, etc.). Korea's public expenditure is also notable for its quality, with greater emphasis placed on public education and investment rather than on transfer payments. Over the last few years Korea has alternated between small deficits and surpluses in its fiscal accounts.

In the 1990's, the Kim Young-Sam administration has pursued a policy of liberalization, and today's Korea is significantly more open and less stifled by regulations than it was even 5 years ago. Restrictions on imports and limitations on foreign direct investment in Korea are being removed rapidly, although much remains to be done before Korea can be called a truly "open economy."

2. Exchange Rate Policy

The U.S. Treasury reported to the U.S. Congress that it has found no evidence of direct exchange rate manipulation by the Korean authorities to gain competitive advantage. (This is not to say, however, that the Bank of Korea does not intervene in the market on occasion to promote stability in the foreign exchange market.) Treasury also noted that stringent foreign exchange and capital controls distort trade and investment flows and frustrate the emergence of a truly market-determined exchange rate.

Since 1990, the Bank of Korea has used a weighted average of the prior day's transactions in local banks to set the exchange rate. The Bank of Korea allows the exchange rate to fluctuate on a daily basis within a band of plus/minus 2.25 percent. In the twelve months ending October 1996, the Korean won depreciated by 8.6 percent against the dollar in nominal terms.

3. Structural Policies

Korea's economy is based on private ownership of the means of production and distribution, with basic pricing decisions left to the private sector. The government's past heavy-handed economic role is being slowly replaced by more subtle efforts to steer the direction of economic development through tax incentives (particularly for small and medium enterprises—SMEs), discretionary enforcement of regulations and influencing financial sector decisions. 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 most recent Korean Government estimates indicate that the 30 largest chaebols account for about one-third of the total capital of the domestic financial sector and about 35 percent of all manufacturing.

Historically, Korea's import regime allowed easy entry for the raw materials and capital equipment needed by competitive export industries, while restricting consumer imports. Since the mid-1980's, however, the government has eliminated most explicit import prohibitions, though a variety of nontariff barriers continue to hinder imports.

A series of Presidential initiatives has been undertaken to increase trade and investment flows between the United States and Korea. Although these initiatives have had mixed results, both trade and investment have continued to grow. Today Korea is our seventh largest trading partner and third largest recipient of U.S. agricultural products; and significant Korean investments have taken place in the United States. In 1996 the United States replaced Japan as Korea's single largest source of imports for the first time since 1983; the United States is Korea's second largest source of direct investment.

4. Debt Management Policies

Foreign debt management is not a critical issue for Korea. Korea's gross foreign debt is expected to total an estimated $110 billion at end 1996, while service on this debt as a share of the total export of goods and services is about 7 percent. Net foreign debt, taking into account Korea's numerous and growing overseas assets, is presently $21 billion. In 1995 the Republic of Korea graduated from eligibility for World Bank loans.

5. Significant Barriers to U.S. Exports

Korea has lowered its average tariff rate to 7.9 percent; continued decline in the average is doubtful in the near term, given the impact of "tariffication" of some Korean agricultural items as a result of the Uruguay Round agreement. Although the most explicit barriers to imports have been removed and overall trade is steadily growing, U.S. exporters still face more subtle barriers to trade.

U.S. exporters now experience trade barriers rooted in opaque and non-transparent regulations which affect licensing, inspections, type approval, marking requirements and other standards. Many of these technical barriers to trade are inconsistent with international norms. For that reason, the United States has challenged some Korean Government agricultural policies in the World Trade Organization (WTO). Trade restrictions affect a variety of U.S. exports, including automobiles and telecommunications equipment, both the subject of ongoing bilateral negotiations.

Licenses are required for all imports into Korea, but most are granted automatically. Exceptions exist for roughly 80 goods, mostly agricultural products, which are on a "negative list." Under Korea's agreement to phaseout its GATT balance of payments restrictions, the government is committed to eliminate most of these remaining restrictions by 1997; some capital controls and exchange restrictions will not be liberalized, however, until the year 2000.

Under commitments made during the Uruguay Round, by the year 2000 Korea will gradually expand its minimum import quota for beef to 225,000 MT, increase the proportion of the quota imported through the "simultaneous buy/sell system," and reduce the markup. In January 2001, Korea will remove all nontariff barriers to beef imports, including state trading.

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

Effective January 1, 1993, a government decree outlined improved procedures for setting standards and rulemaking, including a requirement for public notice, minimum comment periods and an adjustment period prior to implementation. A full-fledged Administrative Procedures Act was enacted in 1996. Effective implementation of these initiatives has been slow.

The Korean Government began to implement a series of significant financial sector reforms in 1993. Measures taken to date include the lifting of many controls on interest rates, the removal of some documentation requirements on forward foreign exchange contracts and a slight easing of foreign banks' access to Korean won currency funding. Under the present timetable for reform, some critical measures (such as full won convertibility and freedom of capital movements) are scheduled for 1997.

A significant package of further financial reforms was announced in the run-up to Korea's invitation to join the Organization of Economic Cooperation and Development (OECD) in 1996. A schedule for the further liberalization of foreign ownership of domestic shares and bonds was unveiled, to be phased in through 2000. Other controls affecting, inter alia, securities, credits and deposit accounts will be phased in through 2001.

One of the most significant barriers to still greater growth in U.S. exports to Korea is the government's restriction on the use of credit to finance imports, which will be fully liberalized for capital goods only by 1998. Use of limited deferred payment terms (extended as of December 1, 1995, to a maximum of 180 days) is restricted to items with a tariff of 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 governor of the Bank of Korea, which is rarely granted. U.S. firms estimate that they could increase exports by up to one-third if import credits were liberalized.

Government restrictions continue to place foreign banks and securities firms at a disadvantage in a number of areas. For example, foreign banks have difficulty obtaining access to local currency funding and approval for new financial products, and face higher capitalization requirements than in other markets. Foreign securities firms face restrictions on their ability to "lead manage" securities issues in overseas markets. Subsidiaries of foreign banks and securities firms will not be allowed until the end of 1998.

Recent regulatory changes have streamlined foreign investment applications procedures and eased a number of barriers to foreign direct investment. As part of the OECD accession process, the government announced further liberalization of foreign investment in restricted sectors. Earlier changes to laws and regulations governing foreign purchases of land made it easier for foreign-invested companies to purchase land for staff housing and business purposes, although generic restrictions on use mean that land prices in Korea are quite high by international standards.

Despite improvement, however, U.S.-based investors in Korea continue to face a number of significant barriers. Continuing restrictions on access to offshore funding (including offshore borrowing, intracompany transfers and intercompany loans) are particularly burdensome. Foreign equity participation limits remain in some sectors, and licensing requirements and other regulatory restrictions can limit foreign direct investment in sectors nominally open to foreigners. Foreign firms also face additional restrictions in their investment in most professional services, as well as in their downstream activities.

The Korean Government continues to mount periodic "frugality campaigns" against "overconsumption." Specific government targeting of imports has ceased for the most part, but an accumulated anti-import bias in the public remains.

The streamlining of Korea's complex import clearance procedures is a prime U.S. policy objective. This is particularly important to continued growth in our already signficant trade in agricultural products.

Korea acceded to the WTO Government Procurement Agreement on January 1, 1997,and is bringing its laws and regulations into line with the new requirements. Even after accession, however, significant portions of the purchases made by two large state-owned enterprises (Korea Telecom and Korea Electric Power Corporation) will be exempt from the Agreement.

6. Export Subsidies Policies

Since the mid-1980's, Korea has been dismantling the once prevalent system of subsidies used to promote industrialization in the 1960's and 1970's. A new law governing tax exemptions was passed in 1983. The balance of the subsidy tools (grants and directed and/or subsidized financing) were then redirected in 1986 toward functional objectives, rather than toward specific industries or sectors. As a result, the real benefit of the few remaining subsidized lines of 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. While the targeting of finance in Korea's high growth, cash-starved environment remains, tax exemptions appear the main vehicle for export promotion. Exemptions, however, are declining as well. They were estimated to equal about 8 percent of total government expenditures in 1995, or about half their share of 5 years earlier.

Many government programs directly support Korea's export industries, including: customs duty rebates for raw material imports used in the production of exports; short-term export loans for SMEs; rebates on the value-added tax; a special consumption tax for export products; corporate income tax benefits for costs related to the promotion of overseas markets; unit export financial loans; and special depreciation allowances for SMEs which export. Korea also maintains a special loan program for SMEs to facilitate exports to Japan.

Korea has elected to participate in the WTO Agreement on Subsidies and Countervailing Measures as a "developing country," providing Korea a longer period than allowed for "developed countries" to eliminate or modify any remaining "red light" subsidies.

7. Protection of U.S. Intellectual Property

Korean laws protecting intellectual property rights (IPR) are generally adequate and enforcement has improved over the past several years, but a number of problem areas remain. Korean courts have recently refused to extend protection to textile designs and have upheld regulations requiring separate registrations for different product lines using the same trademark. Both decisions have set back Korea's progress in bringing its IPR regime into line with its OECD colleagues.

Korea is a signatory to the World Intellectual Property Organization, the Universal Copyright Convention, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms (March 1988), the Geneva Convention regarding sound recordings (October 1987), the Paris Convention for the Protection of Industrial Property (May 1980), and the Patent Cooperation Treaty (August 1984). Korea joined the Berne Convention in August 1996. Korea has remained on the Special 301 Priority Watch List since 1992, among other reasons for failure to provide retroactive copyright protection consistent with WTO and Berne requirements.

Korean patent law is fairly comprehensive, protecting most products and technologies. However, the Korean patent office's recognition of international ownership of patents is inconsistent across cases. Moreover, approved patents of international holders are still vulnerable to infringement. In its procurement process, the Korean Government lacks adequate controls to exclude patent infringing products, especially high-tech products.

Korean law provides for compulsory licensing of patents when the invention is deemed necessary for national defense, for public interest, or for protection of a dependent patent. These provisions are seldom invoked.

The Korean Government's protection of trademarks has improved greatly since 1991. The Korea Trademark Law extends protection only to domestically registered trademarks. Although the Unfair Competition Prevention Act theoretically protects foreign trademarks and those not otherwise protected, narrow interpretation of the

Act in recent court cases has made this protection ineffective. The granting of a trademark under Korean law is based on a "first to file" system, and preemptive filings are a problem.

While Korea has made progress in stemming counterfeiting of goods in the domestic market, Korean producers are still able to export counterfeits, including transshipments, to the United States. According to the U.S. Customs Service, in fiscal year 94 Korea had the world's highest number of IPR seizures (803) and ranked fifth in terms of seizure value ($2.9 million).

Korea's copyright law protects the rights of authors, but local prosecutors take no action unless a right holder files a formal complaint. Korea is not in compliance with provisions of the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) which stipulate that retroactive copyright protection should extend back to 1946. Korea now only provides protection back to 1957, and officials have indicated that they will provide full copyright retroactivity only if ordered to do so by the WTO.

Software protection laws are adequate, and enforcement against corporate piracy is improving. Piracy is still rampant, however, in schools and public institutions.

Legislation to protect semiconductor masks took effect at the beginning of 1994 and provides some downstream protection, although U.S. firms remain concerned over compulsory licensing provisions in the law.

8. Worker Rights

a. *The Right of Association:* The Korean Constitution grants all workers (with the exception of public sector employees and teachers) the right to free association. The Trade Union Law specifies that only one union is permitted at each place of work. However, labor reform legislation enacted in December 1996 will allow multiple unions at the national and industrial level from 2000 and at the enterprise level from 2002. Unions may be formed with as few as two members and without a vote of the full prospective membership. Strikes are prohibited in government agencies, state-run enterprises and defense industries. By law, enterprises in public interest sectors such as public transportation, utilities, public health, banking, broadcasting and communications can be ordered by the government to submit to 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 Ministry of Labor of their intention to strike and normally mandates a ten-day cooling-off period before a legal work stoppage may begin.

b. *The Right to Organize and Bargain Collectively:* The Constitution and the Trade Union Law guarantee the right of workers to bargain collectively and undertake collective action. Although the Trade Union Law is ambiguous, authorities (backed up by the courts) have ruled that union members cannot reject collective bargaining agreements (CBAs) signed by management and labor negotiators. Nonetheless, union members continue to reject such CBAs. Collective bargaining is practiced extensively. Korea's labor laws do not extend the right to strike to government employees, including employees of state or publicly run enterprises and defense industries. Central and local labor commissions are semiautonomous agencies of the Ministry of Labor which conciliate and adjudicate disputes in accordance with the Labor Dispute Adjustment Law. Labor-management antagonism 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 Labor Standards Law prohibits the employment of persons under 13 years of age without a special employment certificate from the Ministry of Labor. Because education is compulsory until the age of 13, few special employment certificates are issued for full-time employment. Some children are allowed to take part-time jobs, such as selling newspapers. In order to accept employment, children under 18 must have written approval from their parents or guardians. Employers may only require minors to work only a limited number of overtime hours and are prohibited from employing them at night without special permission from the Ministry of Labor.

e. *Acceptable Conditions of Work:* Korea implemented a law in 1988 establishing a minimum wage level which is reviewed annually. Companies with fewer than ten employees are exempt from this law. In practice, most firms pay wages well above the minimum levels due to tight labor markets. The labor standards and industrial safety and health laws provide for a maximum 56-hour workweek and a 24-hour rest period each week. Amendments to the Labor Standards Law passed in March 1989 brought the maximum regular workweek down to 44 hours and provides for a 24-hour rest period each week. However, these rules are sometimes ignored, especially by small firms. The recent labor reform legislation allows a flexible work hour system in which workweek hours may be extended to 48 or 56 hours under certain conditions. The government's health and safety standards are not always effectively enforced. Although accident rates have been declining every year, the incidence of industrial fatalities in Korea is 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. Working conditions at U.S.-owned plants are for the most part better than those at corresponding Korean plants.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,548
Food & Kindred Products	273	
Chemicals and Allied Products	348	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	237	
Transportation Equipment	95	
Other Manufacturing	501	
Wholesale Trade		613
Banking		1,819
Finance/Insurance/Real Estate		407
Services		49
Other Industries		(1)
TOTAL ALL INDUSTRIES		5,322

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

MALAYSIA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	72.6	87.5	97.9[2]
Real GDP Growth (pct)	9.2	9.5	8.2[3]
GDP by Sector (1978 prices):			
Agriculture	6.1	6.5	6.5
Manufacturing	13.3	15.9	17.8
Mining and Petroleum	3.1	3.6	3.7
Construction	1.8	2.2	2.4
Services	13.4	15.4	16.6
Government Services	4.2	4.6	4.7
Per Capita GDP (USD)	3,689	4,228	4,521
Labor Force (000s)	7,846	8,140	8,398
Unemployment Rate (pct)	2.9	2.8	2.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) (pct)	14.7	19.7	19.9[4]

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Consumer Inflation (pct)	3.7	3.4	3.6
Exchange Rate: (RM/USD—annual average)	2.62	2.5	2.52
Balance of Payments and Trade:			
Total Exports (FOB)	56.7	71.8	74.2
Exports to United States[5]	14.0	17.5	17.8[6]
Total Imports (FOB)	54.9	71.7	72.4
Imports from United States[5]	7.0	8.8	8.5[6]
Trade Balance	1.7	0.9	1.8
Balance with United States[5]	7.0	8.7	9.3
External Public Debt	14.3	16.0	15.8
Fiscal Surplus/GDP (pct)	2.3	0.8	0.6
Current Account Deficit/GDP (pct)	6.3	8.5	6.0
Debt Service Payments/GDP (pct)	4.7	7.0	6.5
Gold and Foreign Exchange Reserves	26.0	25.5	25.8
Aid from United States	0.3	0.5	0.6
Aid from All Other Sources	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] 1996 data to August only.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Malaysia has a relatively open, market-oriented economy which has exhibited sustained growth and increasing diversification since the country's independence in 1957. Following an economic slowdown from 1985 to 1987 with negative real GDP growth of 1.1 percent in 1985, the economy has continued to boom with an average annual real GDP growth of over 8 percent, led by strong performance in both foreign and domestic investment and in manufactured exports. In 1996, real GDP growth is expected to slow to 8.2 percent after reaching 9.5 percent in 1995. Malaysia plans to pursue a moderately restrictive fiscal policy and a tight monetary policy in order to attempt to reduce the persistent current account deficit.

While the government since 1986 has scaled back its role as a producer of goods and services, it continues to hold equity stakes in a wide range of privatized domestic companies, including telecommunications, aviation, shipping and seaport ventures. Government hospitals and post offices are in various stages of privatization. The construction of infrastructure projects has been increasingly delegated to the private sector. Major infrastructure projects underway include development of a Multimedia Super Corridor, construction of a new administrative capital, and completion of the new Kuala Lumpur International Airport.

Malaysia maintains relatively low trade barriers in most sectors but uses tariffs to protect some industries such as motor vehicles. The government has consistently moved to reduce the overall tariff level over time. Malaysia has been an active participant in multilateral and regional trade fora such as the World Trade Organization and Asia-Pacific Economic Cooperation. The government encourages direct foreign investment, especially in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority over individual investments. In some sectors it has used this authority to restrict the percentage of foreign equity or encouraged foreign firms to enter into joint ventures with local partners. Foreign firms are active in the electronics, petroleum, textiles, chemical, and electrical machinery sectors.

Fiscal Policy: The government follows a conservative fiscal policy and has generated a surplus in its accounts, excluding public enterprises, for the last 4 years. The 1997 budget is intended to move the economy to a more moderate growth rate to ease the pressures on the external balance. The maximum personal income tax rate was reduced in the 1996 budget to 30 percent (the same as the corporate rate) from its previous 32 percent level.

Monetary Policy: Monetary policy is aimed at controlling inflation while providing adequate liquidity to stimulate economic growth. Monetary aggregates are controlled by the central bank through open market operations, occasional changes in reserve requirements, and influence over banking sector interest rates.

2. Exchange Rate Policy

Malaysia has a substantially open foreign exchange regime. The stated policy of Bank Negara (the central bank) is to maintain a stable exchange rate which reflects the Malaysian ringgit's underlying value. The value of the ringgit generally tracks against a trade-weighted basket of currencies in which the U.S. dollar has a large weighting. Bank Negara intervenes in the foreign exchange market to smooth out fluctuations and discourage speculation. The ringgit has strengthened from a level of RM2.7 per dollar (between 1989 and March 1994) to RM2.5 per dollar (in November 1996).

Most foreign transactions including repatriation of capital and remittance of profits are permitted, but some restrictions apply. Foreign currency accounts are not generally allowed except for exporters (who must hold their foreign currency accounts with "Tier 1" banks and maintain overnight balances of $1–5 million) and resident individuals who need foreign currency for educational or employment purposes (foreign currency accounts limited to $100,000).

3. Structural Policies

Pricing Policies: Most prices are market-determined, but controls are maintained on certain key goods, such as fuel, public utilities, cement, motor vehicles, rice, flour, sugar and tobacco.

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 38.9 percent. The remainder of government revenue comes largely from dividends generated by state-owned enterprises and petroleum taxes. In the 1997 budget, 260 selected products, including cosmetics and paper products, were exempted from payment of sales taxes.

Regulatory Policies: The government encourages export-oriented foreign direct investment but places restrictions on foreign investments aimed more at the domestic market. Currently, no equity condition is imposed on foreign manufacturing companies which export at least 80 percent of output. For companies exporting 51 percent to 79 percent of output, foreign equity is allowed up to 79 percent. For companies exporting 20 percent to 50 percent of output, foreign equity up to 51 percent is allowed. In October 1996, the government announced that high-technology and information technology companies which establish in the Multimedia Super Corridor will be given attractive tax incentives.

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

4. Debt Management Policies

Malaysia has strong credit ratings in international financial markets, and its public and private companies have no difficulty accessing funds. Malaysia's medium and long term foreign debt (both public and private sector) is expected to stand at $28.7 billion at the end of 1996, about 29 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 5.9 percent in 1995.

5. Significant Barriers To U.S. Exports

Introduction: Tariffs are the main instrument used by the Malaysian Government to regulate imports, but import licenses are also used. Although duties on a trade-weighted basis average less than 10 percent, the rates for tariff lines where there is significant local production are often higher. Malaysia's 1997 budget increased duty rates of 5 percent to 20 percent on selected heavy equipment, manufacturing inputs, and hotel supplies to promote domestic sourcing and to address domestic concerns about Malaysia's chronic current account deficit. Import licenses are required for a small range of goods, e.g., automobiles, meat, and tobacco.

Import restrictions on motor vehicles: Malaysia maintains high tariffs (often approaching 200 percent ad valorem) and local content restrictions on imported motor vehicles and motor vehicle parts. These restrictions have severely hampered the ability of U.S. firms to penetrate the Malaysian market. The government has announced that local content restrictions will be phased out by the year 2000 to comply with WTO commitments.

Import restrictions on tobacco and cigarettes: To encourage greater use of local tobacco in cigarettes and to maintain high domestic leaf prices, the government levies import duties of RM50 ($20) per kilogram, plus 5 percent ad valorem on unprocessed tobacco. The greatest impact of this policy, however, appears to fall on cheaper, lower quality leaf from non-U.S. suppliers. Additionally, an import quota for flue-cured tobacco forces local cigarette manufacturers to buy up all the locally produced, generally low-quality tobacco. Tax rates on cigarettes of RM162 ($64.8) per kilogram dampen demand for U.S. exports.

Telecommunications: Foreign companies are restricted to 30 percent equity ownership of telecommunications companies operating in Malaysia. The government is not issuing new licenses in this sector.

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.

Plastic resins: In December 1993, tariffs on plastic resins were increased for a 5-year period from 2 to 30 percent (for non-ASEAN countries) and from 1 to 15 percent (for ASEAN countries). In 1994 the government also instituted a 5-year restrictive import licensing system.

Protective tariffs for kraft paper: In April 1994 the government raised tariffs on several categories of imported kraft paper (used in making cardboard boxes) to between 20 and 30 percent. These tariff increases are to be phased out over a maximum of 5 years and are subject to review every 2 years.

Tariff quota for chicken parts: Chicken imports are regulated by a tariff-rate quota. Even in-quota amounts are restricted through licensing and sanitary controls. In addition, there are prohibitions against imports from slaughterhouses that have not been certified by Malaysian authorities as "halal" (meeting Islamic requirements).

Rice import policy: The sole authorized importer is a government corporation (BERNAS) with the responsibility of ensuring purchase of the domestic crop and wide power to regulate imports.

Services barriers: Most services sectors are highly protected. Foreign professional services providers are generally not allowed to practice in Malaysia. Television advertisements must be produced principally in Malaysia with Malaysian performers, although exceptions are sometimes granted. Wholly owned U.S. travel agencies, air courier services, motion picture and record distribution companies are permitted.

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: Foreign equity in new insurance companies is limited to a minority stake. However, there are nine existing insurance companies, excluding reinsurers, which are 100 percent foreign-owned (one) and another eight have foreign equity in excess of 50 percent. New legislation will require local incorporation of all insurance companies.

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 are limited to 70 percent foreign ownership if they provide services to both foreign and local investors.

Government Procurement: Malaysian Government policy requires countertrade provisions on government tenders above RM1 million ($400,000). Below RM1 million, countertrade is welcomed and even encouraged but not required. Incentives exist for local procurement. Many smaller civil construction projects (RM50 million or less) are restricted to local firms.

6. Export Subsidy Policies

Malaysia offers several export allowances. Under the Export Credit Refinancing (ECR) scheme operated by the Central Bank, commercial banks and other lenders provide financing to exporters at an interest rate of 6 percent for both postshipment and preshipment credit. Malaysia also provides tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, export promotion, overseas sales offices, and research on export markets.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention for the protection of literary and artistic works, and the Paris Convention for the protection of industrial property. Malaysia provides copyright protection to all works (including video tapes, audio material, and computer software) published in Berne Convention member countries regardless of when the works were first published in Malaysia. Police and legal authorities are responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases, though pirated videotapes and computer software continue to be widely available. 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 discourages 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.

c. *Prohibition of Force or Compulsory Labor:* There is no evidence that forced or compulsory labor occurs in Malaysia for either Malaysian or foreign workers.

d. *Minimum Age for 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. *Acceptable Conditions of Work:* 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 are often inferior to those of direct hire workers.

f. *Rights in Sectors with U.S. Investment:* The largest concentration of U.S. investment in Malaysia is in the petroleum sector, including offshore oil and gas production, refining and marketing. Pay and benefits are considered excellent. The second largest concentration of U.S. investment is in the electronics sector, especially the manufacture of components, such as semiconductor chips and various discrete devices. Wages and benefits are among the best in Malaysian manufacturing. Twenty U.S. electronic component manufacturers operate 17 plants in Malaysia, employing more than 51,000 Malaysian workers.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		570
Total Manufacturing		2,685
Food & Kindred Products	(1)	
Chemicals and Allied Products	108	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	58	
Electric & Electronic Equipment	2,254	
Transportation Equipment	0	
Other Manufacturing	260	
Wholesale Trade		137
Banking		41

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	150
Services	−1
Other Industries	71
TOTAL ALL INDUSTRIES	3,653

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	64.1	74.1	83.1
Real GDP Growth (pct)[2]	4.4	4.8	5.4
GDP by Sector:			
Agriculture	14.1	16.1	18.6
Manufacturing	14.9	17.0	18.7
Services	29.2	34.3	38.3
Government[3]	6.3	7.6	8.1
Per Capita GDP (USD)	956	1,081	1,184
Labor Force (000s)	27,654	28,380	29,130
Unemployment Rate (pct)	9.5	9.5	9.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[4]	26.8	25.2	20.5
Consumer Price Inflation	9.0	8.1	8.7
Exchange Rate (pesos/USD—annual average)			
Interbank Rate	26.42	25.71	26.28
Balance of Payments and Trade:			
Merchandise Exports (FOB)	13.5	17.4	20.3
Exports to United States[5]	5.7	7.0	8.1
Merchandise Imports (FOB)	21.3	26.4	33.4
Imports from United States[5]	3.9	5.3	6.1
Trade Balance	−7.9	−9.0	−13.1
Balance with United States[5]	1.8	1.7	2.0
Current Account Deficit/GDP (pct)	4.6	2.5	4.8
External Public Sector Debt	29.2	28.5	27.0
Debt Service Payments/GDP (pct)	6.5	6.6	7.0
Fiscal Surplus/GDP (pct)	1.0	0.5	0.5
Gold and Foreign Exchange Reserves	7.1	7.8	11.3
Aid from United States (millions of USD)[5]	87	89	150
Aid from All Other Sources[5]	1.6	1.5	1.6

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

[1] 1996 figures are all estimates based on available monthly data as of October 1996.
[2] Percentage changes based on local currency.
[3] Government construction and services gross value added.
[4] Growth rate of yearend M2 levels.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] Inflows per balance of payments, net of inflows from the U.S. Veterans Administration (USVA).

1. General Policy Framework

The Philippine population is estimated at over 70 million, growing at 2.3 percent yearly. Gross Domestic Product (GDP) for the first time surpassed the equivalent of $1,000 per capita in 1995. The agricultural sector accounts for over 40 percent of employment, but provides less than one-fourth of GDP. Poverty and skewed income distribution are important concerns. The Philippines historically has had to grapple with chronic trade deficits and a "boom-and-bust" economic growth pattern. Continuing and accelerating the initiatives of its predecessor, the Ramos administration is implementing a far-reaching reform program aimed at sustaining economic growth, preserving macroeconomic stability, and transforming the Philippines into an industrialized market-driven economy.

Within the past 3 years, the government has implemented important reforms liberalizing trade, foreign exchange and investment regimes; privatizing parastatals; reducing entry barriers for vital industries (such as banking, insurance, aviation, telecommunications, and oil); and encouraging key private-sector infrastructure investments under a Build-Operate-Transfer (BOT) program. These reforms have boosted exports, increased overseas workers' remittances, and attracted foreign investments, trade financing and capital flows. Real Gross National Product (GNP) growth has been accelerating since 1993. With every sign of continuing, reforms are feeding optimism that the Philippines has, at last, embarked on a path of sustained economic expansion. The country is a founding member of the World Trade Organization (WTO).

Maintaining fiscal balance remains a crucial goal to ensuring macroeconomic stability. Departing from two decades of fiscal deficits, the national government has posted fiscal surpluses since 1994 through a combination of revenue measures and expenditure cuts. The fiscal situation nevertheless remains fragile. Falling privatization receipts, declining tariffs, widespread tax evasion and weak tax administration contribute to uncertainty. (See Section 3)

The 1993 financial restructuring of the Central Bank (now known as Bangko Sentral ng Pilipinas, BSP) has restored the monetary authority's ability effectively to conduct monetary and exchange rate policy, allowing staggered reductions in reserve requirements since 1993 (from 25 percent to 15 percent of deposit liabilities). Surges in capital flows, spurred by an acceleration in the liberalization of foreign exchange and investment since 1993, have posed an additional challenge for monetary and foreign exchange policymakers.

2. Exchange Rate Policy

Reflecting major reforms implemented in 1992, current account transactions are now fully convertible. Except for some restrictions on foreign debt and investments, the government has also lifted most restrictions on capital account transactions. There are no barriers to full and immediate capital repatriation and profit remittances. In September 1995, the Philippines joined the ranks of "Article VIII" International Monetary Fund (IMF) member countries, underscoring its commitment to an open foreign exchange and payments regime.

Foreign exchange rates generally evolve freely in the interbank market, although the BSP imposes limits on banks' overbought and oversold foreign exchange positions. A "volatility band" (containing day-to-day fluctuations to 1.5 percent below or above the previous day's average rate) has been applied since late 1994 as a defense against excessive short-term exchange-rate fluctuations. Targeted for elimination by March 1997, the government has been phasing down a forward foreign-exchange cover scheme for oil imports since December 1994.

3. Structural Policies

Prices are generally determined by free market forces, with the exception of fuel (moving toward full deregulation by March 1997) and basic public utilities such as transport, water and electricity. The government grants incentives to investors in "preferred" activities (see Section 6). The Foreign Investments Act (FIA) of 1991 permits full foreign ownership of companies not availing of investment incentives, except those covered by a foreign investment "negative list" (see Section 5). March 1996 legislation lowered foreign investment barriers further by abolishing FIA's negative list C, which protected "adequately served" sectors such as insurance, travel agencies, tourist lodging firms, and conference organizers and lowered the minimum capitalization (from $500,000 to $200,000) at which majority foreign ownership would be allowed.

The Philippines' Tariff Reform Program, now covering all Harmonized System Code chapters 1 through 97, provides for the progressive reduction in applied rates of duty. The major exception is in agriculture, where quota restrictions (QRs) on "sensitive" agricultural products (except rice) were lifted and replaced with protective tariffs. The Philippines is moving toward two rates: 3 percent for raw materials and intermediate goods, and 10 percent for finished products by the year 2003, settling to a final uniform 5 percent by 2004. Complementing trade liberalization, the Philippines has shifted its customs valuation system from "home consumption value" to "export value", an interim step toward adoption of a "transaction value" system before the year 2000.

Reforms since the start of the decade improved access to important service industries (such as aviation, banking, telecommunications, and insurance). Following March 1996 legislation, the government partially deregulated the downstream oil industry after nearly two decades of government control. While an automatic pricing mechanism provides for petroleum product price adjustments monthly, the government set a ceiling for price increases and placed a cap on oil firms' profit margin until scheduled full deregulation takes effect in March 1997. Previously (in October 1995), the government lifted controls on imports of petroleum products and (with the exception of refineries) on the establishment of facilities such as gas stations, depots and LPG filling tanks.

Since 1993 the government has adopted a number of measures to raise revenues (such as increasing stock transaction and documentary stamp taxes, imposing a minimum 3 percent tariff, and hiking government fees/charges). It implemented an "expanded" value-added tax law in January 1996 (extending coverage to goods and services, such as the lease and sale of real property, telecommunications, restaurants/caterers/hotels, publications, and professional and financial services). The government is relying on congressional approval of a "Comprehensive Tax Reform Program" (CTRP) to sustain revenue flows. The CTRP estimates pesos 14 billion ($530 million) in additional revenues can be raised by simplifying the tax system and widening the tax base through a package of reforms on income and excise taxation, tax administration, and the rationalization of fiscal incentives.

4. Debt Management Policies

The foreign debt level (estimated at $38 billion) has been growing, but debt servicing is no longer a major problem. The ratio of debt service to merchandise and service exports has fallen to under 15 percent, from 40 percent in the early 1980's. The Philippines has had four debt rescheduling rounds with official bilateral (Paris Club) creditors. It implemented a debt-to-equity swap program from 1986-1993 and, between 1990 to 1992, repurchased and/or restructured nearly $6 billion in debt owed to foreign commercial banks. The Philippines reentered the voluntary international capital markets in 1993 after a decade's absence. The government did not exercise a fifth Paris Club debt rescheduling agreement. The IMF approved a 3-year extended arrangement in mid-1994, which the Philippines intends to use as an exit program. The country continues to benefit from sector-specific and structural adjustment programs provided by multilateral institutions such as the Asian Development Bank and the World Bank Group.

5. Significant Barriers to U.S. Exports

Tariffs: The Philippines adopted a minimum access volume (MAV) system for imports of some 85 tariff lines of "sensitive" agricultural products in July, 1995. Among those were products, such as pork and poultry, on which the government had undertaken minimum access commitments in the Uruguay Round (UR). Delays in implementing the MAV's on these products have raised concerns among WTO members relating to implementation of UR commitments in agriculture. The Philippine Government also imposed MAV's for imports of fresh, chilled and frozen beef, which had previously been subject to a 30 percent duty. Imports below the MAV for beef of 21,131 metric tons (MT) in 1996 (six months), rising to 130,994 MT in 2003, will continue to be subject to a 30 percent tariff. Imports over the MAV will be subject to a 60 percent tariff, falling to 40 percent in 2000. Finally, in some cases, products which had previously been imported without restriction, are now subject to the MAV system. This has resulted in the application of prohibitive tariff levels in cases where no MAV's (subject to in-quota rates) were established. Administrative requirements for import certificates under the MAV system for all products are burdensome.

Import Licenses: The National Food Authority remains the sole importer of rice and continues to be involved in imports of corn. While trade reforms have greatly reduced import restrictions, some products are still subject to import regulation, generally for reasons of health, morals, national security, and rationalization/development programs.

Cigarette Excise Tax: The current ad valorem system imposes a higher rate on imports and locally produced cigarettes using foreign brand names. Under a proposed Comprehensive Tax Reform Program (see Section 3), the government envisions a shift to a three-tiered specific tax system based on prices, rather than on origin or brand name.

Services Barriers: Banking—A law signed in May 1994 relaxed foreign investment restrictions in place since 1948. A foreign bank can enter either as a wholly-owned branch bank, or own up to 60 percent (up from 30 percent) of an existing domestic bank, or a new locally-incorporated banking subsidiary. However, the new law permitted only 10 new foreign banks entry on a full-service, branch basis. (All 10 slots have been filled. Four other foreign branch banks were established prior to 1948.) Each new foreign branch bank is limited to establishing six branches each. Four older banks were permitted to each add six new branches.

Securities—Membership in the Philippine stock exchange is open to foreign-controlled stock brokerage firms that are incorporated in the Philippines. Foreign ownership in securities underwriting companies (investment houses) is limited to less than 50 percent. Foreign firms are not allowed to underwrite securities for the Philippine market, but may underwrite Philippine issues for foreign markets. Financing companies must be at least 60 percent Filipino-owned.

Insurance—As a general rule, only the Philippines' Government Service Insurance System may provide coverage for government-funded projects. A 1994 administrative order extended this policy to BOT-funded projects.

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

Telecommunications: The Philippine Constitution limits foreign ownership in telecommunication firms to 40 percent.

Standards, Testing, Labelling, and Certification: Of the total 1,625 Philippine National Standards, 15 percent are aligned with international norms. The government, for reasons of public health, safety and national security, implements regulations that affect U.S. exports of drugs, food, textiles and certain industrial goods. Notable examples follow:

(a) The Department of Health's renewed campaign for the full implementation of the "Generic Act" of 1988 vigorously promotes "cheap" generic drugs. A drug's generic name must appear above its brand name.

(b) Local inspection for standards compliance is required for imports of about 30 industrial products including lighting fixtures, electrical wires and cables, sanitary wares and household appliances, portland cement and pneumatic tires. For other goods, however, the government accepts U.S. manufacturers' self-certification of conformance.

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

Investment Barriers: The Foreign Investment Act of 1991 contains two categories of foreign investment "negative lists". "List A" covers activities in which foreign equity is excluded or limited by the Constitution and other laws. These include investments in mass media, practice in licensed professions, retail trade, small-scale mining and private security agencies which are reserved for Filipinos. In addition to land ownership (where a 40 percent foreign-equity ceiling applies), varying foreign ownership limitations are imposed, among others, on companies engaged in advertising (30 percent), employee recruitment (25 percent), private construction (40 percent), financing (40 percent), public utilities (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, safety and morals (e.g., gambling operations and sauna and massage parlors), and to protect local small and medium-sized firms. To protect smaller firms, a company must be capitalized at a minimum of $200,000 to be more than 40 percent foreign-owned.

The government generally imposes a foreign ownership ceiling of 40 percent on firms seeking incentives with the Board of Investment (BOI) under the government's annual Investment Priorities Plan. While there are exceptions to the ceiling, divestment to 40 percent is required within 30 years. The BOI imposes industry-wide local-content requirements under its motor-vehicle development program and requires participants to generate, via exports, a certain ratio of the foreign exchange needed for import requirements. The government has issued guidelines to phaseout these trade-related investment measures by the year 2000.

Current regulations limit domestic borrowings by foreign firms, set as maximum debt-to-equity ratios, which must be maintained for the term of the debt. The Bangko Sentral intends to lift these restrictions in 1997.

Government Procurement Practices: Contracts for government procurement of goods and services are awarded by competitive bidding. In general, government procurement policies do not discriminate against foreign bidders. However, preferential treatment of local suppliers is practiced in government purchases of medicines, rice, corn, and iron/steel materials for use in government projects. Government agencies must procure petroleum from government-owned sources. Contractors for infrastructure projects which require a public utility franchise (i.e., water and power distribution, public telephone and transportation systems) must be at least 60 percent Filipino-owned. For other major contracts (such as BOT projects), where operations do not involve a public utility franchise, a foreign constructor must be duly accredited by its government to undertake construction work. To the benefit of U.S. suppliers, areas of interest including power generation equipment, communications equipment and computer hardware do not generally confront significant restrictions.

The Philippines is not a signatory to the GATT Government Procurement Agreement.

Customs Procedure: All imports valued at over $500 are permitted entry only when accompanied by a preshipment inspection report—"Clean Report of Findings"—issued by Societe Generale de Surveillance (SGS), the authorized, contracted, outport inspector. The Philippines has adopted the 1996 version of the Harmonized System Nomenclature. To assess import duty, the Bureau of Customs has shifted from "home consumption value" to "export value" as an interim step toward a shift to "transaction value" before the year 2000.

6. *Export Subsidies Policies*

Firms (including exporters) engaged in activities under the government's annual Investment Priorities Plan may register with the Board of Investment (BOI) for fiscal incentives under the 1987 Omnibus Investment Code. These incentives include income-tax holidays, preferential tax/duty treatment on imported capital equipment, tax credits for domestically purchased equipment, and income-tax deductions for incremental labor expenses. In addition to these general incentives, some benefits apply specifically to BOI-registered export firms (such as tax credits for raw-material imports, and tax/duty exemptions on imported spare parts). Export companies in government-designated export zones and industrial estates registered with the Philippine Economic Zone Authority enjoy basically the same incentives as BOI-registered firms.

Enterprises accredited under the Export Development Act may also avail of time-bound incentives which include: duty-free importation of capital equipment and accompanying spare parts until 1997; partial tax credit until 1997 for locally purchased raw materials, equipment and spare parts for exporters of nontraditional products; tax credit until 1999 for imported inputs and raw materials not readily available locally; and tax credit for increases in the current year's export revenues, contingent on performance and local content.

There are a number of specialized credit programs targeted for small and medium-scale enterprises in general or exporters in particular, several funded by foreign multilateral or bilateral agencies. Most interest rates are market-based, although a number of facilities offer fixed rates. The Bangko Sentral maintains an "Export Development Fund" (EDF), the foreign exchange counterpart of its peso rediscounting facility. EDF rates are LIBID-based and adjusted periodically. The BSP imposes a ceiling on the spread at which banks can relend the funds.

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

While IPR protection is improving, serious problems remain, and the issue remains a bilateral trade concern. Current penalties for infringement and counterfeiting are not effective deterrents. Insufficient funding hampers the operation of agencies tasked with IPR enforcement. Joint government-private sector efforts have improved administrative enforcement; but when IPR owners must use the courts, enforcement is slower and less certain.

In February 1993 President Ramos created the Inter-agency Committee on Intellectual Property Rights as the body charged with recommending and coordinating enforcement oversight and program implementation. The Philippines is a party to the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty. It is also a member of the World Intellectual Property Organization and the WTO.

The Philippines was moved from the U.S. Trade Representative's Special 301 "Priority Watch List" to the "Watch List," following the April 1993 signing of a bilateral IPR agreement, which commits the Philippine Government to improving its legislative protection and to strengthening enforcement significantly. The Philippine Government has generally complied with the agreement, and is working on legislative requirements. Although legislative commitments under the bilateral was to be submitted to the Congress before the end of the June 1994 congressional session, the government did not meet the deadline. A new IPR "code" was introduced in both houses of Congress in the second half of 1996. Its passage remains a government priority.

Patents: Present law recognizes the possibility of compulsory licensing 2 years after registration of a patent with the Patent, Trademark and Technology Transfer Board, if the patented item is not being utilized in the Philippines on a commercial scale, or if domestic demand for the item is not being met to an "adequate extent and on reasonable terms." For pharmaceutical and food products, use, inadequate production for domestic demand, etc. need not be established. Royalty rates higher than 5 percent of net sales are allowed only in meritorious cases. Naturally occurring substances (plants or cells, for example) are not patentable.

Trademarks: Trademark counterfeiting is widespread. Many well-known international trademarks are copied, including denim jeans, designer shirts, playing cards, sporting equipment and personal beauty and health care products. Some U.S. firms—for example Disney—have had success in curbing piracy in cooperation with Philippine enforcement agencies. The National Bureau of Investigation (the Philippine equivalent of the FBI) has recently been cited by the private sector for its excellent cooperation in conducting raids against trademark violators.

Philippine law requires trademark owners to file an affidavit of use or justified nonuse with the Patents, Trademark and Technology Transfer Board every 5 years to avoid cancellation of trademark registration. Nonuse of a mark must be for reasons totally beyond the control of a registrant (import bans, for example). Current practice provides that internationally well-known marks should not be denied protection because of nonregistration or lack of use in the Philippines (which pending legislation seeks to incorporate into Philippine law).

Copyrights: Current Philippine law is overly broad in allowing the reproduction, adaptation or translation of published works without the authorization of the copyright owner. A Presidential decree permits educational authorities to authorize the reprint of textbooks or other reference materials without the permission of the foreign copyright holder, if the material is certified by a school registrar as required by the curriculum and the foreign list price converts to 250 pesos (about $9.50) or higher. This decree is inconsistent with the appendix of the 1971 text of the Bern Convention.

Video piracy is a serious problem, but declining from about 80 percent of the market a few years ago to about 60 percent now. Copyright protection in the present law for sound recordings, currently 30 years, is shorter than the internationally accepted norm of 50 years. Industry sources estimate that piracy of recorded music has fallen to an average of about 40 percent. About 98 percent of all computer software sold is pirated. Computer shops routinely load software on machines as a free "bonus" to entice sales.

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

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

8. Worker Rights

a. *The Right of Association:* All workers (including public employees) have a right to form and join trade unions, a right which is exercised without national government interference, although opposed in practice by some employers and officials of local government units. Trade unions are independent of the government and generally free of political party control. Unions have the right to form or join federations or other labor groupings. Subject to certain procedural restrictions, strikes in the private sector are legal. However, unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike. The Secretary of Labor and Employment often assumes jurisdiction over strikes, in effect arbitrating a settlement.

b. *The Right To Organize and Bargain Collectively:* The Philippine Constitution guarantees the right to organize and bargain collectively. The Labor Code protects and promotes this right for employees in the private sector, as well as those employed in government-owned or controlled corporations. A similar but more limited right is afforded to employees in most areas of government service. Dismissal of a union official or worker trying to organize a union is considered an unfair labor practice. Nevertheless, employers sometimes attempt to intimidate workers by threats of firing or closure. Although labor law and practice are uniform throughout the country, there have been complaints about local official efforts to maintain "union free/strike free" policies in several of the export processing zones.

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

d. *Minimum Age for Employment of Children:* Philippine law prohibits the employment of children below age 15. The exceptions involve situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television in cases where a child's employment is essential. Such employment, however, must not impinge on the child's education, health, safety or morals, and the parent or employer must procure a work permit. The Labor Code allows employment for those between the ages of 15 and 18 for such hours and periods of the day as are determined by the Secretary of Labor, but forbids employment of persons under 18 years in hazardous work. However, a significant number of children are employed in the informal sector of the urban economy or as unpaid family workers in rural areas.

e. *Acceptable Conditions of Work:* The Minimum Wage Act of 1989 authorized tripartite regional wage boards to set minimum wages. Rates last underwent general revision in late 1993, with the highest in Manila and lowest in rural regions. As a seasonal rice shortage (combined with storm-related and other factors) caused sharp upward price shifts in the second half of 1995, it was expected that regional wage boards would respond accordingly. Wage boards outside the National Capital Region (NCR), in addition to establishing lower minimum levels, also exempted employers according to such factors as establishment size, industry sector, involvement with exports, and level of capitalization. This approach excluded substantial numbers of workers (especially in agriculture, domestics, laborers, janitors, messengers and drivers) from coverage under the law. The present minimum wage for workers in the NCR is 165 pesos (about $6.25) per day. Detected minimum wage violations continue to run high. The legal workweek before overtime is 48 hours for most categories of industrial workers and 40 hours for government workers. The law mandates a full day of rest weekly and overtime for any hours worked over an eight per day limit. A comprehensive set of occupational safety and health standards exists in law. Statistics on actual work-related accidents and illnesses are incomplete, as incidents (especially in regard to agriculture) are underreported.

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,254
Food & Kindred Products	432	
Chemicals and Allied Products	427	
Metals, Primary & Fabricated	34	
Machinery, except Electrical	−2	
Electric & Electronic Equipment	306	
Transportation Equipment	0	
Other Manufacturing	147	
Wholesale Trade		200
Banking		259
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		235
TOTAL ALL INDUSTRIES		2,648

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

SINGAPORE

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	71.0	85.1	93.6
Real GDP Growth (pct)[3]	10.1	8.8	6.0
GDP by Sector:			
Agriculture	0.1	0.1	0.1
Manufacturing	17.0	20.2	21.5
Services	23.1	26.7	28.4
Government	5.6	6.7	7.2
Per Capita GDP (USD)	21,757	24,020	24,981
Labor Force (000s)	1,693	1,748	1,800
Unemployment Rate (pct)	2.6	2.7	2.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	14.4	10.1	10.0
Consumer Price Inflation (pct)	3.1	1.7	1.3
Exchange Rate (S$/USD—annual average)	1.5247	1.4174	1.4119
Balance of Payments and Trade:			
Total Exports (FOB)[4]	96.5	118.2	144.8
Exports to United States[5]	15.4	18.6	20.3
Total Imports (CIF)[4]	102.4	124.4	151.1
Imports from United States[5]	13.0	15.3	16.8
Trade Balance[4]	−5.9	−6.2	−6.4
Trade Balance with United States[5]	2.4	3.3	3.6
Current Account Surplus/GDP (pct)	N/A	.18	N/A
External Public Debt (USD millions)	3.1	0.0	0.0
Debt Service Payments/GDP (pct)	N/A	0.0	0.0
Fiscal Surplus/GDP (pct)	N/A	N/A	4.6
Gold and Foreign Exchange Reserves	55.5	68.2	73.4
Aid from United States	0	0	0
Aid from Other Sources	0	0	0

[1] 1996 figures are projected estimates based on part year data.
[2] Commencing 1996, the computation of real GDP by the GOS is based on 1990 as the base year instead of 1985.
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Sitting astride one of the major shipping lanes of the world, Singapore has long adopted export-oriented free-market economic policies that encourage two-way flows of trade and investment. These policies have allowed this small country to develop one of the world's most successful open trading and investment regimes. Over the past decade real GDP grew at an average annual rate of 8.5 percent; 1995's economic growth rate was 8.8 percent; the preliminary estimate for 1996 is 6 percent.

Taking into account a lack of natural resources and a small (3.3 million population) domestic market, Singapore's policies have created a climate encouraging economic growth, a corruption-free pro-business regulatory framework, political stability, public investment in infrastructure, high savings and prudent fiscal management, a trained labor force, and tax policies that have enhanced export and investment growth. Singapore actively promotes trade liberalization in the region through its activities in APEC and ASEAN. It ratified the Uruguay Round agreement in October 1994 to become one of the founding members of the World Trade Organization.

Over the past decade, real GDP grew at an average annual rate of 8.5 percent; 1995's economic growth rate was 8.8 percent. For 1996 GDP growth is projected to dip to 6 percent, due in large part to lower global demand for electronics. The government believes this decrease in export demand is a cyclical phenomenon and does not plan any dramatic policy adjustments to deal with it. The government has had a budget surplus for most years since the 1970's. The country's reserves ($74.0 billion as of August 1996) are conservatively invested by the Singapore Government Investment Corporation. The Central Provident Fund (CPF) compulsory savings program is the basis for the national savings rate of 50 percent of GDP.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. There are no controls on capital movements, limiting the scope for an independent monetary policy. The exchange rate is the MAS's most important tool for controlling inflation. Although inflation is moderate by international standards (1.7 percent based on c.p.i. numbers in 1995 and 1.3 percent so far this year), an acute labor shortage and rising property values have intensified inflationary pressures. The MAS maintains a strong currency to check inflation, particularly imported inflation, given Singapore's extreme exposure to international trade.

Singapore has become a major center for electronics manufacturing, oil refining and financial services, acting as a hub for the growing Southeast Asian market. Singapore's sound economic policies which promote private investment have attracted about 1200 U.S. companies to Singapore, with cumulative investments of $13.5 billion in 1995. The United States is Singapore's second largest trading partner, accounting for 17 percent of total trade in 1995. U.S. exports to Singapore in 1995 were $15.3 billion and Singapore's exports to the US were $18.6 billion.

2. Exchange Rate Policy

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

The Singapore dollar appreciated 22.9 percent against the U.S. dollar from 1989 to 1994. In 1994, the Singapore dollar strengthened 6 percent against the U.S. dollar and, in 1995, 8 percent. This has not seriously affected Singapore's economy as nearly all of its production inputs are imported.

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 1995. Prices for virtually all products are determined by the market. The government lets bids by open tender and encourages price competition throughout the economy.

Singapore's tax policy is designed to maintain its international competitive position. Foreign firms are taxed on the same basis as local firms. The corporate tax is currently at 26 percent. The government aims to bring the corporate tax down to 25 percent in the next few years. There are no taxes on capital gains, turnover, or development. The government implemented a 3 percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate and personal taxes. Tariffs exist for only a few products. Excise duties are levied on cigarettes, alcohol, petroleum products and motor vehicles primarily to control social behavior and restrict motor vehicle use. There are no non-tariff barriers to foreign goods.

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

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. Singapore's budget surpluses and mandatory savings have allowed the government wide latitude in supporting infrastructure, education, and other programs contributing significantly to national development.

5. Barriers to U.S. Exports

Singapore has one of the world's most liberal and open trade regimes. Approximately 96 percent of imports enter duty-free. Import licenses are not required, customs procedures are minimal and highly efficient, the standards code is reasonable and the government actively encourages foreign investment. All major government procurements are by international tender. The government became a member of the Uruguay Round Government Procurement Agreement in 1996.

Singapore maintains some market access restrictions in the services sector. No new banking licenses for local retail banking have been issued for more than two decades (although Singapore encourages the establishment of offshore banking and does not limit new entries) because the Monetary Authority consiaers Singapore over-banked. Foreign banks hold 22 of the 35 full (local retail) banking licenses. Full licensed foreign banks are not allowed additional branches or ATM machines although local banks are allowed to expand. No new licenses for direct (general) insurers are being issued, although reinsurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 59 direct insurance licenses.

The telecommunications sector has been steadily liberalized since 1989. There are no restrictions on the sale of telecommunication consumer goods except that they must meet the technical standards set by the Telecommunications Authority of Singapore (TAS). Provision of value-added network services (VANS) have also been liberalized. Recently privatized, Singapore Telecom's monopoly to provide basic telecommunication services will end in 2000.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

Singapore continues to take concrete measures to improve its level of intellectual property protection and has recently strengthened its enforcement efforts. Singapore is a member of the World Intellectual Property Organization (WIPO), and has ratified the Uruguay Round Accord including the TRIPS provisions. Singapore is not a party to the Berne Convention or the Universal Copyright Convention.

In 1987, following close consultation with the U.S. Government, Singapore enacted strict, comprehensive copyright legislation which relaxed the burden of proof for copyright owners pressing charges, strengthened civil and criminal penalties and made unauthorized possession of copyrighted material an offense in certain cases. In January 1991 Singapore similarly strengthened its Trademark Law. In 1994 Singapore enacted a new Patents Act. Amendments making the patent law fully TRIPS consistent came into effect in January 1996.

Copyrights: Singapore's copyright law does not contain provisions for rental rights which are needed to make it fully TRIPS consistent. An interagency team is working to draft the necessary changes, but Singapore has not announced a target for implementation. Computer software piracy remains a problem, but the government markedly stepped up enforcement in 1996 and the courts have handed down record fines and jail terms for offenders. In July two counterfeit software resellers were sentenced to jail terms of 18 and 30 months respectively in a case resulting from a raid conducted jointly by Alliance Against CD ROM Theft (AACT), the Software Publishers Association (SPA) and the IPR warrant unit of the Singapore Police. Fines in several recent cases of infringement have ranged from 10,000 to over 51,000 US dollars. While commending stepped-up enforcement and deterrent penalties, the software associations say more effort is needed to publicize these actions and that more still can be done on enforcement by the GOS.

Recent estimates by Business Software Alliance (BSA) and SPA show software piracy losses falling to $34.7 million in 1995 from 44.8 million in 1994. Singapore's piracy rate fell from 58 percent in 1994 to 50 percent in 1995 and is the lowest in Asia, according to association estimates.

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 numbers 1.75 million, with some 237,000 workers organized into 84 trade unions.

Seventy-three percent of these workers in unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government. The NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister without portfolio in the Prime Minister's office.

b. *The Right to Organize and Bargain Collectively:* The Trades Union Act authorizes the formation of unions with broad rights. Collective bargaining is a normal part of labor- management relations in Singapore, particularly in the manufacturing sector. Collective bargaining agreements are renewed every two to 3 years, although wage increases are negotiated annually.

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

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

e. *Acceptable Conditions of Work:* The Singapore labor market offers relatively high wage rates and working conditions consistent with international standards. However, Singapore has no minimum wage or unemployment compensation. Because of labor shortages, wages have generally stayed high. The government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, reduced the frequency of job-related accidents by one-third over the past decade. The average severity of occupational accidents has also been reduced.

f. *Rights in Sectors with U.S. Investment:* U.S. firms have substantial investments in several sectors of the economy, including petroleum, chemicals and related products, electric and electronic equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors. The growing labor shortage has forced employers, especially in the construction and electronics industries, to hire many unskilled foreign workers. Over 350,000 foreign workers are employed legally in Singapore, comprising 20 percent of the total work force. The government controls the number of foreign workers through immigration regulation and through levies on firms hiring them. Foreign workers face no legal discrimination, but, because they are mostly unskilled workers, they are generally paid less than Singaporeans.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,420
Total Manufacturing		5,272
Food & Kindred Products	(1)	
Chemicals and Allied Products	296	
Metals, Primary & Fabricated	200	
Machinery, except Electrical	1,980	
Electric & Electronic Equipment	2,400	
Transportation Equipment	(1)	
Other Manufacturing	224	
Wholesale Trade		1,802
Banking		557
Finance/Insurance/Real Estate		1,820
Services		432
Other Industries		268
TOTAL ALL INDUSTRIES		12,570

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

TAIWAN

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
GDP (at current prices)	241.0	260.2	273.8
Real GDP Growth (pct)	6.5	6.0	5.9
GDP by Sector:			
Agriculture	8.6	9.2	9.3
Manufacturing	69.9	73.2	76.5
Services	116.9	129.4	137.9
Government	25.6	27.3	28.7
Per Capita GDP (USD)	11,456	12,164	12,797
Labor Force (000s)	9,081	9,210	9,377
Unemployment Rate (pct)	1.5	1.8	2.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	13.0	8.2	9.0
Consumer Price Inflation	4.1	3.7	3.1
Exchange Rate: (NT$/USD)[2]			
Official	26.24	27.27	27.46
Unofficial	26.39	27.37	27.36
Balance of Payments and Trade:			
Total Exports (FOB)[3]	93.0	111.7	119.1
Exports to United States (CV)[4]	26.7	29.0	29.9
Total Imports (CIF)[3]	85.3	103.6	106.2
Imports from United States (FAS)[4]	17.1	19.3	18.1
Trade Balance	7.7	8.1	12.9
Trade Balance with United States[4]	9.6	9.7	11.8
External Public Debt	0.4	0.3	0.2
Fiscal Deficit/GDP (pct)	5.7	7.4	7.2
Current Account Deficit/GDP (pct)	2.5	1.8	2.7
Debt Service Payments/GDP (pct)	0.8	1.1	1.1
Gold and Foreign Exchange Reserves	98.3	95.9	93.7
Aid from United States[5]	0	0	0
Aid from Other Countries	0	0	0

[1] 1996 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1996.
[2] Average of figures at the end of each month.
[3] Taiwan Ministry of Finance (MOF) figures for merchandise trade.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996. Taiwan MOF figures for merchandise exports (FOB) to and imports (CIF) from the United States respectively were (US$ billions): (1994) 24.3/18.0, (1995) 26.4/20.8, (1996) 27.8/19.5.
[5] Aid disbursements stopped in 1965.

1. General Policy Framework

For four and a half decades, Taiwan has maintained rapid economic growth and macroeconomic stability. Annual economic growth during this period averaged 8.5 percent. In 1995, real gross domestic product (GDP) increased 6 percent; it is expected to grow by 5.9 percent in 1996. Per capita GDP was US$12,264 in 1995. As of September 1995, Taiwan held US$87 billion in foreign exchange reserves, the third largest in the world after Japan and the PRC. Prices rose 3.7 percent in 1995 and are expected to rise 3.2 percent in 1996.

Rising labor and land costs have led many manufacturers in labor intensive industries to move offshore, mainly to Southeast Asia and mainland China. The pace of relocation has now slowed, however, in large part because those intending to move have already done so. Industrial growth is now concentrated in capital and technology intensive industries such as petrochemicals, computers, and electronic components, as well as consumer goods industries. Services account for over half of GDP. Exports of goods and services accounted for nearly half of GDP.

Falling official savings and growing public expenditures have caused domestic public debt to increase steadily. The Taiwan authorities now rely largely on domestic bonds and bank loans to finance major expenditures. Outstanding public debt will measure about 21 percent of GNP in the 1997 fiscal year (July 1, 1996 to June 30, 1997). The central government's deficit will be equivalent to about 5 percent of GNP. 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 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. It also aims to develop into an Asia Pacific regional operations center, and is an active member of Asia Pacific Economic Cooperation (APEC) forum. Taiwan has in recent years accelerated liberalization of its trade and investment regime.

2. Exchange Rate Policies

Taiwan has a floating exchange rate system in which bankers set rates independently. The Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. As of October 31, 1996, 41 foreign banks were engaged in foreign exchange business, compared to 717 domestic bank offices (including headquarters and branches). The number of domestic banks permitted to deal in foreign exchange has been steadily increasing.

The Central Bank of China (CBC) intervenes in the foreign exchange market when it feels that speculation or "drastic fluctuations" in the exchange rate may impair normal market adjustments. Two tools the CBC uses to influence the foreign exchange market are restrictions on banks' overbought and oversold positions and limits on banks' foreign liabilities. Beginning in July 1996, the CBC ceased to set the banks' overbought and oversold positions; banks are now authorized to set these positions. The CBC also limits the use of derivative products denominated in New Taiwan Dollars.

Trade-related funds flow freely into and out of Taiwan. Restrictions on flow of funds in the capital account have mostly been removed since late 1995. In September 1995, restrictions on repatriation of principal and earnings for direct investment were, in practice, lifted, although amendments to relevant laws are still pending at the Legislative Yuan. The corresponding restrictions for foreign portfolio investment were removed in January 1996. Restrictions on borrowing of long-term foreign loans (including bank loans, global depository receipts (GDRs), and convertible bonds (CBs)) were phased out in October 1996. GDRs and CBs are no longer subject to a US$3 billion limit, and foreign loans may be converted into New Taiwan Dollars. However, some limits remain on foreign portfolio investment. Limits on foreign ownership in listed companies still exist. Both qualified foreign institutional investors (QFIIs) and non-QFII foreign investors are subject to limits on portfolio investments, although the ceilings have been raised. Remittances by non-QFII foreign investors are strictly restricted.

3. Structural Policies

Several state-owned enterprises have been either totally or partially privatized in the past 3 years. State-owned enterprises now account for twelve percent of the economy and 16 percent of industrial production. Taiwan's Fair Trade Commission acts to thwart noncompetitive pricing, but state-owned firms are able to apply on a case-by-case basis for 5-year exemptions.

In March 1994 and July 1995, Taiwan authorities cut tariffs on many industrial products at the behest of the United States. Taiwan's average nominal tariff rate is 8.6 percent, the trade-weighted rate is 4.7 percent. High tariffs and pricing structures on some goods—in particular on some agricultural products—nevertheless hamper U.S. exports. Taiwan bans imports of products such as peanuts, poultry products, and bellies and offals of hogs. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) has a monopoly on domestic production of cigarettes and alcoholic beverages. The United States is seeking to improve market access for these and other products as part of Taiwan's WTO accession process.

4. Debt Management Policies

According to an unofficial estimate, Taiwan's outstanding long- and short-term external debt totaled US$20 billion as of December 1995, equivalent to 7.7 percent of GDP. Official figures show that Taiwan's long term outstanding external public debt totaled US$305 million, compared to gold and foreign exchange reserves of about US$94 billion. Taiwan's debt service payments in 1995 totaled US$2.8 billion, only 2 percent of exports of goods and services.

Until recently, Taiwan authorities did not encourage public and private enterprises to borrow abroad. In June 1996, Taiwan lifted the limit of US$3 billion on global depository receipts (GDR's) and corporate bonds (CB's) issued by business firms overseas which could be changed into New Taiwan Dollars. In October 1996, Taiwan removed a ban on the conversion into New Taiwan Dollars of long-term loans that businesses borrow from foreign financial institutions.

Foreign loans committed by Taiwan authorities exceed US$1 billion. Taiwan offered low-interest loans to the Philippines, Eastern Europe, Vietnam, South Africa, and Latin America, mostly to build industrial zones. Taiwan also contributes to the Asian Development Bank (ADB), one of the two multilateral development banks in which it has membership. In addition, the ADB has floated bonds in Taiwan. Taiwan is also a member of the Central American Bank for Economic Integration (CABEI).

5. Significant Barriers to U.S. Exports

Accession to the WTO by Taiwan will open markets for some U.S. goods and services, but will also remove area restrictions which favored some U.S. imports over those from other nations.

On July 1, 1994, Taiwan implemented a negative list system for imports. More than 85 percent of all import categories are now exempt from controls. Some 859 categories require approval from relevant authorities. Another 276 require import permits from the Board of Foreign Trade or pro forma notarization by banks. Imports of 256 categories are banned, including ammunition and some agricultural products.

Services Barriers:

—*Financial:* In the past year, Taiwan has removed restrictions on foreign ownership in securities investment and trust companies. Limits on foreign ownership in listed companies have been raised from 7.5 percent to 10 percent per foreign investor and from 15 percent to 20 percent for all foreign investors. The limits will be further raised in late 1996 or early 1997. In 1996, Taiwan removed a prohibition on foreign individuals trading in shares on the Taiwan Stock Exchange (TAIEX). All foreign futures markets except those in the PRC are now open to domestic investors. However, limits remain on foreign ownership in listed companies, and non-QFII foreign investors are still subject to limits on their portfolio investment and restrictions on their capital flow.

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

—*Insurance:* Taiwan removed its prohibition against mutual insurance companies in July 1995; as of November 1996, however, it had not issued implementing regulations. In 1996, a U.S. mutual insurance firm was denied authorization to set up branches in Taiwan.

—*Transportation:* Despite a bilateral agreement between the American Institute in Taiwan and the Coordinating Council for North American Affairs signed in 1987, and repeated assurances by Taiwan authorities, legislation which would allow Taiwan branches of U.S. ocean and air freight carriers to truck containers remains mired in the Legislative Yuan.

—*Telecommunications:* On January 16, 1996, Taiwan's Legislative Yuan passed new telecommunications legislation which stripped the Directorate General of Telecommunications (DGT) of its role as a monopoly provider of telecom services and established a state-run operating company, Chunghua Telecom (CHT). In May 1996, Taiwan's Ministry of Transportation and Communications (MOTC) announced it would privatize mobile phone, paging, mobile data and trunk radio services, and would by the end of 1996 grant 53 licenses to qualified firms for these services. Foreign ownership in each firm is limited to 20 percent. Following bilateral U.S.-Taiwan consultations in July 1996, Taiwan agreed to take steps to remove its cap on return on investment for telecommunications firms and to ensure that foreign firms would compete on equal footing with CHT. U.S. companies have nevertheless expressed concern that the bidding process has not been sufficiently transparent.

Motion Pictures: Taiwan restricts the import of foreign film prints to 31 per title (up from 28 as of June 1996). No more than 11 theaters in any municipality may show the same foreign film simultaneously.

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. Existing requirements for agricultural goods particularly affect U.S. exports. These include a lack of an internationally accepted set of pesticide tolerance levels for imported fruits and vegetables, stringent microbiological and chemical testing of imported food products, and standards on preservatives for soft drinks. Imported agricultural goods are routinely tested while local agricultural products usually are not. Industrial products such as air conditioning and refrigeration equipment, electric hand tools, and synthetic rubber gloves must undergo redundant and unnecessary testing requirements, which include destructive testing of samples. Imported autos face stringent noise, emissions, and fuel efficiency testing requirements.

Investment Barriers: In 1996, Taiwan relaxed restrictions to allow 100-percent foreign participation in investments in petroleum refining, coal coking, a number of value-added network services (fax related services, E-mail, voice mail, and electronic data interchange), and manufacture of office digital electronic switching systems. Real estate industries were also opened to foreign investors. Two out of twenty categories subject to foreign investment restrictions were dropped from Taiwan's restricted investment list. Two of seventeen categories closed to foreign investment were reclassified and added to the list of restricted categories. Foreign investment remains prohibited in industries such as agriculture, basic wire line telecommunications, broadcasting, and liquor and cigarette production.

Limits on foreign equity participation in a number of industries have been relaxed in the past year; for example, permissible participation in shipping companies was raised from 33 to 50 percent. Foreign ownership limits for securities investment trust companies have been removed. However, other limits—such as a 33-percent limit on holdings in airlines, air cargo forwarders and air cargo ground-handling—remain unchanged. There is a 30-percent cap on foreign investment in Independent Power Projects. Local content requirements remain in the automobile and motorcycle industries. 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 (GPA) as part of its WTO accession process, a point on which the United States insisted as a condition for Taiwan's WTO accession. Since April 1995, Taiwan has actively conducted bilateral GPA negotiations, including with the United States. In preparation for GPA membership, Taiwan has begun to reform its procurement policies. As of November 1996, a draft Government Procurement Law was under review by the Executive Yuan; after that review is completed, the Law will be submitted to the Legislative Yuan. The Public Construction Commission publishes a daily "Government Procurement Gazette" which covers local tender announcements by 628 of Taiwan's central, provincial, and municipal entities. The Central Trust of China and other agencies procuring on behalf of smaller agencies publish tenders in the Gazette. The Gazette includes tender announcements for consulting services, product contracts, and research contracts with procurement amounts exceeding NT$4.5 million (US$160,000) and construction-related procurements exceeding NT$50 million (US$1.8 million).

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

As a result pressure from the United States under Section 301, the development of Taiwan's information technology and other high-technology industries, and Taiwan's desire to accede to the WTO, protection of intellectual property rights (IPR) has improved substantially in the past few years. In 1995, Taiwan passed laws to protect integrated circuit layouts, personal data, and trade secrets. As a result, Taiwan's IPR legal structure is now largely consistent with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs).

Improved enforcement efforts, such as an export monitoring system for computer software and trademarked goods, have reduced piracy. In April 1996, following consultations with the United States, Taiwan announced an "Action Plan" to strengthen its domestic enforcement and crack down on participation by Taiwan firms in CD piracy in mainland China. Under this plan, Taiwan's CD-manufacturing firms will place specific identification codes on their products. Taiwan's CD producers have also agreed not to sell CD manufacturing equipment to any firms engaged in piracy. As a result of these efforts, the U.S. Trade Representative in November 1996 removed Taiwan from the all Special 301 lists.

Taiwan is not a member of any major multilateral intellectual property conventions. Taiwan plans to set up an intellectual property rights bureau in charge of all IPR-related issues.

Taiwan has revised its patent, trademark, and copyright legislation; these revisions are currently under review in the Legislative Yuan.

Patents: The revised patent law now under review in the Legislative Yuan limits compulsory licensing and replaces most criminal penalties for patent infringement with tougher civil penalties. In the past, U.S. companies had expressed concerned that, in light of Taiwan's relatively undeveloped civil law system, penalties were insufficient to deter infringement. Taiwan's April 1996 "Action Plan" addressed many of these concerns.

Trademarks: Counterfeiting of famous name products has decreased but remains a problem. Taiwan's voluntary export monitoring system for trademarked goods may help reduce infringement.

Copyrights: Export of counterfeit copyrighted goods has dropped markedly. Unauthorized copying of computer software and manufacture of counterfeit video game remain problems, although the authorities have strengthened their crackdown on such piracy. Taiwan has not yet adopted 50-year retroactive copyright protection as mandated by TRIPs, and currently only protects copyrights dating from 1965. The revised Copyright Law now under review in the Legislative Yuan will extend retroactive protection to 50 years upon Taiwan's accession to the WTO.

New Technologies: Official inspection and monitoring have sharply reduced unauthorized use of copyrighted programming on cable television. Meanwhile, many cable TV stations now legally transmit the programs from satellite channels for pay.

8. Worker Rights

a. *The Right of Association:* Under the Labor Union Law (LUL), the right of association of workers on Taiwan is still restricted. The LUL not only forbids civil servants, teachers, and defense industry workers to organize trade unions, it also forbids workers to form competing trade unions and confederations. However, as democratization has continued, workers have gradually established a number of independent labor organizations, either legally or illegally. Over the past year, the number of unions and their members declined slightly due to jobs taken by foreign labor and relatively slow growth in Taiwan's economy.

b. *The Right to Organize and Bargain Collectively:* With the exception of civil servants, teachers, and defense industry workers, the LUL, the Law Governing the Handling of Labor Disputes, 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, 1996, there were 290 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 5 years. Except for cases involving prostitution, there were no reports of such practices in 1996. (Reportedly, some factories compel their workers to work overtime, for overtime pay. This does not qualify as forced or compulsory labor.)

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. At present, the law covers 3.4 million of Taiwan's 6.3 million salaried workers. In September 1996, the minimum wage was raised by 3.2 percent from NT$14,880 to NT$15,360 (or about US$560) per month. During this period, the average wage in the manufacturing sector was over NT$36,500(or about US$1327), 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 1 day off every 7 days. 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. Taiwan's working conditions for labor have been significantly improved by Taiwan's remarkable economic growth.

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, workers 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		2,914
Food & Kindred Products	93	
Chemicals and Allied Products	1,106	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	240	
Electric & Electronic Equipment	1,177	
Transportation Equipment	(1)	
Other Manufacturing	84	
Wholesale Trade		430
Banking		488
Finance/Insurance/Real Estate		176
Services		157
Other Industries		(1)
TOTAL ALL INDUSTRIES		4,391

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

THAILAND

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	143.0	167.3	185.9
Real GDP Growth (pct)[2]	8.8	8.6	6.7
GDP by Sector:			
Agriculture	15.0	18.2	19.6
Manufacturing	40.8	48.3	55.0
Services	18.1	20.6	22.4
Government	5.0	6.2	6.6
Per Capita GDP	2,381	2,770	3,034
Labor Force (millions)	33.2	33.6	34.0
Unemployment Rate (pct)	2.6	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12.9	17.0	14.5
Consumer Price Inflation	5.0	5.8	6.0
Exchange Rate: (baht/USD—annual average)			
Official	25.15	24.92	25.30
Balance of Payments and Trade:			
Total Exports (FOB)[3]	44.5	55.4	57.3
Exports to United States[4]	10.3	11.3	11.4
Total Imports (CIF)[3]	53.5	70.4	72.4
Imports from United States[4]	4.9	6.7	6.9
Trade Balance[3]	−9.0	−15.0	−15.1
Balance with United States[4]	5.4	4.6	4.4
External Public Debt	15.2	16.4	16.5
Fiscal Surplus/GDP (pct)	1.8	2.7	2.2
Current Account Deficit/GDP (pct)	−5.6	−8.1	−8.0
Debt Service Payments/GDP (pct)	3.4	2.8	N/A
Gold and Foreign Exchange Reserves	30.3	37.0	39.5

Key Economic Indicators—Continued

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

	1994	1995	1996 [1]
Aid from United States (millions of USD)	34.6	31.2	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in October 1996, except as otherwise stated.

[2] Percentage changes calculated in local currency.

[3] Merchandise trade. Sources: Bank of Thailand and Thai Ministry of Commerce, Dept. of Business Economics.

[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Thailand's economic development is based upon an export-oriented economy, bolstered by a free market philosophy. Within the last generation Thailand's economy has changed from one primarily based upon agriculture, with some light industries, to one dominated by manufacturing. While 52 percent of the Thai labor force is still engaged in agriculture, the growing service, manufacturing, and wholesale and retail trades now account for two-thirds of Thailand's GDP. After years of strong export growth, Thai export growth slowed sharply in 1996, as in many of its Asian neighbors. After peaking at 26 percent export growth in 1995, Thai exports were flat for 1996. Emerging markets across Asia experienced a downturn in export growth in part due to slow demand in developed economies. In some sectors, particularly labor intensive goods, Thai exports are also under pressure from countries with cheaper labor forces, such as Vietnam and China. A long term factor that will affect Thai export growth rates is the limited availability of an educated management pool and work force capable of shifting into high tech industries as Thailand moves up the technology ladder.

Investor confidence, both domestic and foreign, seems to have weakened during the government of Prime Minister Banharn Silpa-Archa, which lasted a short 15 months. The Thai stock market was down almost 30 percent on the year before Banharn resigned after narrowly winning a parliamentary vote of confidence. While many of the economic problems that arose during the Banharn Government were inherited from previous administrations, the failure to deal with these problems decisively, frequent changes in economic leadership, and public sentiment that the Banharn Government took corruption to new heights led to the overall drop in investor confidence. To its credit, the Banharn Government did give some additional attention to the redress of economic disparities and dislocations caused by rapid development in the central regions of the country. The northeast in particular has not shared in the country's rapid growth.

During 1996, growth in Thailand's gross domestic product has not kept pace with previous years. In 1995 the rate of growth was 8.6 percent. The Bank of Thailand currently predicts GDP growth of no more than 7 percent for 1996, and the general consensus among analysts is that growth will be about 6.7 percent.

Thailand's current account deficit rose during 1995 to $13.5 billion, equivalent to 8.1 percent of GDP. By August 1996, the 1996 figure already stood at $10.7 billion, and will probably exceed 8 percent of GDP for the year. The current account deficit has been a much-publicized factor in Thailand's general economic slowdown during late 1995 and 1996 and is one reason, along with the rapid accumulation of short-term, for Moody's adjustment of Thailand's short term debt risk rating during September 1996.

During 1995–1996 Thailand continued to enjoy a budget surplus. In fiscal year 1995 the surplus reached 2.7 percent of GDP and should exceed 2 percent in fiscal 1996. The Thai Government recently announced plans to significantly reduce government expenditures in the upcoming fiscal year to prevent the emergence of a deficit.

2. Exchange Rate Policy

Since 1984 the baht has been pegged to a basket of currencies of Thailand's principal trading partners. The composition of the basket is secret, but the U.S. dollar appears to represent the largest share. The Exchange Equalization Fund, chaired by a deputy Governor of the Bank of Thailand, determines the exchange value of the baht each working day. There is no parallel market in Thailand. Appreciation of the Japanese yen has made American exports more competitive.

In May 1990 the Thai Government announced a series of measures to liberalize the exchange control regime. Thailand accepted the obligations under IMF Article VIII which cover reduction of restrictions on international transactions. Commercial banks were given permission to process foreign exchange transactions, and substantial increases were allowed in the ceilings above which money transfers require Bank of Thailand preapproval. Since 1992 banks in Thailand have offered foreign currency accounts. The Central Bank has also raised limits on Thai capital transfers abroad and allows free repatriation (net of taxes) of investment funds, profits, loan repayments, and dividends. Companies may transfer foreign exchange among subsidiaries without switching the funds into baht.

3. Structural Policies

In 1992 then Prime Minister Anand launched a series of economic reforms. Thailand's obligations within the WTO and ASEAN have also prompted reforms in tariff rates, trade regulations, regulation of financial institutions, and currency 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. The VAT system exempts businesses that realize turnovers of less than $24,000 per year. For companies with annual turnover between $24,000 and $48,000 there is a 1 percent turnover tax. 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. The November 1996 general election and change of government has put discussion of options for lowering the corporate tax rate into abeyance.

A new tax treaty between the United States and Thailand was signed in November 1996. The treaty will enter into force after exchange of instruments of ratification. Smaller American firms, in particular, were disadvantaged by the lack of a reciprocal tax agreement between the two countries. The new treaty will provide for the elimination of double taxation and give American firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

4. Debt Management Policies

The rapid accumulation of short-term debt—attracted by high short-term interest rates—led Moody's to downgrade Thailand's short-term sovereign debt rating from prime one to prime two in 1996.

The prime rate has ranged between 10.5 and 14 percent for over 5 years. It stood at 13.25 percent in November 1996.

5. Significant Barriers to U.S. Exports

Thailand ratified the Uruguay Round agreements in December 1994. The government is moving to meet its WTO and ASEAN tariff reduction commitments, with reductions to be completed on 4,000 items by the beginning of 1997. Thailand instituted tariff reductions beginning in January 1995. The latest round of reductions is due to take effect in January 1997.

By the beginning of 1997 the total number of tariff rate categories will be reduced from 39 to 6, with the following spread: 0 percent on such goods as medical equipment and fertilizer, 1 percent for raw materials, electronics components, and vehicles for international transport, 5 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.

Thailand is beginning the process of changing its import license procedures to be in accord with WTO obligations. Progress has not been as fast as was hoped, as import licenses are still required for 42 categories of items, with only new motorcycles being removed from the list during 1995–1996. Licenses are required for many raw materials, petroleum, industrial, textile, and agricultural items. All items of food for human consumption require licenses. Import licenses can sometimes be used to protect unproductive local industries and to encourage greater domestic production. Ten categories of items which do not require licenses must nevertheless comply with the regulations of concerned agencies, offer extra fees, or provide certificates of origin.

The Thai Food and Drug Administration issues licenses for food and pharmaceutical imports. This process can be a barrier due to cost, length of the process, and occasional demands for proprietary information. Licenses for food imports cost about $600 and must be renewed every 3 years. Pharmaceutical import licenses cost about $480 and must be renewed every year. Required laboratory analysis increases this expense considerably. Costs of $40 to $120 per item are usual for sample food products imported in bulk, while sealed, packaged foods can cost about $200 per item. Pharmaceuticals must be registered for a fee of $80, and pharmaceuticals must be inspected and analyzed for another fee of $40 per item. The process can take more than 3 months to complete.

The Thai Government is easing barriers to imports of agricultural and food products in accordance with WTO requirements and, in some cases, is taking steps beyond its WTO commitments. Sanitary and phytosanitary standards currently limit the entry of some U.S. products, primarily citrus. California and Florida citrus were able to enter Thailand in late 1995, and it is anticipated that the market will be open to Texas and Arizona citrus following a technical visit early in 1997. Thailand's tariff-rate quota for a selected number of agricultural products was adjusted in 1996. The quota for soybeans and soybean meal was eliminated while the tariff rate for soybean meal was reduced, steps not required by Thailand's WTO commitments. This should prove helpful to American agricultural exporters. Likewise, the quota and import duty for corn were eliminated. However, the Thai Government continues to require that imports arrive between February and June, and to subject the liberalized tariff-rate quota to domestic wholesale corn prices, which limits the effect of this measure.

Import duties on most high-value fresh and processed foods remain the main constraint to U.S. exports of these products. With the exception of wine and spirits, there will no longer be specific duties for most agricultural and food products and ad valorem rates are slated to decline between 35 and 50 percent under WTO rules. Nevertheless, import duties are currently high and will continue to be so following the implementation period. A notable exception was made in 1996 for raw shelled or unshelled tree nuts, when the import duty was reduced to 10 percent.

Arbitrary customs valuation procedures sometimes constitute a serious barrier to U.S. goods. The Department of Customs, which enjoys unusual autonomy, uses the highest previously declared invoice value as a benchmark for assessing subsequent shipments from the same country. Customs may disregard the invoice value of a shipment in favor of the benchmark amount. This has a particularly damaging effect upon trade in agricultural products, which often have seasonally fluctuating values.

Foreign air couriers in Thailand must conform to restrictive regulations that require an on-board courier, but prohibit the use of on-board couriers on all-cargo aircraft. This significantly raises the cost of delivering any single shipment. In November 1996 the Thai Customs Department undertook to examine this situation, but has indicated that the requirement will remain in effect for the near future.

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

In the past Thailand restricted the activities of foreign banks. Total foreign banking assets in Thailand only recently exceeded 7.5 percent of the national total. Although there have been moves toward liberalization, foreign banks are still disadvantaged in a number of ways. They may not open branches and, while they may operate an onsite ATM and take part in a local ATM network, they may not participate in the nationwide ATM network without the approval of the domestic Thai banks. Foreign banks must maintain minimum capital funds of $5 million invested in low yield government securities or directly deposited in the Bank of Thailand. The number of expatriate management personnel is limited to six in branches and two in Bangkok international banking facilities (BIBFs). Foreigners are limited to an aggregate maximum of 25 percent share holding in any Thai bank.

In order to be consistent with WTO requirements, Thailand is undertaking a liberalization of banking regulations. The Thai Government's Financial Liberalization Plan provided for seven new BIBF licenses, which were issued in October 1996. Seven additional BIBF licenses were announced in late December 1996, although none were for U.S. banks.

Thai law and regulations formerly limited foreign equity in new local insurance firms to 25 percent or less. In June 1996 the cabinet approved raising this limit to 49 percent. This has yet to be written into law, and awaits the approval of the Council of State and the new Parliament.

Under a 1979 Thai law aliens are forbidden to engage in the brokerage business. Foreign ownership of Thai finance and credit firms is limited to 25 percent for companies formed after the law was passed, and 40 percent for those formed before.

Telecommunications services are a government monopoly in Thailand. Plans are under discussion for a liberalization of this market. The United States is urging a more acceptable Thai offer in WTO negotiations on basic telecom services in advance of the February 1997 deadline for concluding an agreement.

6. Export Subsidies

Thailand maintains several programs which 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. In September 1993 Thailand established an Export-Import Bank which has taken over administration of some of these programs, particularly those involving packing credits. The Thai Eximbank offers a 10 percent rate, about four points below other banks.

7. Protection of U.S. Intellectual Property

Improving protection for U.S. copyright, patent, trademark and other intellectual property in Thailand has been an important bilateral trade issue for several years. After Thai passage of a revised copyright law in 1994, the United States moved Thailand from the Special 301 "priority watch list" to "watch list" status. The Thai 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 United States 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 would abolish the pharmaceutical patent review board, are currently being drafted.

The Thai Government has also made some effort to improve enforcement, making about 6800 arrests and seizing 2.7 million pirated items under its intellectual property laws since 1993. 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. Firms representing U.S. video, audio, and software industries report sharply higher sales. In 1996 the Parliament passed legislation establishing a separate intellectual property court that should result in a more efficient judicial system and tougher sentencing.

Piracy remains a serious problem, however. 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 fines actually imposed are light. To date, no one has served time in jail for copyright infringement. Police have not always been cooperative, let alone proactive, in combating piracy. Partly as a result, arrests and seizures of illicit goods have fallen sharply since 1994.

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 the Thai Parliament enacted the State Enterprise Labor Relations Act (SELRA), denying state enterprise workers the rights other workers enjoyed under the 1975 law. The Thai Government has promised to amend the SELRA, and to restore those rights. Although new legislation was approved by the cabinet, it was still under consideration in Parliament when the government was dissolved during October 1996. Passage of the SELRA reform legislation will await parliamentary elections and the formation of a new government during November 1996.

b. *The Right to Organize and Bargain Collectively:* The 1995 act grants Thai workers the right to bargain collectively over wages, working conditions, and benefits. About 900 private sector unions are registered in Thailand. State enterprise employees and civil servants still may not form unions, but this will be addressed in the pending SELRA legislation. State enterprise employees, essential workers (transportation, education, and health care personnel), and civil servants may not strike but may be members of employee associations. Collective bargaining is unusual in Thailand. Industry-wide collective bargaining is all but unknown. However, representatives of public sector associations and private sector unions 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 government cooperation with ILO programs and recent moves to step up enforcement of laws prohibiting such activity.

d. *Minimum Age for Employment of Children:* The minimum age for employment in Thailand is thirteen. Children between the ages of 13 and 15 are restricted to light work in nonhazardous jobs, and must have Department of Labor permission to work. Night-time employment of children is prohibited. The government has announced its intention to raise the period of compulsory education from six to 9 years, which will make it feasible to also raise the minimum age of employment. Recently the government has doubled the size of the corps of labor inspectors, but enforcement is not rigorous.

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. The usual work day in industry is 8 hours. Wages in profitable export industries often exceed the legal minimum. However, in the large informal industrial sector, standards for pay, health, and safety 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:* U.S. capital investment is substantial in several sectors of the Thai economy, including petroleum (exploration, production, refining and marketing), electronic components assembly and consumer products. Workers in these sectors, especially those working for U.S. and other western and Japanese firms, usually enjoy labor conditions superior to those of the average Thai worker: the degree of unionization is greater, wages and benefits are higher, and health and safety conditions are better. Child labor is rare or nonexistent among large multinational firms. However, compliance with worker rights standards is weak among some subcontractors which supply larger, more reputable firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,375
Total Manufacturing		1,768
Food & Kindred Products	58	
Chemicals and Allied Products	338	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	431	
Transportation Equipment	1	
Other Manufacturing	146	
Wholesale Trade		369
Banking		476
Finance/Insurance/Real Estate		70
Services		43
Other Industries		495
TOTAL ALL INDUSTRIES		4,596

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

EUROPE

THE EUROPEAN UNION

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	6,433.6	7,257.3	7,373.5
Real GDP Growth (pct)	2.8	2.5	1.6
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 (USD)	18,600	21,100	21,400
Labor Force (millions)	155.2	155.4	155.0
Unemployment Rate (October)	11.3	10.9	11.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	N/A	N/A	N/A
Consumer Price Inflation	3.1	3.1	2.7
Exchange Rate (ECU/USD—annual average)	0.84	0.76	0.80
Balance of Payments and Trade:			
Total Exports (FOB)	623.9	743.7	758.6 [1]
Exports to United States [2]	119.5	131.8	141.7
Total Imports (CIF)	617.6	717.7	732.1 [1]
Imports from United States [2]	107.8	123.7	127.1
Trade Balance	6.3	26.0	26.5 [1]
Balance with United States [2]	11.7	8.1	14.6
Current Account Deficit/GDP (pct)	1.4	1.8	2.0 [1]
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	5.4	5.0	4.4
Gold and Foreign Exchange Reserves	N/A	N/A	N/A
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Based on 6 months trade data.
[2] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The European Union (EU), our largest trade and investment partner, is a supranational organization comprised of fifteen western 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 the economic realm. A longstanding customs union, the EU—with the ratification by the Union and its fifteen Member states of

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the Uruguay Round agreement—now represents the collective interest of the member states in the WTO Committee on Trade in Goods. (The member states retain some authority over intellectual property and services issues, and both the EU and the member states are represented in the TRIPs and GATS committees.) Internally, the treaty guarantees the free movement of goods, services, capital and people among the member states, and many of the "Single Market" program measures were intended to harmonize member states' domestic laws in order to eliminate nontariff barriers to these flows. In addition, the European Commission enforces treaty provisions against anticompetitive practices throughout the EU. More recently, the Maastricht Treaty mandated an "Economic and Monetary Union" among the member states no later than January 1, 1999 (Denmark and the United Kingdom have opt-out clauses) and gave the EU competence over investment from third countries, although member state barriers to such investment existing on December 31, 1993 continue in force until superseded by EU law.

The EU itself currently has only very limited fiscal and no monetary policy powers. The Union's budget is limited to less than 1.3 percent of EU GDP; by law, expenditures must be balanced by revenues from the member states. (The EU has no independent taxing authority.) Expenditures, at less than $100 billion, 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 expenses (five percent).

The EU's indirect influence over member state fiscal and monetary policy, however, is considerable, and growing in the run-up to economic and monetary union. The EU now adopts annual "guidelines" on member state economic policy, and the member states are striving to achieve the "convergence criteria" for monetary union: maximum deficits of 3 percent of GDP; gross national debt within 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 2 years of relative exchange rate stability. These efforts to restrain fiscal policy may have dampened aggregate demand in the EU, and thus the demand for U.S. products.

2. Exchange Rate Policy

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

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

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

3. Structural Policies

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

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

4. Debt Management Policies

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

5. Significant Barriers to U.S. Exports

(a) Import Licenses

Rice: When Austria, Finland, and Sweden joined the EU on January 1, 1995, these countries adjusted their tariffs to the EU's common external tariff, resulting in increased tariffs on $3 billion of U.S. industrial and agricultural exports. Under WTO rules, the European Commission was required to negotiate with the United States and other affected trading partners a package of compensating tariff cuts. The highest value concessions were in three sectors: semiconductors, agriculture and chemicals. The EU failed to implement the tariff rate quotas for U.S. rice in 1996, further disadvantaging U.S. exports, and discussions were launched to roll the obligations over into 1997.

EU implementation of Uruguay Round grain tariff commitments: On July 1, 1995, the EU implemented its Uruguay Round commitment for grains and rice using a reference price system. In adopting the reference price system, it appeared that the EU would exceed its binding for products valued above the applicable reference price. WTO consultations and intensive bilateral negotiations culminated with the announcement on November 30, 1995, of an agreement that helps improve access to the EU. The agreement reduces import charges on brown rice by changing the basis for the reference price. In addition, the EU committed to implement, on a 1-year trial basis, a system allowing importers of brown rice the possibility to cumulatively recover duty overages that might occur. The EU also agreed to future consultations if the reference price system results in duties greater than those committed to in the Uruguay Round. Currently, the EU has yet to implement this concession.

EU Broadcast Directive: In 1989, the EU issued the 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". By the end of 1993, all EU member states had enacted legislation implementing the Broadcast Directive. In March 1995, the Commission approved strengthening quotas, but made it possible to end them in 10 years time, and agreed not to expand the scope of the directive to new services. In November 1995, the Council of Ministers, unable to agree on the quota issue, reached a political agreement that settled for keeping the quota provisions of the 1989 directive intact, while tightening up the provision governing member state jurisdiction over broadcasters. The European Parliament voted in February 1996 to tighten the quota provisions of the Broadcast Directive and to include video on demand and other on-line services under the scope of the directive. If broad divisions remain between the Council and the Parliament, a conciliation procedure will take effect. This procedure could take a number of months before a final agreement is reached.

The United States has held consultations under GATT Article XXII with the EU concerning the Directive because the broadcast quotas appear to violate the member states' obligations under the WTO. The United States has reserved its right to take further action under WTO dispute settlement procedures and is closely monitoring implementation of these measures. While the EU did not make specific commitments to liberalize trade in the sector, the United States succeeded in preventing the exclusion of the audio-visual sector from coverage under the General Agreement on Trade in Services (GATS). Because of the Broadcast Directive, the EU remains on the Special 301 "priority watch list."

Ban on fur from animals caught in leghold traps: In November 1991, the EU adopted a ban on imports of fur from countries allowing the use of the leghold trap. As the leghold trap is widely used in the United States and Canada, such a ban, once implemented, could harm U.S. exports of fur to the EU. The import ban, which would have applied to fur and fur products from thirteen specified species of animals, was to go into effect on January 1, 1996, but has been postponed until at least April 1, 1997. In August 1995, at the urging of the U.S. Government and others, experts from the European Commission, Canada and the United States (later joined by Russia) launched an intensive discussion of humane trapping standards. As of December 1996 it is hoped that such standards will help provide a mutually acceptable basis among the parties for resolving this issue.

Import and distribution of bananas: On July 1, 1993, the EU implemented a new banana import regime to replace individual member state rules for banana imports. Elements of the new regime have caused a significant erosion of U.S. companies' share of the EU banana market. A "framework agreement," which the EU negotiated with four of the five countries that had challenged the regime in the GATT, did not commit the EU to reform those aspects of the regime which are most harmful to U.S. banana marketing firms and in fact led to further discrimination against U.S. companies in favor of EU firms. After a year of investigation and informal consultations with the EU failed to achieve a resolution of the issue, in October 1995 the United States, joined by Guatemala, Honduras and Mexico, held formal WTO consultations with the EU in an effort to resolve the dispute. Ecuador joined the United States and its other Latin American partners in another request for formal WTO consultations on the issue in February 1996, followed by a panel request by the same complainants. The panel's report is due to be issued in the near future.

(b) Service Barriers

U.S. computer reservation services (CRS) companies have had difficulty cracking the EU market, as each member state market tends to be dominated by the CRS owned by that country's carrier. The EU's 1993 CRS "Code of Conduct" compelled one U.S. CRS firm to establish subsidiaries in virtually every member state, at a cost of more than $10 million, and there are questions whether the Code may be used to establish "charging principles" which could further erode the ability of U.S. firms to gain market share. In addition, German Rail, which owns one-third of the largest European CRS firm in Germany, has thus far refused to deal or an equal basis with U.S. CRS firms, severely affecting their ability to expand in the German market. In 1995, the German Competition Office issued an injunction against German Rail over this, which may resolve the problem. U.S. CRS firms face similar problems in Spain and France.

In December 1995, the Council agreed on a common position liberalizing the market to provide ground-handling services at EU airports above a certain size by January 1, 1998. While generally welcoming this, U.S. airline companies and ground-handling service providers remain concerned that airports can continue to have a monopoly service provider through January 1, 2002 and can also limit the number of firms which can provide certain services on the airport tarmac (ramp, fuel, baggage and mail/freight handling) either for themselves or for other carriers. To some extent, these potential barriers are offset by more liberal provisions in bilateral air services agreements with the individual Member states.

U.S. express package services remain concerned that state owned postal monopolies in many EU countries restrict their market access and subject them to unequal competitive conditions. Proposals to liberalize many postal services and to otherwise constrain the advantages enjoyed by the monopolies have been put on hold, and in any case may not be sufficient to fully redress these problems.

(c) Standards, Testing, Labeling and Certification

Standardization: EU member states still have widely differing standards, testing and certification procedures in place for some products. Despite internal mutual recognition, these differences can serve as barriers to the free movement of these products within the EU and can cause lengthy delays in sales due to the need to have products tested and certified to account for differing national requirements. Nonetheless, the advent of the "New Approach" Directive, which streamlines technical harmonization and the development of standards for certain product groups based on minimum health and safety requirements, generally points toward the harmonization of laws, regulations, standards, testing, quality and certification procedures in the EU. However, the European standardization process is still closed to direct participation by U.S. firms, and in several instances discriminatory design-based standards have been adopted.

Standardization, testing, and certification continue to play an increasingly significant role in U.S.-EU trade relations, as evidenced by the Transatlantic Business Dialogues (TABD) having adopted the goal of "approved once accepted everywhere in the Transatlantic marketplace." The U.S. Department of Commerce anticipates that EU legislation covering regulated products will eventually be applicable to 50 percent of U.S. exports to Europe. Although there has been some progress in implementation, a number of problems related to this evolving EU-wide legislative environment have caused concerns to U.S. exporters. These include: lags in the development of EU standards; lags in the drafting of harmonized legislation for regulated areas; inconsistent application and interpretation by member states of the legislation that is in place; overlap among directives dealing with specific product areas; gray areas between the scope of various directives; and, unclear marking and labeling requirements for regulated products before they can be placed on the market. While many such problems are not deliberate "trade barriers," their existence can impede U.S. exports to the EU.

Mutual Recognition Agreements: The EU is implementing a harmonized approach to testing and certification, as well as providing for the mutual recognition of national laboratories designated by member states to test and certify "regulated" products. The EU encourages mutual recognition agreements between private sector parties for the testing and certification of non-regulated products.

One difficulty for U.S. exporters is that only "notified bodies" located in Europe are empowered to grant final product approvals of regulated products. While there are some laboratories in the United States which can test regulated products under subcontract to a notified body, the limited number of such labs means that such subcontracting procedures are unlikely to provide sufficient access for U.S. exporters. Moreover, these labs cannot issue the final product approval but must send test reports to their European affiliate for final review and approval, delaying the process and adding costs for U.S. exporters.

The United States and the EU are negotiating to resolve this hindrance to trans-Atlantic trade through what are known as mutual recognition agreements (MRAs). MRAs will permit a U.S. exporter to test and certify his products to the requirements of the EU in the United States. They will similarly facilitate EU exports to the United States. U.S.-EU discussions have been ongoing since October 1992. The slow progress since then nearly came to a halt in mid-1996, when differences in approach on pharmaceutical good manufacturing practices and medical devices threatened to bring the whole process down. However, quadripartite meetings among the U.S. Government, Commission, and U.S. and European private sectors during the November TABD conference in Chicago broke the logjam sufficiently for the United States and Commission to agree to a goal of completing the negotiations by the end of January 1997.

Approval of biotechnology products uncertain in EU: Both U.S. and European companies have had difficulties in having agricultural products developed with biotechnology approved in the EU. Existing laws for the approval of these products have not been applied in a predictable and transparent manner. Two recent U.S. product approval requests were subject to delays because of political opposition to biotechnology rather than legitimate health or safety concerns. It is impossible for companies to plan their business activities given this regulatory environment.

The draft EU novel foods regulation, which should come into force in early 1997, may help improve the approval process. However, the novel foods regulation contains provisions for mandatory labeling of biotech foods that—depending on how they are implemented—may serve to heighten consumer concerns rather than educate consumers about the true benefits of biotechnology.

Ban on growth promoting hormones in meat production: The EU banned, effective January 1, 1988, the use of all growth promoting hormones, including natural and synthetic hormones, in livestock production. The ban also applies to meats and meat products imported by the EU on or after January 1, 1989. The only exceptions are for specific hormones when they are used for therapeutic purposes and for meats destined for pet food use. The ban has effectively eliminated most U.S. red meat and meat product exports to the EU. When the ban was imposed, the United States estimated the amount of trade damage at about $97 million a year. In response to EU implementation of the hormone directive, the United States in 1989 imposed 100 percent tariffs on imports of EU agricultural products valued at $97 million.

In 1995, the absence of a scientific justification for the hormone ban was confirmed when the Codex Alimentarius Commission adopted standards for five natural and synthetic hormones for meat production. These are the same five products approved for use in the United States. In addition, in November 1995 a scientific conference sponsored by the European Commission concluded that the use of the five products posed no risk to human health. Nevertheless, the EU insists on maintaining the hormone ban. As a consequence, the United States launched a formal WTO dispute settlement procedure in May 1996 challenging the EU's ban on imports of meats from hormone treated animals. The United States subsequently removed its retaliatory tariffs on EU products. A ruling is expected by May 1997.

Veterinary Equivalency: The EU maintains many import barriers for livestock and livestock products that do not allow for imports through the recognition of equivalent levels of protection offered by exporting countries' animal and public health requirements. One example is the EU's third country meat directive (TCMD) which requires strict compliance with EU standards. An agreement was reached in November 1992 which adopted the findings of a joint U.S.-EU veterinary group. Under this agreement the EU undertook to amend the TCMD by January 1, 1995 to provide for recognition of equivalent inspection systems in third countries. However, this target has not been met.

Subsequent to the principle of equivalency being endorsed in the WTO Agreement on the Application of Sanitary and Phytosanitary Measures, the Commission has entered into negotiations to establish a framework agreement that would provide the mechanisms for the United States to seek a recognition of equivalency on various veterinary standards. Intermittent trade disruptions have occurred during the negotiations as the member states continue to implement EU import requirements which were drafted before the EU's commitment to the recognition of equivalency. Currently, the EU must finalize and implement the agreements prior to April 1, 1997 or approximately $1.5 billion in U.S. exports of animal and animal products could be at risk.

Voluntary ecolabeling scheme: On March 23, 1992, the European Council approved an EU-wide ecolabeling scheme. The scheme is a voluntary program which permits a manufacturer to obtain an ecolabel for a product when its production and life cycle meets general and specific criteria. U.S. and EU technical and policy officials met in three rounds of consultations in 1995 and 1996 to discuss the EU process for developing criteria and to address specific U.S. industry concerns related to the fine paper and textile sectors.

In early and mid-1996 member state representatives voted to adopt eco-label criteria for bed linens and t-shirts and for the fine paper product sector. The United States is concerned that the process for developing criteria has been insufficiently transparent and failed to provide for adequate participation by non-EU interest groups, leading potentially to discriminatory criteria. The United States and EU are continuing bilateral consultations.

(d) Investment Barriers

The EU has a growing role in defining the way in which U.S. investments in member states are treated. Although member state governments traditionally were responsible for policies governing non-EU investment, in 1993 the Maastricht Treaty shifted competence over third country investment from the member states to the Union. Member state barriers existing on December 31, 1993 remain in effect, but these may now be superseded by EU law. In addition, direct branches of non-EU financial service institutions remain subject to individual member country authorization and regulation.

In general, the EU supports the notion of national treatment for foreign investors, and the European Commission has traditionally argued 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 its ultimate ownership.

However, some restrictions on U.S. investment do exist under EU law and others have been proposed:

—*Ownership restrictions:* The benefits of EU law in the aviation and maritime areas are reserved to firms majority-owned and controlled by EU nationals. In addition, the EU Commission has proposed that companies wishing to benefit from the mutual recognition of licenses for the provision of satellite network or communications services be 75 percent owned, and effectively controlled by, EU nationals.

—*Reciprocity provisions:* EU banking, insurance and investment services directives include "reciprocal" national treatment clauses, under which financial services firms from a third country may be denied the right to establish a new business in the EU if the EU determines that the investor's home country denies national treatment to EU service providers. In the recently adopted Hydrocarbons Directive, this notion may have been taken further to require "mirror-image" reciprocal treatment, under which an investor may be denied a license if its home country does not permit EU investors to engage in activities under circumstances "comparable" to those in the Union. Thus far no U.S.-owned firms have been affected by these provisions.

—*Access to government grant programs:* The EU does not preclude U.S. firms established in Europe from having non-discriminatory access to EU funded research and development grant programs, although in practical terms association with a known "European" firm helps win grant awards. In another area, the Commission in November 1995 proposed that only firms majority-owned and effectively controlled by EU nationals could receive loan guarantees to develop and distribute European films. This proposal has not yet been adopted and we are not aware that any U.S. firm has complained about this proposal.

—*MAI negotiations.* The EU and its member states are participating actively in the OECD negotiations toward a Multilateral Agreement on Investment (MAI), which is hoped will reduce existing and preclude any future barriers to U.S. investment. The EU approach to the negotiations has been generally constructive, although in recent international negotiations the Union has argued for an "economic integration" provision that would allow it, and its member states, to deny U.S. firms most favored nation treatment and potentially other rights and benefits under EU law.

The role of the EU in the treatment of foreign investment is still evolving, however, and in many instances member state practices are of more direct relevance to U.S. investors. EU Member States negotiate their own bilateral investment protection and taxation treaties, and generally retain responsibility for their investment regimes.

(e) Government Procurement

The United States and EU on April 15, 1994 concluded a procurement agreement that expanded upon the 1993 MOU. The agreement extends non-discriminatory treatment to over $100 billion of procurement on each side, including all goods procurement by all EU subcentral governments, as well as to selected procurement by 37 U.S. states and 7 U.S. cities. The bilateral agreement is consistent with but goes further than U.S. and EU commitments under the WTO Government Procurement Agreement. The 1994 agreement, however, did not end discrimination with respect to telecommunications. Consequently the United States retained sanctions imposed against the EU in May 1993. With the accession of the three new member states, the United States extended to these new member states the benefits of the 1993 MOU and the 1994 procurement agreement, as well as the May 1993 sanctions.

(f) Telecommunications Market Access

U.S. telecommunications equipment industry access to EU member nations varies widely from relatively open to nearly closed. Most EU member states are required to discriminate against non-EU bids in the telecommunications sector, and telecommunications administrations in some EU countries still procure their network equipment from domestic national suppliers whenever possible. In addition, market access is restricted through standards and standard-setting procedures, testing, certification, and attachment policies. Most EU countries continue to impose needlessly burdensome testing and certification procedures on non-EU suppliers of terminal equipment, although we are trying to address this in MRA talks.

U.S. access to basic telecommunications services is constrained by several EU practices. The United States has requested that the Union ensure that non-EU competitors have access to reserved services on an equal basis with EU competitors once those services are liberalized (infrastructure, voice telephony). The EU, through its recently announced directive on mobile communications, has opened up infrastructure competition in that sector in early 1996 and in alternative infrastructures in mid-1996.

The EU is implementing wide-ranging telecommunications policy reforms and liberalization intended to prepare Europe for facilities-based competition in the infrastructure and voice telephony market on January 1, 1998. The European Commission's proposals for third country access to the market for many of these services is linked to the treatment agreed in the negotiations on basic telecommunications services at the WTO, which are scheduled to conclude on February 15, 1997. Absent prompt agreement in those negotiations, access to service sectors in Europe may be tied to service opportunities offered European providers in the United States.

Other concerns include how the EU liberalization directives may be implemented, their effect on suppliers from outside the EU, and the ultimate effect of adjusting EU and national practices to whatever agreement may be reached in the basic telecommunications services negotiations.

(f) Customs

Classification of information technology products: The United States is concerned about reclassification by the EU of certain information technology products which have a potential to dramatically increase tariffs paid by U.S. exporters. In two examples, local area networks (LAN) adapter cards were reclassified from computer parts to telecommunications equipment, and CD-ROM drives classified as computer equipment were reclassified as consumer electronics. The United States recently requested formal dispute settlement consultations with the EU on the matter.

Corn gluten feed: In December 1995, the European Court of Justice found that corn gluten feed, as described in the Blair House Accords, was misclassified in the

EU's tariff schedules. The Commission and the Council acted quickly to remedy the potential immediate trade effects by creating a new classification that continues zero duty treatment for CGF.

6. Export Subsidy Policies

Agricultural product subsidies: The EU grants export subsidies (restitutions) on a wide range of agricultural products including wheat, wheat flour, beef, dairy products, poultry, and certain fruits, as well as some manufactured products such as pasta. Payments are nominally based upon the difference between the EU price and the-world price, usually calculated as the difference between the EU internal price and the lowest offered price by competing exporters. The Uruguay Round agreement requires the EU to reduce export subsidies over 6 years by 21 percent in volume and 36 percent in value from a 1986–90 base period. Under the agreement, the EU will have cut export subsidies by about $5–7 billion from recent levels.

Canned Fruit: The United States and five other producing countries (Argentina, Australia, Brazil, Chile and South Africa) have sent a joint letter to the European Commission asking for informal consultations regarding the EU's internal support regime for canned fruit. The operation of the EU support regime for fresh peaches and pears has allowed EU fruit processors to unfairly undercut the domestic and export prices for canned fruit of the EU's trading partners.

Shipbuilding subsidies: EU member states provide subsidies and other forms of aid to their shipbuilding and repair industries. The European Commission sets annual ceilings for subsidies under its seventh directive. In 1995, the ceiling was 9 percent of gross investment for new ships and 4.5 percent for conversions and small vessels (under 10 million ECU). This ceiling was extended to December 31, 1997. In response to a Section 301 petition filed by the Shipbuilders Council of America, USTR sought a multilateral agreement in the OECD to eliminate all subsidies for shipbuilding by OECD member countries. An agreement was reached in July 1994, to take effect on January 1, 1996 if ratified by members. The EU ratified the OECD agreement and adopted implementing legislation in December 1995. When the U.S. Congress failed to ratify the agreement, the EU decided in April 1996 that the seventh directive would remain in effect until the agreement enters into force, but not beyond December 31, 1997 at the latest.

7. Protection of U.S. Intellectual Property

The EU and its member states support strong protection for intellectual property rights. Member states are members of all the relevant WIPO conventions, and they and the EU regularly join with the United States in encouraging other countries to adopt and enforce high IPR standards, including those in the WTO TRIPs agreement. The EU is now considering additional legislation in new areas of IPR protection, designating four priorities for legislative action: reproduction right, communication to the public right, legal protection of anticopying systems and distribution right. The Commission takes the position that digital technology and divergent member state IPR laws require harmonization at the Community level.

Trademarks: The United States has declined to join the Madrid Protocol on the international registration of trademarks because the Protocol allows intergovernmental organizations to have a vote in addition to their member states. The United States continues to seek a resolution to this impasse with the Commission in order to allow the protocol's system of trademark registration to become truly international.

8. Worker Rights

Labor legislation remains largely the purview of the individual member states, although the EU has adopted a number of regulations related to employee participation in company decisionmaking and occupational safety and health. In the last year, the EU has decided that GSP beneficiaries may receive an extra margin of preference if they meet certain worker rights standards.

Extent of U.S. Investment: Composite figures for U.S. investment in the EU are not available. See data for member countries.

AUSTRIA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	198.2	232.4	227.7
Real GDP Growth (pct)	3.0	1.8	0.7
GDP by Sector:[3]			
Agriculture	4.3	N/A	N/A
Manufacturing	46.6	N/A	N/A
Services	90.6	N/A	N/A
Government	28.4	N/A	N/A
Per Capita GDP (USD)	24,676	28,978	28,456
Labor Force (000s)	3,667	3,655	3,648
Unemployment Rate (pct)[3]	5.9	6.4	6.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.6	9.4	-1.0
Consumer Price Inflation	3.0	2.2	1.7
Exchange Rate (AS/USD):[4]			
Official	11.42	10.08	10.60
Balance of Payments and Trade:			
Total Exports (FOB)	44.9	57.2	55.5
Exports to United States[5]	1.8	2.0	2.2
Total Imports (CIF)	55.1	65.3	65.8
Imports from United States[5]	1.4	2.0	2.0
Trade Balance	-10.2	-8.1	-10.4
Balance with United States[5]	0.4	0	0.2
Current Account Deficit/GDP (pct)	0.9	2.0	1.8
External Public Debt	23.2	29.9	30.2
Debt Service Payments/GDP (pct)[6]	1.1	1.7	1.6
Fiscal Deficit/GDP (pct)[7]	4.5	6.1	4.2
Gold and For. Exch. Reserves (end of period)	19.1	23.6	N/A
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

Sources: Central Statistical Office, Austrian National Bank, Federal Ministry of Finance, Institute for Economic Research.

[1] Data as of October 1996 and available economic forecasts.

[2] GDP at market prices.

[3] Unemployment rate according to OECD method.

[4] There is only an official rate, no parallel rates.

[5] Source: United Statesaq Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

[6] Debt service payments on external public debt.

[7] Public deficit according to EMU criteria.

1. General Policy Framework

Austria, a member of the European Union (EU) since January 1, 1995, has a well developed market economy with a high standard of living. With exports of goods and services reaching 41 percent of GDP, Austria's economy is closely integrated with other EU member countries, especially with Germany. After achieving a robust 3 percent real GDP growth rate in 1994, Austria registered only 1.8 percent economic growth in 1995. Forecasts for 1996–97 call for only 0.7 to 1.0 growth due to the poor growth prospects among Austria's major trading partners, the government's austerity program, and weak private consumption. On the positive side, Austria's entry in the EU has drawn an influx of foreign investors attracted by Austria's access to the Single Market and by more liberal policies promoting competition and dismantling protectionism.

High Federal budget deficits will now have to be reduced sharply if Austria is to meet the Maastricht Treaty "convergence criteria" to join the European Monetary Union (EMU) and to adopt the single currency. In April 1996, a new "Grand Coalition" government between the Social Democratic Party and the Austrian People's Party adopted an ambitious budget consolidation program and austerity package to meet the Maastricht convergence criteria. The 1996 budget projects a Federal Government deficit of 3.7 percent of GDP, following the 5 percent deficit registered in 1995. The budget consolidation program comprises expenditure cuts of $6.3 billion and additional tax revenues of $3.1 billion in 1996/97. Budget cuts affect civil service compensation and hiring, family allowances, unemployment benefits, and pensions.

The European Union's Single Market and the economic transformation occurring in Central Europe pose significant challenges to the Austrian economy. To meet increased competition from both the EU and Central European countries, less competitive, low-tech production will have to shift toward more specialized value-added manufacturing. To improve efficiency and resource allocation, the service sector, particularly telecommunications, will have to be further deregulated and liberalized. While the government has taken measures to foster liberal policies to adapt to EU standards, Austria's economy is still characterized by wage-price rigidities, barriers to market entry, and an elaborate regulatory environment.

2. Exchange Rate Policies

Over the last 15 years, the Austrian National Bank (ANB) has pursued a "hard schilling" policy, adjusting interest rates to peg the Austrian schilling (AS) to the German mark (DM), at an exchange rate of AS7 to DM1, instead of setting money supply and other monetary targets. Since Austria joined the EU, the ANB has reaffirmed publicly its determination to continue this policy, as well as its intention to participate in the "hard core" of the EMU. On acceding to the EU, Austria joined the European Monetary System and the Exchange Rate Mechanism. In 1995, the Austrian schilling appreciated strongly against the U.S. dollar and many other European currencies, prompting complaints from Austrian exporters.

2. Structural Policies

Austria's accession to the EU has required the government to accelerate structural reforms and to take a number of steps to liberalize its economy. Most nontariff barriers to merchandise trade have been removed. Cross-border capital movements and market access for foreign bonds have been fully liberalized.

In 1996, as part of its austerity program, the Austrian Government implemented a number of changes to the tax code to raise revenues. Measures include the introduction of an energy tax on electricity and natural gas, cuts in personal income tax allowances and tax credits, as well as increases in the interest income tax rate from 22 to 25 percent and in the minimum corporate tax to about $4,700 annually (the 34 percent corporate tax rate remains unchanged). Rules for the deductibility of losses have also been tightened.

Although the government has begun to privatize some state enterprises, the state-owned or dominated sector continues to play a significant role in the economy. However, the scope of government interventionist policies, a traditional feature of the Austrian economy, has been reduced in recent years. Subsidy programs have been scaled back to conform to EU regulations. Still, state-owned industries employ 15 percent of the industrial workforce and account for 20 percent of exports.

A more liberal business code and a new cartel law, which imposed tighter controls on mergers, went into effect in 1993. Austria implemented its first Federal procurement law in 1993. Legislation to implement important EU directives to open government procurement to more competition has been drafted during 1996. In July 1994, a new Environmental Impact Assessment Act was passed to regulate the environmental impact of large industrial and infrastructure projects. Licensing procedures under these and other environmental legislation are viewed by industry as costly and cumbersome.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1995, the Austrian Federal Government's external debt amounted to $29.4 billion (22 percent of the government's overall debt) and consisted of 91 percent bonds and 9 percent credits and loans. Debt service on the Federal Government's external debt amounted to $3.9 billion in 1994, or 1.7 percent of GDP and 4 percent of total exports of goods and services. In 1995, total public sector external debt amounted to $29.9 billion or 13 percent of GDP. Total gross public debt was 69.5 percent of GDP at the end of 1995. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Significant Barriers to U.S. Exports

On Austria's accession to the EU, 63 percent of existing tariffs were lowered or eliminated, while 31 percent were increased. Sixty percent of all products from non-EU countries enter without any tariff. U.S. exports of chemicals, plastics, computers, photographic equipment, semiconductors and integrated circuits were affected adversely. The EU's Common Agricultural Policy (CAP) also has had a negative impact on imports of U.S. agricultural goods into the Austrian market. Import duties for some key U.S. agricultural products such as tobacco, rice and raisins rose considerably. In addition, the EU ban on imports of hormone-treated beef severely restricts U.S. exports of beef to Austria. In December 1995, the United States and the EU negotiated an agreement to compensate the United States for these tariff increases under GATT rules.

Austria's 1993 Banking Act presents a number of obstacles for market entry of 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.

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.

In some respects, Austrian labeling and marking requirements are not as strict as those in the United States. Safety warnings are not mandated on electrical devices, nor is labeling in the German language required. A recent government regulation requires that packaged food be marked with an expiration date. In November 1996, the government began debating proposals on labeling food and additives containing genetically modified organisms (GMO's), if necessary to complement the EU's planned Novel Food Directive. More generally, efforts are underway to harmonize national legislation with EU labeling and marking requirements along with quality and safety standards. Once this harmonization process is completed, a "CE" mark will be required for most manufactured imports.

Certification procedures for telecommunications equipment and state-of-the-art technologies—now vested in the Austrian Federal Ministry of Science, Transportation, and Arts—have presented problems for U.S. exporters. The Ministry has been apprised of U.S. industry concerns, and has promised to improve the standards setting process.

The government welcomes foreign investment, with 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. However, U.S. firms report that the government's positive attitude often contrasts with the arbitrary behavior of various authorities administering and enforcing regulations. In purchasing land for commercial purposes and in obtaining resident and work permits for key personnel (from countries outside the EU), U.S. firms are clearly at a disadvantage vis-a-vis EU competitors. Although no formal discrimination exists or is sanctioned by the government, U.S. and other foreign investors must confront a complex and cumbersome regulatory system. Obtaining permits for operating plants is often cited as a particularly complicated process.

Austria is a party to the WTO Government Procurement Agreement. Austria does not have restrictive "buy-national" laws, and the principle of the best bidder is usually maintained. However, offset requirements are common in defense contracts. Austria's first Federal procurement law was enacted in 1993. In 1996, the government prepared a draft law to bring its procurement legislation into line with EU guidelines, particularly on services.

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 $10 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. On accession to the EU, Austria had to abolish its 0.3 per mill levy on all exports and imports earmarked for export promotion. In 1996, the AKB undertook steps to make 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 principal multilateral intellectual property agreements and organizations, including the World Intellectual Property Organization (WIPO). Austrian laws are largely consistent with international standards. To implement EU directives on satellite broadcasting and copyright duration, Austria amended its copyright law in 1996. This amendment, which became effective April 1, 1996, introduced also a statutory license requirement for exhibiting films via video cassettes in hotel rooms and other lodging accommodations. The United States has urged the government to rescind this provision of the law, which is inconsistent with its international obligations. A levy on imports of home video cassettes and a compulsory license for cable transmission is required under Austrian copyright law. Of total revenues, 51 percent go to a special fund for social and cultural projects. Austrian copyright law requires that the owner of intellectual property 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 almost impossible.

8. Worker Rights

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

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

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

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

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		163
Total Manufacturing		(1)
Food & Kindred Products	7	
Chemicals and Allied Products	51	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	57	
Electric & Electronic Equipment	417	
Transportation Equipment	(1)	
Other Manufacturing	41	
Wholesale Trade		358
Banking		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	133
Services	301
Other Industries	−11
TOTAL ALL INDUSTRIES	2,094

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
GDP at Current Prices[2]	226.3	258.7	266.6
Real GDP Growth (pct)[3]	2.3	1.9	1.2
GDP by Sector (GDP):			
Agriculture	1.7	N/A	N/A
Construction	5.4	N/A	N/A
Energy	4.3	N/A	N/A
Industry	19.6	N/A	N/A
Services	55.0	N/A	N/A
Nontradable Services	13.9	N/A	N/A
Real Per Capita GDP (USD)[4]	17,170	20,092	18,882
Labor Force (000s)	4,293	4,300	4,296
Unemployment Rate (pct)	10.0	9.9	9.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.1	−6.2	7.6
Consumer Price Inflation (pct)	1.9	1.5	2.2
Exchange Rate (BF/USD)	33.4	29.5	31.1
Balance of Payments and Trade:			
Total Exports (FOB)[5]	138.2	169.4	163.7
Exports to United States[6]	6.6	6.3	6.8
Total Imports (CIF)[5]	128.3	154.9	151.8
Imports from United States[6]	11.2	12.8	12.4
Trade Balance[5]	9.5	14.5	11.8
Balance with United States[6]	−2.9	−6.5	−5.6
Current Account Deficit/GDP (pct)	5.4	5.2	5.7
External Public Debt	40.4	36.8	32.7
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	−5.1	−4.1	−3.2
Gold and Foreign Exchange Reserves	17.3	18.8	18.1
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1996 figures are all estimates based on monthly data available in October 1996.
[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. 1994 and 1995 figures include trade with Luxembourg under the customs union. 1996 figures are estimates for Belgium only based on data available through November 1996.

1. General Policy Framework

Belgium possesses a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture 2 percent. Belgium ranked as the ninth-largest trading country in the world in 1995, with exports and imports each equivalent to about 65 percent of GDP. Three-quarters of Belgium's trade is with other European Union (EU) members. Only 5 percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970's and the 1980's, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 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 to 3.0 percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the EU's Maastricht Treaty. Since 1992, the Belgian Government has implemented budget austerity measures of more than $25 billion, or about 9.0 percent of GDP. Even though 75 percent of these measures were revenue increases rather than expenditure cuts, they had the advantage of being mostly structural in nature, as opposed to one-time measures. The deficit declined to 4.1 percent of GDP in 1995 and is estimated at 3.2 percent of GDP in 1996. The government's 1997 budget, presented in October 1996, provides for a 2.9 percent deficit and a reduction in the debt/GDP ratio to 127 percent. Belgium has no chance of reaching the Maastricht Treaty debt/GDP target of 60 percent, but expects to demonstrate sustained progress toward the target in order to qualify for early EMU membership.

Belgium's recession in 1993 was more severe than any EU member except Germany. The budget measures adopted by the government in 1992 and subsequent years have imposed a drag on the economy's recovery estimated at a reduction in GDP growth rates of between 0.2 and 0.5 percentage points. Unemployment remains high at nearly 10 percent of the workforce (by EU and OECD standardized definitions) due to the slow pace of the recovery, high labor costs (especially non-wage costs) and structural mismatches in skills and the geographic distribution of labor and employment opportunities. Only in the last few months has unemployment started to fall (down 1 percent on an annual basis) as a result of the recovery.

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

2. Exchange Rate Policy

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). The near collapse of the ERM in July 1993 placed enormous pressures on this "strong franc" policy as currency traders focussed on Belgium's high debt and budget imbalance. The National Bank of Belgium and government used high short-term interest rates, jawboning and currency market interventions to support the BF. Although the BF briefly slipped by about 7 percent against the central parity rate with the DM, it regained its parity by late 1993. Since then, the BF has remained within 2 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. Belgian manufacturers have complained about the impact of the BF's appreciation on their competitiveness, particularly compared to weak-currency Europeans such as Spain and Italy.

3. Structural Policies

Belgium is a very open economy, as witnessed by its high levels of exports and imports relative to GDP (65 percent each). Belgium generally discourages protectionism. The Federal Government actively encourages foreign investment on a national treatment basis.

Tax policies: Belgium's tax structure was substantially revised in 1989. The top marginal rate on 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 5 years, the Belgian tax system is still characterized by relatively high marginal rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes are lower than the EU average as a share of total government revenues, personal income taxation and social security contributions are particularly heavy. Total taxes as a percent of GDP are the fifth highest among OECD countries. Taxes on 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.

Belgium has instituted special corporate tax regimes for coordination 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.

Regulatory policies: The only areas where price controls are effectively in place concern energy, household leases and the price of 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 foreign assistance donor nation. It closely follows development and debt issues, particularly with respect to Zaire (where official development aid flows are still frozen and aid money is mainly channelled through NGO's) and some other African nations.

Belgium is a net external creditor, the household sector's foreign assets exceeding 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 Belgian 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.

Some barriers to services and commodity trade still exist, however, including:

—*Telecommunications:* The Federal Government is gradually opening up the previously monopolistic telecommunications sector. In September 1996, a second cellular operator started operations. In 1996, the government sold 49 percent of Belgacom, the public telephone operator, to a consortium of Ameritech, Tele Danmark and Singapore Telecom. American suppliers of equipment still complain that they face an unequal battle with established European suppliers. The United States has taken issue with the regulation of the directory services market, but a solution appears likely.

—*Ecotaxes:* The Belgian Government has adopted a series of ecotaxes, in order to redirect consumer buying patterns toward materials seen as environmentally less damaging. These taxes will raise costs for some U.S. exporters, since U.S. companies selling into the Belgian market must adapt worldwide products to varying EU member state environmental standards.

—*Retail service sector:* Some U.S. retailers, including Toys"R" Us, 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 also suffer from the same restrictions, but their existing sites give them strong market share and power in local markets.

—*Public procurement:* The EU has adopted several directives covering public procurement. Belgium's implementation of these directives has been slow and incomplete. Belgian public procurement is still characterized by poor public notification and procedural enforcement, requirements of offsets in military procurement, an unofficial "buy local" policy, and nontransparency throughout the procurement process. The government has implemented a new law on government procurement to bring Belgian legislation into conformity with European Union 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. The new law can only be evaluated over time and its benefits will be heavily influenced by the way it is interpreted and implemented in Belgium.

—*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 fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and the Francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, via their majority interest in the TV4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Belgian Government to industrial and commercial entities in the country, but the government (both at the Federal and the regional level) does conduct an active program of trade promotion, 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 come close to the definition of a subsidy in the case of a company engaged in exporting. All of these programs are offered to both domestic and foreign-owned exporters. The United States has recently 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, an estimated 20 percent of Belgium's video cassette and compact disc markets are composed of pirated products. For software, the share of pirated copies has dropped from 58 to 48 percent in 1 year, still representing a loss of $700 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, replacing reciprocity standards, which would have denied payments to U.S. firms. Problems regarding first fixation and non-assignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient maneuverability in neighboring rights. The most recent estimate is that U.S. authors and producers will receive some $6 million annually from the proceeds of the blank tape levy in Belgium.

Patents: A Belgian patent can be obtained for a maximum period of twenty years and is issued only after the performance of a novelty examination.

Trademarks: The Benelux Convention on Trademarks established a joint process for the registration of trademarks for Belgium, Luxembourg and the Netherlands. Product trademarks are available from the Benelux Trademark Office in The Hague. This trademark protection is valid for 10 years, renewable for successive 10-year periods. The Benelux Office of Designs and Models will grant registration of industrial designs for 50 years of protection. International deposit of industrial designs under the auspices of the World Intellectual Property Organization (WIPO) is also available.

8. Worker Rights

a. *The Right of Association:* Under the Belgian constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities, and Belgian workers in fact fully and freely exercise their right of association. About 60 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and retired workers. Unions are independent of the government, but have important links with major political parties. As the government does not require unions to register, there are no prohibitions against antiunion actions before registration. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. The teachers, railway workers and airport workers held strikes 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. However, the International Confederation of Free Trade Unions (ICFTU) in 1996 noted with concern the increasingly common practice of using civil court rulings to end strikes. The IFCTU report states that the rulings include a threat of fines against strikers, and that such rulings call into question the free exercise of the right to strike. There was a sharp decrease of this kind of court rulings in late 1995 and throughout 1996, probably a result of labor/management talks which brokered an informal agreement to minimize court rulings in exchange for less secondary boycott activity by the unions.

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. As part of the government's global economic reform plan, wage increases in both private and public sectors remain suspended. 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:* In May 1996, the monthly national minimum wage rate for workers over 21 was set at BF43,665 ($1,432); 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 at least have 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		325
Total Manufacturing		8,505
Food & Kindred Products	795	
Chemicals and Allied Products	5,980	
Metals, Primary & Fabricated	157	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	142	
Transportation Equipment	(1)	
Other Manufacturing	865	
Wholesale Trade		2,197
Banking		(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	3,615
Services	2,829
Other Industries	(1)
TOTAL ALL INDUSTRIES	17,785

(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]

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP	9.6	13.0	10.0
Real GDP Growth (pct)	1.8	2.6	−10.0
GDP by Sector:			
Agriculture	1.1	1.7	1.1
Manufacturing	2.9	4.1	3.1
Services	4.9	6.0	5.4
Per Capita GDP	1,297	1,543	1,205
Labor Force (000s)	3,645	3,575	3,570
Unemployment Rate (pct) [2]	14.1	11.4	10.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	78.6	39.6	54.3
Consumer Price Inflation	121.9	32.9	311
Exchange Rate (Leva/USD—annual average): [3]			
Official	54.1	67.2	175
Parallel	56.4	69.9	200
Balance of Payments and Trade:			
Total Exports (FOB)	3.9	5.1	4.2
Exports to United States (USD millions) [4]	216	188	116
Total Imports (CIF)	4.0	4.7	4.0
Imports from United States (USD millions) [4]	110	132	138
Trade Balance	−0.1	0.4	0.2
Balance with United States (USD millions) [4]	106	56	−22
Current Account Balance/GDP (pct)	−2.1	2.2	2.0
External Public Debt	10.4	9.4	9.8
Debt Service Payments/GDP (pct)	5.7	7.7	N/A
Fiscal Deficit/GDP (pct)	6.7	5.7	8.0
Gold and Foreign Exchange Reserves	1.5	1.3	N/A
Aid from United States (USD millions) [5]	55.8	33.0	32.0
Aid from All Other Sources	1.1	N/A	N/A

[1] 1996 figures are estimates based on available 6–10 month data.
[2] Annual average.
[3] Rate depreciated from 32.1:1 to 66:0 from January to December 1994, and from 70.7:1 to 350:1 from January to November 1996.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[5] Fiscal year data for USAID and DOD humanitarian assistance.

1. General Policy Framework

Bulgaria is a parliamentary republic ruled by a democratically elected government. It has successfully conducted several rounds of democratic elections since 1989. The Bulgarian Socialist Party (BSP—successor to the Communist Party) won an outright majority in the parliamentary elections of December 1994 and controls the government. An opposition candidate was elected to the largely ceremonial office of president in November 1996, to take office in January. The current president is also identified with the opposition ranks.

Bulgaria has progressed slowly and erratically toward a market economy, with an uncertain underlying commitment to structural reform. The crisis of 1994 led to an improvement in macroeconomic performance in 1995, with sharply reduced inflation, modest real GDP growth of 2.6 percent, a substantial current account surplus, and a comfortable level of official reserves, despite a relatively stable nominal exchange rate. These favorable results were followed by a renewed lull in structural reforms and an unwarranted easing of financial policies. Little progress was made in reducing quasi-fiscal deficits, and the debts of loss-making state-owned enterprises led to systematic decapitalization of the banks.

In 1996, Bulgaria entered into a deep economic crisis, triggered by recurring runs on bank deposits, which began in late 1995 and have begun to affect even the most stable financial institutions. The Bulgarian lev has lost three-fourths of its value since the beginning of the year, foreign exchange reserves have fallen to critically low levels, inflation will be well over 200 percent, interest rates have risen dramatically, with disastrous budgetary implications because of the high domestic debt, and production and foreign trade have contracted. Bulgaria tightened financial policies, raised indirect taxes (VAT and excise taxes), closed several banks, and committed to liquidate or cease bank credits to 135 loss-making state-owned enterprises in preparation for a $580 million standby agreement with the IMF. However, after the first tranche was disbursed in July, the government moved slowly to implement structural commitments which were a precondition for $200 million in World Bank structural adjustment financing, and the macroeconomic parameters proved overly optimistic. Further IMF disbursements (expected in September and December) have been postponed. In November, the IMF began to advocate the introduction of a currency board to stabilize the financial system.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria is actively pursuing its goal of EU membership. Bulgaria acceded to the World Trade Organization (WTO) at the end of 1996. The bilateral investment treaty with the United States took effect in June 1994. A bilateral treaty for avoidance of double taxation is under negotiation.

2. Exchange Rate Policy

The Bulgarian National Bank (BNB) sets an indicative daily U.S. dollar rate for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates. A parallel market operates with rates that have begun to diverge widely from the official rate due to the lev's rapid depreciation. If Bulgaria proceeds with the contemplated introduction of a currency board in early 1997, the lev would likely be tied to the dollar or the German mark.

Only some of the commercial banks are licensed to conduct currency operations abroad. Companies may freely buy foreign exhange for imports from the interbank market. Companies are required to repatriate, but no longer to surrender, earned foreign exchange to the central bank. Bulgarian citizens and foreign persons may also open foreign currency accounts with commercial banks. Foreign investors may repatriate 100 percent of profits and other earnings, except that profits and dividends derived from privatization transactions in which Brady bonds were used for half the purchase price may not be repatriated for 4 years, and initial capital for 10 years. Capital gains transfers appear to be protected under the revised Foreign Investment Law; free and prompt transfers of capital gains are guaranteed in the bilateral investment treaty. A permit is required for hard currency payments to foreign persons for direct and indirect investments and free transfers unconnected with import of goods or services.

3. Structural Policies

Bulgaria's legal structure does not inhibit U.S. exports, which are more affected by the deepening economic crisis and Bulgaria's isolation from trade financing. In general, implementation of reforms is hindered by slow decisionmaking, parliamentary delays (despite the presence of a BSP majority), and bureaucratic red tape. The 1994 Bankruptcy Law was scarcely used until 1996. As of November 1996, the Concessions Law (covering grants of temporary use rights over state property)has not been utilized for any major projects in the year since it was enacted. A mass privatization program, patterned on the Czech voucher system, finally got underway in 1996, with the first auction held in October. Market privatization stagnated until the need for cash inflows forced the government to close some large deals quickly.

The privatization process is often nontransparent and major deals are frequently accompanied by controversy. In October 1996 Bulgaria enacted a new Collateral Loan Law (with implementation in 1997), setting out procedures for secured lending, and revised the Commercial Code. A government procurement law is scheduled to be enacted in 1997, in line with Bulgaria's commitment to accede to the WTO plurilateral Agreement on Government Procurement.

Bulgaria revised both its Income Tax and Profits Tax laws in 1996, with effects which have yet to be determined. The VAT was raised from 18 to 22 percent in July 1996 as part of the IMF program. Poor tax collection is a problem for the budget, and there is a significant informal economy which goes largely unreported and untaxed.

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. But with expected investment flows failing to materialize, Bulgaria will be challenged to meet its total debt service requirements beginning with the $1.2 billion paid in 1996. In addition to its external debt (over $9 billion at the end of 1996), Bulgaria's growing domestic debt burden has been estimated at close to one-half of GDP, and high domestic interest rates make servicing that debt a severe strain on the budget.

In July 1996, the IMF approved a 20-month standby agreement of approximately $580 million. However, as of November 1996, only one tranche had been disbursed. A World Bank enterprise sector adjustment loan remained under discussion as of November 1996, pending compliance with structural reform conditions.

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 within a year. Bulgaria "graduated" from Jackson-Vanik requirements and was accorded unconditional MFN treatment by the United States in October 1996.

Average Bulgarian import tariffs are relatively high, on top of which Bulgaria implemented a 5 percent import surcharge in July 1996 (scheduled to decline over the next 5 years) as part of the IMF program. Bulgaria still applies tariffs to capital goods for investment projects. Some U.S. investors report that high import tariffs on products needed for the operation of their establishments in Bulgaria serve as a significant barrier to investment.

Import licenses are required for a specific, limited list of goods which includes radioactive elements, rare and precious metals and stones, ready pharmaceutical products, and pesticides. The Bulgarian Government has declared that it grants licenses within 3 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 of Bulgaria to trade in arms (see below). Dual-use items are also controlled.

The Bulgarian Government states that its system of standardization is in line with internationally accepted principles and practices. Imported goods must meet Bulgarian standards, and in testing and procedures imported goods are accorded treatment no less favorable than that for domestic products. The testing and certification process generally requires at least 2 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, nor can companies with foreign participation acquire lands designated as agricultural. However, 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. Bulgaria committed itself in the U.S.-Bulgarian Bilateral Investment Treaty to international arbitration in the event of expropriation, disinvestment, or compensation disputes.

U.S. firms complain that the inflexible or rigid enforcement of tax and other regulations inhibits investment plans. Foreign investors also complain that massive tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially precarious, state-owned enterprises places the foreign investor at a real disadvantage.

There is no legal requirement for the Bulgarian Government to procure only local goods and services. Government procurement works mostly by competitively bid international tenders. There have been problems of lack of clarity in many tendering procedures. U.S. investors are also finding that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria.

Bulgaria uses the single customs administrative document used by European Community members. A 1-percent customs clearance fee is assessed on all imports and exports.

6. Export Subsidies Policies

The Bulgarian 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, but enforcement is seriously deficient, resulting in widespread piracy, particularly in music CDs and CD–ROMs. As a result, Bulgaria was placed on the U.S. Trade Representative's Special 301 Watch List in October 1996.

In 1995, Bulgaria signed a government-to-government agreement with the United States to improve intellectual copyright protection. As a result, Bulgaria became a signatory to the Rome and Geneva Phonograms Conventions, added criminal penalties for copyright infringement, and, in April 1996, introduced a system of title verification for music and video recordings. Nevertheless, video, compact disk and computer program piracy remains a serious concern. The problem is compounded by the fact that Bulgaria is one of the world's top exporters of illegal CDs and CD–ROMs.

Bulgaria's Trademark and Industrial Design Law is in need of updating; a revised law is expected to be passed by 1997. U.S. industries cite the 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 for 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.

In early 1996, the International Intellectual Property Association estimated trade losses for U.S. companies due to piracy at over $173 million, not including business software piracy, which has become an increasing problem. The chief damages were reportedly in sound recordings and musical compositions ($105 million), computer programs ($58.2 million for entertainment software alone), and motion pictures ($9.7 million from videocassettes and an unquantified amount from cable TV piracy).

8. Worker Rights

a. *The Right of Association:* The 1991 Constitution guarantees the right of all workers to form or join trade unions of their own choice. This right appears to have been freely exercised in 1996. Estimates of the unionized share of the workforce range from 30 to 50 percent. This share is shrinking as large firms lay off workers, and most new positions appear in small, non-unionized businesses. Bulgaria has two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria (CITUB) and Podkrepa. CITUB, the successor to the trade union controlled by the former Communist regime, now operates as an independent entity. Podkrepa, an independent confederation created in 1989, was one of the earliest oppposition organizations, but is no longer a member of the Union of Democratic Forces (UDF), the main opposition party. In 1995 a third trade union confederation, the Community of Free Union Organizations in Bulgaria (CFUOB), was admitted to the National Tripartite Council (NTCC), which includes employers and the government. The Labor Code passed in December 1992 recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Workers in essential services (military, police, energy production and supply, and health sectors) are prohibited from striking; in September 1996 the Constitutional Court ruled that this prohibition is constitutional.

b. *The Right to Organize and Bargain Collectively:* The Labor Code institutes collective bargaining, which is practiced both nationally and on a local level. Only the three members of the NTCC are authorized to bargain collectively. This led to complaints by smaller unions, which may in individual workplaces have more members than any of the NTCC members. Smaller unions also complained that they are excluded from the NTCC. 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 have argued that the practice of shunting minority and conscientious-objector military draftees into work units which often carry out commercial construction and maintenance projects is a form of compulsory labor.

d. *Minimum Age for Employment of Children:* The Labor Code sets the minimum age for employment of children at 16, and 18 for dangerous work. Employers and the Ministry of Labor and Social Welfare are responsible for enforcing these provisions. While child labor laws are enforced well in the formal sector, underage employment is increasing in the informal and agricultural sectors as collective farms are broken up and the private sector continues to grow. In addition, children work on family owned tobacco farms.

e. *Acceptable Conditions of Work:* The national monthly minimum wage was raised to 5,500 leva (approximately $24 at the time) as of October 1, 1996. Depreciation of the lev had reduced the dollar value of the minimum wage to $15 by late November. The minimum wage is not enough to provide a wage earner and family with a decent standard of living. The Constitution stipulates the right to social security and welfare aid assistance for the temporarily unemployed, although in practice such assistance is often either late or not disbursed. The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period per week. The Ministry of Labor and Social Welfare is responsible for enforcing both the minimum wage and the standard workweek. Enforcement has been generally effective in the state sector, but weaker in the emerging private sector. Bulgaria has a national labor safety program with standards established by the Labor Code.

f. *Rights in Sectors with U.S. Investment:* Overall U.S. investment is relatively small, about $38 million as of June 1996 according to official Bulgarian information. Few sectors have an active U.S. presence. Conditions do not significantly differ in these sectors from the rest of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		(1)

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

CZECH REPUBLIC

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	36.0	47.3	52.9
Real GDP Growth (pct)[3]	2.6	4.8	4.8
GDP by Sector (pct):[4]			
Agriculture	N/A	5.2	4.2
Manufacturing	N/A	26.6	28.2
Services	N/A	53.4	53.2
Government[5]	N/A	31.8	31.2
Per Capita GDP (USD)	3,500	4,592	5,136
Labor Force (000s)	4,777	4,777	5,107
Unemployment Rate (pct)	3.2	2.9	3.3
Money and Prices (annual percentage growth):			
Money Supply (M2)[6]	20.8	16.3	5.7
Consumer Price Inflation	10.0	9.1	8.9
Exchange Rate (CKR/USD):			
Official[7]	28.78	26.55	26.54
Balance of Payments and Trade[7]:			
Total Exports (FOB)[7]	14.3	17.1	16.2
Exports to United States (USD millions)[8]	316	363	482
Total Imports (CIF)[7]	14.7	20.9	20.3
Imports from United States (USD millions)[8]	297	363	410
Trade Balance[7]	−0.44	−3.8	−4.1
Balance with United States (USD millions)[8]	19	0	72
Current Account Deficit/GDP (pct)	0.14	2.88	6.9
External Public Debt	10.7	16.5	17.0
Debt Service Payments/GDP (pct)[9]	6.9	5.5	6.0
Fiscal Deficit/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	8.9	17.0	16.0
Aid from United States (millions of USD)[10]	38.5	19.9	6.0
Aid from All Other Sources[11]	76.4	140.1	N/A

[1] 1996 figures are based on the latest estimates of the Czech Statistical Office dated November 1, and/or on the unofficial estimates from the Czech National Bank.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.

[4] The methodology was reworked in 1995. 1996 figures are for the first half year only.
[5] Central government spending as pct of GDP.
[6] Eight-month data for 1996. 15.7 pct growth over same period in 1995.
[7] Nine-month data for 1996 exchange rate and trade. Official Czech Statistical Office estimate of the trade deficit for 1996 is $6.048 billion.
[8] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996. Czech imports do not include re-exports of U.S. goods through other countries.
[9] Information for the first half of 1996 only.
[10] U.S. assistance will be phased out by October 1, 1997. To that date, it will total approximately $145 million.
[11] Figures for EC-Phare program.

1. General Policy Framework

The Czech Republic has largely consolidated its economic transition to a western market economy with most enterprises now in private hands. The country is politically stable with a favorable macroeconomic climate, and enjoys a low national debt, balanced budget, strong foreign currency reserves, relatively low inflation and low unemployment. Preliminary data suggest GDP growth of just under 5 percent for 1996, following growth of 4.8 percent in 1995. Economic growth continues to be fueled by domestic demand, mainly private household consumption (5.5 percent growth in the first half of 1996) and reviving investment in fixed capital (17.8 percent growth). Continued GDP growth in the range of 4.8 to 5.6 percent is forecast for 1996 and 1997, with fixed capital investment and private consumption expected to remain the primary engines of economic expansion.

Inflation declined moderately in 1995, but by mid-1996 was running at approximately 8.9 percent. After increases in regulated prices in mid-1996, inflation for the year is expected to be close to 9.0 percent. There is increasing evidence of inflationary expectations at 9–10 percent levels. Wages grew by some 19 percent in the first half of 1996. The Czech Republic faces the difficult task of lowering inflation while maintaining solid growth rates.

The current government has pursued a balanced budget policy and both the coalition and opposition parties have agreed on a balanced budget for 1997. While the government had to trim expenditures at mid-year in order to maintain budget balance, projections for the next year or two indicate that it can likely achieve this goal through continued tight fiscal control and growth of the economy. However, the government will have to balance demands for more spending on social projects and housing with its program to reduce the tax burden on firms and individuals.

At the same time, vital microeconomic tasks remain important, such as completing the privatization of the steel, utilities, telecommunications and financial sectors, restructuring firms to maintain competitiveness, and strengthening the regulatory framework. Integrating the Czech economy into the West, and specifically into the European Union, remains a government priority. The Czech Republic continues to take steps to harmonize its legal system and standards and regulations with EU countries and formally applied for EU membership in 1996.

Currently, over 70 percent of output is produced by nominally or wholly private firms. However, the government still holds significant minority stakes in many large Czech enterprises. Thus far, the expanding service sector has essentially been able to absorb labor released from downsizing industry and agriculture, and overall unemployment rates for 1996 are predicted to be in the range of 3.0 to 3.3 percent. Projected levels for 1997 are in the range of 3.2–3.7 percent.

During the first 9 months of 1996, the Czech Republic's widening trade deficit reached $4 billion, following a trade deficit of $3.8 billion for 1995. For the first 9 months of 1996, imports increased by 15.2 percent, while exports grew by 5.9 percent. Lagging exports have been mostly attributed to domestic consumption of products that were previously targeted for export and reduced growth in key EU markets. Higher imports resulted from robust consumer demand for imported products and investment activities by privatized firms. While some observers argue that the bulk of investment goods imports consisted of components for large infrastructure investment projects, others say the import boom reflects the import of machinery and equipment that will benefit the economy's production and eventually result in an increase in exports.

The Czech Republic's balance of payments on current account has slipped into deficit in 1966. The trade deficit is partially offset by surpluses in services, mainly tourism ($2.9 billion in 1995) and transportation. Foreign capital inflows (reaching over $8 billion in 1995 but slowing to $800 million in the first half of 1996) may fail to offset the deficit on current account for the whole of 1996.

2. Exchange Rate Policy

The Czech crown is fully convertible for most business purposes and the Czech National Bank (central bank) and the Czech Government have stated that they expect the crown to be made fully convertible for both current account and capital transactions in 1997 or 1998. The Foreign Exchange Act, providing for full current account convertibility, was enacted by the Parliament in October 1995. The law made the Czech crown convertible for all trade transactions and many investment transactions. For example, Czechs are free to make direct investments and purchase real estate abroad. Under the law, the Central Bank and the Finance Ministry can take further steps toward capital account convertibility by removing controls on outflows of capital without additional legislation.

In February 1996, the Czech National Bank departed from its previous policy of fixed nominal exchange rates and allowed the Czech crown to float plus/minus 7.5 percent from its pegged rate (the previous figure was 0.5 percent). The Czech crown continues to be pegged 65 percent to the German mark and 35 percent to the dollar.

3. Structural Policies

The Czech Government sees full membership in the European Union (EU) as its highest priority. An EU association agreement came into effect in February 1995. The Czech Republic is expected to begin negotiations on joining the EU at the same time as Cyprus and Malta in 1997 or 1998 but membership is not expected before 2000. The Czech Republic became the first post-Communist member of the Organization of Economic Cooperation and Development (OECD) in December 1995. As part of its accession to the OECD, the Czech Government agreed to meet, with a small number of exceptions, the OECD standards for equal treatment of foreign and domestic investors and restrictions on special investment incentives. The United States succeeded in using the membership process to encourage the Czech Republic to make several improvements to the business climate for U.S. firms.

The Czech Government continued its program of income tax reductions in 1996. For 1996, the corporate profit tax went down from 41 percent to 39 percent and the tax rate for the highest tax bracket for personal income tax went down from 43 percent to 40 percent. Employer and employee social insurance contributions were also lowered by 0.25 and 0.75 percent respectively (to 35.0 percent and 12.5 percent). The tax reductions for 1997 have not yet been agreed but are expected to be modest.

In 1995, the government started to provide for tax write-offs of bad debts, although with considerably less generous treatment of pre-1995 debts, which had been a priority goal of U.S. business. Under the new rules, companies unable to collect debts due after Jan 1, 1995 will be able to write them off over 3 years. Companies will also be able to write off up to 10 percent per year of noncollectable debts dating before Dec. 31, 1994. Both provisions allow a firm to write off the first year's share of a bad debt without filing suit against the debtor. However, in order to obtain the following years' write-offs, the creditor firm must prove that it tried to collect the due amount for 12 months without success. A key remaining bad debt issue centers on refunds or deductions for value-added tax (VAT) collected on bad debts. Wholesale companies are especially hard hit by the lack of VAT refunds because these companies collect VAT contributions for the government based on sales.

U.S. firms have complained that Czech tax legislation effectively penalizes use of holding company structures by leveling both corporate tax and dividend withholding tax on profit flows between group companies, thus creating double taxation on such profits. Czech law also does not permit intra-group use of losses (i.e., offsetting losses in one group entity against profits in another) and imposes corporate tax on dividends received from foreign holding without allowing use of a foreign tax credit for the underlying tax suffered in the subsidiary's home jurisdiction.

4. Debt Management Policies

The Czech Republic maintains a relatively low foreign debt and has received investment grade ratings from the major international credit agencies. As of mid–1996, the gross foreign debt was approximately $16.7 billion. The Czech Republic repaid its entire debt with the IMF ahead of schedule.

5. 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. The government 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. Some EU exports face a slightly lower tariff rate under the Czech Republic's EU association agreement. 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 getting products approved for import. The harmonization of standards with the EU will ease the paperwork burden for those exporters already exporting to the EU. However, the alignment of the Czech food legislation with the EU also means that certain products currently prohibited in the EU are also prohibited in the Czech Republic.

Other complaints expressed by American firms in the Czech Republic include: the continuing imposition of high taxes; instances of a lack of a transparent bidding process; general slowness of decisionmaking in the government; excessive red tape; and the maintenance of higher tariffs against non-European goods while gradually lowering those for European Union countries as specified in the EU association agreement. In addition, those firms which deal with privatization authorities have complained of long delays involved in the privatization process.

The Czech Government is required by law to hold tenders for major procurement. In 1996, an amendment to the Czech procurement law was passed which should help clarify and simplify procedures for public tenders. A 10-percent price advantage for domestic firms still remains. The Czech Republic is not a member of the WTO Government Procurement Agreement.

Still, American business people often cite a convoluted—or in some cases corrupt—bureaucratic system at both 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, and the U.S. Embassy is frequently asked to intercede on an investor's behalf. European companies have sought to use the Czech Republic's interest in EU membership to gain advantage in commercial competition.

By law, the government does not differentiate between foreign and domestic investors, or between foreign investors from different countries. The Czech Republic committed not to discriminate against foreign investors in privatization sales, outside of a few excepted sectors, in joining the OECD. In some cases, the Czech Government has had to overcome political resistance to foreign investment in certain sensitive sectors. This opposition has come from economic nationalists as well as managers with an interest in the status quo. Examples include the petrochemical, telecommunications and brewery sectors. The ban on foreign ownership of real estate remains another important exception, although foreign-owned Czech firms may purchase real estate freely.

American 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 the courts are often compounded by judges' limited understanding of complex commercial cases. Also, in 1995, the Czech Republic imposed a Czech language requirement for trade licenses needed for most forms of business. This requirement can be fulfilled by a Czech partner, but this can be burdensome and involve 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, the Finance Ministry has not enforced them. The Prague Stock Exchange has proposed the creation of stricter rules and an independent "Securities and Exchange" commission to administer them. To date, the government has resisted moves toward effective regulation of the capital markets.

6. Export Subsidies Policy

In mid-1995, the Czech Export Bank started to provide export guarantees and credits to Czech exporters. The bank has a policy of following the OECD consensus on export credits. Additionally, the government maintains a fund through which it purchases domestic agricultural surpluses for resale on international markets. For some commodities, pricing is established at a level which includes a subsidy to local producers.

7. Protection of U.S. Intellectual Property

The Czech Republic is bound to the Berne and Universal copyright conventions and the Paris Convention on industrial property. The government is working to ensure that Czech laws for the protection of intellectual property meet or exceed those of western Europe. Existing legislation guarantees protection of all forms of property rights, including patents, copyrights, trademarks, and semiconductor chip layout design. While the Czech authorities have made some strides in enforcement, problems with delays in indictments and prosecutions remain. The U.S. Government, working with U.S. industry, has recently achieved commitments from Czech Government officials to take specific steps to improve enforcement of IPR norms. This includes the creation of an interministerial committee on IPR enforcement and increased priority for police action against IPR crimes.

The Czech Government addressed certain key shortfalls in IPR laws of concern to the United States in amendments to the trademark law and the copyright law adopted by Parliament in June 1995 and April 1996. The trademark law change brings Czech law into compliance with relevant EU directives and the WTO TRIPs agreement. The change simplifies administrative steps concerning registration and sale of trademarks. It strictly defines trademark fraud and bans unauthorized registration and use in the Czech Republic of generally well-known trademarks not yet registered in this country. In addition, prior to registration of a trademark, the application will be made public to allow for protests by legitimate trademark owners in the case of a fraudulent application.

The amendment to the copyright law is also designed to bring Czech law into full compliance with the WTO TRIPs agreement and EU standards. The amendment incorporates the EU software directive into Czech law, providing computer programs with the same protection as literary creations and narrowing the personal use provision. Extensive cooperation between the U.S. Government and industry resulted in satisfactory language on the key issue of ownership of software. The amendment as enacted extends coverage to software created by an independent contractor as well as by an employee. Under previous Czech law, no author could transfer his rights to the software; an author was only allowed to license the software to an employer.

8. Worker Rights

a. *The Right of Association:* The law provides workers the right to form and join unions of their own choosing without prior authorization, and the government respects this right. The work force was 45 to 50 percent unionized in 1996. Workers have the right to strike, except for those whose role in public order or public safety is deemed crucial. The law requires that labor disputes be subject first to mediation and that strikes 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. This freedom is fully exercised.

b. *The Right to Organize and Bargain Collectively:* Czech law provides for collective bargaining, which is generally carried out by unions and employee on a company basis. Wage regulation was abolished in 1995.

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

d. *Minimum Age for Employment for Children:* The Labor Code stipulates a minimum working age of 15 years, although children who have completed courses at special schools (schools for the severely disabled) may work at age 14.

e. *Acceptable Conditions of Work:* The government sets minimum wage standards. The current minimum wage is 2,500 crowns (about $95) per month. The minimum wage provides a sparse standard of living for an individual worker although, when combined with allowances available to families with children, provides an adequate standard of living for a worker and a family. 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 of 3 to 4 weeks. 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 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		250
Food & Kindred Products	69	
Chemicals and Allied Products	101	
Metals, Primary & Fabricated	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(2)	
Other Manufacturing	58	
Wholesale Trade		−13
Banking		(1)
Finance/Insurance/Real Estate		1
Services		(2)
Other Industries		(1)
TOTAL ALL INDUSTRIES		366

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

DENMARK

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	125.2	148.5	148.0
Real GDP Growth (pct)[3]	3.2	2.9	1.8
GDP by Sector:			
Agriculture	4.8	6.3	6.2
Manufacturing	24.5	30.0	30.0
Services	60.6	70.0	69.7
Government	28.9	34.1	33.9
Per Capita GDP (USD)	24,054	28,421	28,140
Labor Force (000s)	2,815	2,800	2,787
Unemployment Rate (pct)	12.2	10.3	8.3
Money and Prices (annual percentage growth):			
Money Supply Growth (pct)	−5.4	4.1	6.5
Consumer Price Inflation (pct)	2.0	2.1	2.1
Exchange Rate (DKK/USD—annual average):			
Official	6.36	5.60	5.80
Balance of Payments and Trade:			
Total Exports (FOB)[4]	41.8	49.1	48.5
Exports to United States[5]	2.1	1.9	2.1
Total Imports (CIF)[4]	35.9	43.8	42.5
Imports from United States[5]	1.2	1.5	1.7
Trade Balance[4]	5.9	5.3	6.0
Balance with United States[5]	0.9	0.4	0.4
Current Account Surplus/GDP (pct)	2.0	0.9	1.0
External Public Debt	37.9	45.9	40.0
Debt Service Payments/GDP (pct)	3.5	2.9	2.8
Fiscal Deficit/GDP (pct)	3.5	1.6	1.3
Gold and Foreign Exchange Reserves	8.5	11.4	14.0
Aid from United States	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available data as of November 1, 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.

[4] Merchandise trade (excluding EU Agricultural Export Subsidies)
[5] Source: U.S. Department of Commerce and U.S. Census Bureau, exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of foreign trade, free capital movement, political stability, an efficient and well-educated labor force and a modern infrastructure effectively linking Denmark with the rest of Europe. Its natural resources are concentrated in oil and gas fields in the North Sea, which make Denmark more than self-sufficient in oil and gas. A member of the European Community (now European Union) since 1973,Denmark reserved its participation in the third phase of the Economic and Monetary Union (EMU) in connection with the EU "Maastricht Treaty." Its active liberal trade policy in the EU, OECD and WTO often coincides with U.S. interests. In December 1994, the government ratified the WTO agreements which also apply to Greenland and the Faroe Islands, two autonomous territories of Denmark. EU countries account for around two-thirds of Denmark's total trade. The United States is Denmark's largest non-European trading partner, accounting for about 5 percent of merchandise trade and a large share of services trade, notably shipping by Danish container vessels to and from the United States. Denmark benefits from the EU single market and has taken the lead in efforts to combat new nontariff trade barriers arising within the EU while other barriers are dismantled.

The Danish economy is strong, with a comfortable balance of payments surplus, a small public budget deficit, and low inflation. The Danish Government (a Social Democratic Party-led coalition) pursues tight fiscal policies of minimum public expenditure increases and tight monetary and exchange rate policies. The government, which has been in power since January 1993, relaxed fiscal policy in 1994 and introduced a limited income tax reform to kick-start the economy, as well as such measures to combat unemployment as government-funded leave programs and government-subsidized job creation measures.

The Danish economy grew strongly from late 1993 until mid-1995, when growth stalled for a time. Recent key economic indicators—reduced unemployment, increased employment and foreign trade—suggest that growth resumed in the second half of 1996. Lower unemployment costs and higher revenues have brought the budget deficit down to 1.3 percent of GDP in 1996. Foreign investment incentives include lenient income taxation of highly paid foreigners working in Denmark (a flat 32 percent tax on gross income in 1996). Since 1989, the Danish Government has spent about $10 million promoting direct U.S. and Japanese high-tech investment in Denmark, and has helped some U.S. firms acquire Danish high-tech companies. U.S. and Japanese greenfield investments, on the other hand, have been limited.

Denmark has opted out of the EMU's third phase (establishment of a single EU currency and relinquishment of national sovereignty over monetary policy), although it is one of only three EU countries whose economic performance meets the convergence criteria established for the EMU's third phase. Denmark's central government deficits are not monetized but instead financed through sale of government bonds and treasury bills on market terms.

Danish monetary policy places a high priority on price stability. Denmark has pursued a fixed exchange rate policy since the early 1980's. This policy, and full liberalization of capital movements in 1988, leaves the Danish Central Bank limited room to adopt independent interest rate and liquidity policies. Danish monetary policy is linked closely to that of Germany. In order to tighten management of money market rates, the Central Bank uses a liquidity management system involving the issuance of 2-week deposit certificates each week and re-purchases of both treasury bills and deposit certificates in order to provide liquidity to commercial banks. Since early 1993, the Central Bank has successfully used small discount rate adjustments of between 0.25 and 0.5 percent to control liquidity and to protect the Danish krone. On November 5, 1996, the official discount rate stood at 3.25 percent (the lowest rate in 61 years). However, low inflation (two percent during 1996) vis-a-vis much higher market interest rates produced high real interest rates.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). For more than a decade, the government has successfully resisted solving Denmark's economic problems through exchange rate adjustments. In September 1996, the trade-weighted value of the krone was 1.4 percent lower than in September 1995, due mostly to the Danish krone's depreciation against the Swedish krone, the pound and the dollar.

Over the last year, the krone has fallen almost 7 percent against the dollar. Despite this recent movement, the krone has appreciated 12 percent against the dollar over the last three years, leading to a shift from a large U.S. trade deficit with Denmark in 1994 into small surpluses in both 1995 and 1996.

3. Structural Policies

Danish pricing policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by a Competition Council.

Despite the 1994 income tax reform, many Danes believe the tax system needs further overhaul to improve incentives for work and investment and to reduce the "underground" economy, which may account for as much as 10 percent of GDP. The highest marginal tax rate of over 60 percent applies to all earnings above those of a fully employed skilled worker. The introduction of a gross income tax (eight percent in 1997) has brought the Danish income tax system closer to the EU standard. Danish employers are almost alone in the EU in paying virtually no nonwage compensation. Most of employers' sick leave and unemployment insurance costs are paid by the government. Employees pay their part of unemployment insurance out of wages.

At 25 percent, the Danish value added tax (VAT) 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 has no plans to reduce the VAT, and hopes that VAT rate harmonization will raise VAT rates of other EU countries, particularly Germany. The corporate tax is 34 percent and favorable depreciation rules and other deductions exist. Environmental taxes are increasingly being imposed on industry and consumers.

Despite Denmark's success in resolving many structural problems, the large number of unemployed (about one million or one-quarter of the voting population) remains a major problem. Labor mobility, both geographically and sectorally, is low in Denmark due to rather lenient qualifications for unemployment benefits and structural rigidity which prevents crossing craft lines. The government is now enforcing rules more vigorously to tighten eligibility for benefits and increase mobility. In 1996, the government tightened benefit rules for unemployed young people, dramatically reducing youth unemployment. Two-thirds of unemployment benefits are paid from general revenues.

4. Debt Management Policies

Denmark has run a balance of payments surplus since 1990. Consequently, the foreign debt has gradually fallen from over 40 percent of GDP in 1990 to 27 percent in 1995. Net interest payments on the debt continue to cost Denmark 8 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 1995, the public sector's net foreign debt, including foreign exchange reserves, totaled $46 billion, of which krone-denominated government bonds accounted for more than 80 percent.

During 1995, central government debt denominated in foreign currencies fell 19 percent to $19 billion at the end of the year. Of the total debt, 45 percent is denominated in German marks, 13 percent in Swiss francs, 10 percent in French francs and 10 percent in British pounds. U.S. dollar-denominated debt comprises only 4 percent—down from 18 percent in 1994. The debt has an average term of 2.4 years.

Danish development assistance amounts to 1 percent of GNP or $1.7 billion in 1995, almost equally distributed between bilateral and multilateral assistance. Bilateral assistance is concentrated on 20 "program" countries. Denmark also supports the new democracies in East and Central Europe, and provided $315 million (0.25 percent of GNP) in assistance to the Baltic Republics and the former Soviet Union in 1996. The 1996 government budget included almost $300 million for multinational environmental and disaster assistance, including refugee costs. Denmark actively participates in the IMF, the EBRD, the World Bank, and the Paris Club.

5. Significant Barriers to U.S. Exports

Denmark imposes only few restrictions on imports of goods and services and on investment. Denmark is a member of the WTO and a party to all WTO plurilateral agreements; it adheres 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 harmonized within the EU Single Market, new nontariff trade barriers (NTBs) have surfaced in individual EU member countries. Denmark has taken the lead within the EU to work with the European Commission to combat problems faced by Danish firms in winning bids on government procurement contracts in other EU countries. The Ministry of Business and Industry's National

Agency for Development of Trade and Industry and Danish Competition Council assist Danish firms facing nontariff trade barriers.

Denmark requires an exam or experience in local law in order to practice law. Investment in stockbroker firms requires that the managing director have at least 3 years of experience in securities trade. U.S. stock exchange experience alone is generally not sufficient.

Denmark provides national and, in most cases, nondiscriminatory 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 (foreign citizens or airlines may not directly own or exercise control over aircraft registered in Denmark); and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share—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. This has not been an obstacle to U.S. investment. Three U.S. banks—Citicorp (through its U.K. subsidiary), Republic National Bank of New York and the State Street Bank Trust Company—have branches or offices in Denmark. The government is to liberalize the Danish telecommunications sector in February 1997. A private cellular mobile telephone network, with Bell South participating, competes with the government-controlled Tele Danmark's cellular operation.

Danish government procurement practices meet the requirements of the GATT/WTO Agreement on Government Procurement and of EU public procurement legislation. Denmark has implemented the EU's "Supplies" Directive 93/36/EEC, "Works" Directive 93/37/EEC and "Utilities" Directive 93/38/EEC. A 1993 administrative note advised 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 terms (price, quality and delivery) in procurement of goods and services. This may eventually hurt U.S. access to the Danish public procurement market. For example, the EU "Ecolabel" and EU "Ecoaudit" requirements may be difficult for U.S. companies to meet. Offsets are used by the Danish Government only in connection with military purchases not covered by the WTO agreement 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 complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export restitutions (subsidies) to Denmark in 1995 totaled $739 million (eight percent of the value of total Danish agricultural exports). Government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its nonagricultural exports except for shipbuilding. Also, the government does not directly subsidize exports by small and medium size companies. Denmark does, however, have programs to 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 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.

Denmark has one of the EU's lowest rates of state aids to industry (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 aids to industry. Denmark welcomed the 1994 OECD agreement to phaseout shipbuilding subsidies internationally; implementation of the agreement has been held up, in part because the United States has not ratified it.

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. Denmark offers adequate protection of such rights.

Patents: Denmark is a member of the World Intellectual Property Organization, and adheres to the Paris Convention on industrial property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. It 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. The government has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation and strongly supports efforts to establish an EU-wide trademark system. 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 Conventions 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 of LPs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over $100 million annually—but declining because of sharply reduced prices, improved program protection, and the Business Software Alliance's efforts to combat such piracy. Piracy of other intellectual property, including books, is very limited. There is no evidence of Danish imports or exports of pirated products.

New technologies: There are no reports of possible infringement of new technologies. Any infringement that may exist appears to be insignificant.

The EU, but not Denmark specifically, is named on the Special 301 Watch List or Priority Watch List. Denmark is not identified as a Priority Foreign Country.

8. Worker Rights

a. *The Right of Association:* Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. In 1995, 197,300 workdays were lost due to labor conflicts compared with 75,000 in 1994.

b. *The Right to Organize and Bargain Collectively:* Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. The law prohibits anti-union discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial or triennial negotiations between the various employers' associations and their union counterparts. If negotiations fail, a national conciliation board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts which result from collective bargaining are, as a general rule, also used as guidelines in the nonunion sector.

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. A change in the work environment law, which implemented EU Council Directive 94/33/EU, entered into force in June 1996 and provides for tightening of employment rules for those under 18 years of age, setting 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. There are no export industries in which child labor is significant.

e. *Acceptable Conditions of Work:* There is no legally mandated workweek or national minimum wage. The workweek set by labor contracts is 37 hours. The lowest hourly wage in any national labor agreement is sufficient for a decent standard of living for a worker. Danish law provides for 5 weeks of paid vacation each year and provides for government-funded parental, educational and sabbatical leave programs. 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.

f. *Rights in Sectors with U.S. Investment:* Worker rights in those sectors in which U.S. capital is invested do not differ from conditions in other sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		524
Food & Kindred Products	327	
Chemicals and Allied Products	22	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	76	
Transportation Equipment	(2)	
Other Manufacturing	71	
Wholesale Trade		228
Banking		(1)
Finance/Insurance/Real Estate		464
Services		(1)
Other Industries		20
TOTAL ALL INDUSTRIES		2,251

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

FINLAND

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP (at factor cost)	85.5	109.5	107.2[1]
Real GDP Growth (pct)	4.4	4.3	2.8[1]
GDP by Sector:			
Agriculture	2.2	1.8	1.9[1]
Manufacturing	21.6	29.4	28.8[1]
Services	36.3	45.4	45.2[1]
Government	16.7	21.0	20.9[1]
Per Capita GDP	19,167	24,703	23,965[1]
Labor Force (000s)	2,480	2,497	2,508
Unemployment Rate (pct)	18.4	17.2	16.4[1]
Money and Prices (annual percentage growth):			
Money Supply (M2)	2.54	5.96	−0.56[2]
Consumer Price Inflation	1.1	1.0	1.0[1]
Exchange Rate (FIM/USD—annual average):			
Official	5.22	4.36	4.59[3]
Balance of Payments and Trade:			
Total Exports (FOB)	29.5	40.4	22.4[4]
Exports to United States[5]	1.8	2.3	2.3
Total Imports (CIF)	23.0	29.5	16.9[4]
Imports from United States[5]	1.1	1.3	2.4
Trade Balance	6.4	10.9	5.5[4]
Balance with United States[5]	0.7	1.0	−0.1
Current Account Surplus/GDP (pct)	1.3	4.5	3.5[1]
External Public Debt	33.8	39.5	37.7[6]
Debt Service Payments/GDP (pct)[7]	5.1	5.4	5.9[1]
Fiscal Deficit/GDP (pct)[8]	6.2	5.2	2.9[1]
Gold and Foreign Exchange Reserves	10.1	11.2	7.7[9]

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Key Economic Indicators—Continued

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

	1994	1995	1996
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 1995–September 1996.
[3] January–October 1996, Bank of Finland middle rate.
[4] January–July 1996.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] October 1996.
[7] General government interest expenditures.
[8] Public sector's budget deficit (EMU).
[9] September 1996.

1. General Policy Framework

At the beginning of the 1990's, the Finnish economy encountered a deep 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 began decreasing in 1994 but remains persistently above European Union (EU) averages. EU membership, which took place on January 1, 1995, has helped spur structural change in several sectors.

Although total output grew by 4.3 percent in 1995, economic growth decelerated toward the end of the year. Growth has picked up again, with overall GDP growth for 1996 expected to be 2.8 percent. However, the economic recovery so far has produced few new jobs. High unemployment, coupled with low levels of business investment, has resulted in flat government revenues and continued large budget deficits. The deficit is financed by foreign and (increasingly) domestic borrowing through the issuance of bonds.

The large deficits have brought about rapid increases in overall debt levels. The government deficit peaked in 1993 at 8 percent of GDP, with the ratio of total gross public debt to total output at 58 percent. Slow but steady improvements in Finland's macroeconomic outlook should result in a deficit-to-GDP ratio of 2.9 percent in 1996. With pension funds purchasing larger amounts of government bonds, it is expected that total government debt for 1996 will amount to about 62 percent of GDP. As a result of sharp increases in debt during recent years, interest payments on debt are the fastest growing government expenditure. Debt servicing accounted for 12.4 percent of government expenditures in 1995 and is estimated to rise to 15.1 percent of total expenditure in 1996. Modest cuts in government social programs and aid to municipalities are helping to keep the debt from rising even faster.

In 1994 Finland's tax ratio (gross taxes, including compulsory employment pension contributions, relative to GDP) was 47.7 percent, third highest among OECD countries. In 1995 the tax ratio dropped by 1.2 percent to 46.5 percent. The tax ratio is estimated to reach 48.4 percent in 1996 and to drop to 47.9 percent in 1997.

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 1995 current account surplus of $5.6 billion is expected fall to about $4.4 billion in 1996 (3.5 percent of total output). The surplus in merchandise trade for 1996 is expected to decline because of a relatively larger growth in imports and slightly worse terms of trade. In 1997 the current account surplus is projected to grow in local currency terms. As a result of current account surpluses, net foreign debt as a ratio of GDP is decreasing, and is expected to be 35 percent by the end of 1997, compared to 54 percent in 1993.

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 rise in stock market activity is also due to lower domestic interest rates. New legislation this year sets the taxation rates of capital gains and corporate taxes at 28 percent, an increase of 3 percent over last year. Foreign direct investment 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 has scored some successes as foreign firms establish production and warehousing facilities in eastern Finland, close to the major Russian markets.

EU membership and budgetary constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The EU agreed to pay compensations totaling approximately $585 million through 1999 for the decrease in value of stocks and other costs associated with Finland's joining the EU. Finland was also granted permission to pay national adjustment support for 5 years. 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 consolidation of surviving farms into larger, more efficient units.

2. Exchange Rate Policy

From June 1991 to September 1992 the finnmark was pegged to the European Currency Unit, the ECU. In November 1992 the government authorized the Bank of Finland to float the finnmark for an indefinite period. An amendment to the Currency Act, which entered into force in June 1996, provided the legislative basis for Finland's participation in the Exchange Rate Mechanism (ERM) of the European Monetary System at such time as it was appropriate to fix the finnmark's external value. Finland joined the ERM in October 1996, at the central rate of 1 ECU = 5.80661 FIM (currently 1 ECU = $1.28).

By joining the ERM, Finland hopes to position itself among the first countries to join Economic and Monetary Union (EMU), in which member countries will share a common currency. As a participant in the ERM, Finland also takes part in the mutual intervention arrangements coordinated between the various central banks, which contribute to essential economic policy goals by stabilizing the exchange rate. Through participation in the ERM, the Finnish Government wants to guarantee that Finland will fulfill all the convergence criteria related to the third stage of the EMU. Finland is expected to either meet or be very close to meeting the EMU criteria by 1997, and already meets convergence criteria for inflation and interest rates.

3. Structural Policies

Finland replaced its turnover tax with a value added tax in June 1994. While the change has had little effect on overall revenues, several areas not previously taxed or taxed at a lower rate, including many corporate and consumer services and construction, are now subject to the new VAT in conformity with EU practices. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Some goods and services, including films, pharmaceuticals, use of sporting facilities and books, are taxed at a 12 percent rate. Passenger transportation, accommodation, TV licenses, and admission fees to cultural and entertainment events are taxed at a 6 percent rate. Other 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 taxation outside the VAT. 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 accordance with the government program, the structure of taxation has been revised to ease the hiring of labor. Capital income and corporate tax rates were raised from 25 to 28 percent at the beginning of 1996. Environmental tax rates have been raised in order to ease the taxation of earned income. Budget proposals for 1997 include reductions of about $1.2 billion in income taxes and social security contributions. Tax reductions are expected to continue in 1998.

Changes in capital taxation, along with a 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 rather than debt financing. 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 state-owned or dominated companies. The government has moved slowly on privatization, but has been reducing its stake in several state dominated companies. Currently, four of Finland's ten largest companies are majority state-owned. The government is heavily involved in several key industrial sectors, including energy, forestry products, mining and chemicals.

The volume of government subsidies provided to Finnish industry increased markedly as the Finnish economy went into recession in the early 1990's. As a result, 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. In general, all firms are eligible for these types of subsidies, regardless of sector or geographic location.

4. Debt Management Policies

Finland has rapidly accumulated external debt in order to finance recession-induced budget deficits. Under the government's convergence program, general government gross debt is projected to drop to 58.3 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. Moody's rating on Finnish long-term government bonds is their third best rating—Aa2 and has been that for the last 5 years. Standard & Poor's rating was upgraded in December 1996 to AA , which is also the third best. Finnish debt issues continue to sell easily (albeit at slightly higher risk premiums) 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, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.32 percent in 1995. Foreign assistance is estimated to be 0.34 percent of GDP in 1996.

5. Significant Barriers to U.S Exports

Effective January 1, 1995, Finland adopted the EU's overall trade regime, including the EU tariff schedule. The agricultural sector will remain the most heavily protected area of the Finnish economy. In 1993 Finland changed its basic system of protection from an import licensing system to a system of variable levies similar to the EU. The net effect is essentially the same, protecting domestic production from cheaper foreign imports. The bulk of official subsidies are in the agricultural sector, the amount of which is determined by the difference between intervention and world prices of agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidies in this sector. Import licenses are no longer required for any products. Also, 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. As of July 1996, higher tariffs on textiles, clothing and headgear have been abolished.

In mid-1996 the Finnish Government's interministerial 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, in apparent contravention of relevant EU directives. Other ministries are more supportive of GMO commercialization. Efforts to craft a compromise that would accommodate U.S. commerce are underway, but prospects for success are uncertain.

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 in Finland, but will have to have a claims representative there.

In 1994 the government opened to competition long distance telephone service within Finland. The Telecommunication Act of August 1996 now allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign productions. Finland has adopted 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.

Finland removed most restrictions on foreign investment and ownership by abolishing the Restriction Act in January 1993 and adopting legislation to monitor foreigners' corporate acquisitions and non-residents' acquisitions of real property. There are currently has no noteworthy restrictions on foreign ownership or investment in Finland. Even minor restrictions, such as requirements to obtain permission of local governments in order to purchase a vacation home in Finland, will be abolished as of 1 January 2000, in line with EU norms. A large increase in foreign portfolio investment has occurred since the new laws took effect.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing requirements. In excluded sectors, particularly defense, countertrade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3 billion from U.S. suppliers. One hundred percent offsets are required as a condition of sale by the year 2005. By June 1996, $1.8 billion worth of offsets had already 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 Policy

Almost the only significant Finnish direct export subsidies are for agricultural products, including grain, meat, butter, cheese and eggs as well as for some processed agricultural products. While Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD's Shipbuiding Agreement, in January 1996 Finland decided to temporarily provide subsidies to promote shipbuilding exports, to match the 9 percent subsidy permitted in this sector within the EU.

7. Protection of U.S. Intellectual Property

Finland has a good record in passing and enforcing effective laws to protect intellectual property. Finland is a member of all principal multilateral intellectual property organizations.

Finland's copyright legislation has been modified to conform with EU practice. As part of the harmonization, the period of copyright protection was extended from 50 to 70 years. EU directives dealing with reselling videocassettes and software have been implemented. These directives have made it easier to prosecute cases of unauthorized software copying. The incidence of software piracy is now among the lowest in the industrialized world. Finland granted product patent protection for pharmaceuticals at the beginning of 1995 (previously only process patent protection was granted). In March 1996, Finland joined the European Patent Convention (EPC).

8. Worker Rights

a. *The Right of Association:* The Finnish Constitution contains specific guarantees for the right of workers to form trade unions and assemble peacefully. The right to strike is guaranteed by law, with some exceptions for provision of essential public sector services These rights are honored in practice; trade unions are among the most powerful political forces in Finland. About 87 percent of the work force is unionized. Unions are free, independent, democratic and associate in three federations as well as internationally.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively is protected both in law and in practice. While collective bargaining traditionally has been conducted according to national guidelines agreed among employers, the three central trade union organizations and the government, in the past 2 years wage negotiations have been more decentralized. Workers are legally protected against anti-union discrimination. Complaint resolution is governed by collective bargaining agreements as well as by labor laws, both of which are adequately enforced.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by the constitution; this prohibition is honored in practice.

d. *Minimum Age For Employment of Children:* Sixteen is the minimum age for fulltime employment (eight hours per day). Children that are fifteen years old may work up to 6 hours per day under certain restricted conditions. In Finland education is compulsory for children from 7 to 16 years of age. Child labor laws are effectively enforced. There are virtually no complaints of exploitation of children in the work force.

e. *Acceptable Conditions of Work:* Finland has no legislated minimum wage, but nonunion employees are required to receive the minimum wage established by collective bargaining for unionized workers in each sector. These minimum wages generally afford a decent standard of living for workers and their families.

The maximum standard legal work week is 5 days, not exceeding 40 hours. In practice most contracts call for standard work weeks of 37–38 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 well enforced collective bargaining agreements.

Finland's health and safety laws are among the strictest in the world. They are enforced effectively by government inspectors and actively monitored by the unions. Workers can refuse to work under dangerous conditions 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		332
Food & Kindred Products	1	
Chemicals and Allied Products	203	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	29	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	41	
Wholesale Trade		361
Banking		(1)
Finance/Insurance/Real Estate		5
Services		39
Other Industries		(2)
TOTAL ALL INDUSTRIES		830

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

FRANCE

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	1,331	1,540	1,553
Real GDP Growth (pct)	2.8	2.2	1.1
GDP by Sector:[2]	1,185	1,369	N/A
Agriculture	41	47	N/A
Manufacturing	339	397	N/A
Services	578	659	N/A
Government and Nonprofit Services	227	265	N/A
Per Capita GDP	22,996	26,472	26,589
Labor Force (000s)	25,373	25,469	25,600
Unemployment Rate (pct)	12.2	11.6	12.4
Money and Prices (annual percentage growth):			
Money Supply (M3)[3]	−2.7	3.9	−0.5
Consumer Price Inflation (pct)	1.7	1.8	2.0
Exchange Rate:			
(FF/USD—annual average)	5.6	5.0	5.1
Balance of Payments and Trade:			
Total Exports (FOB)[4]	236	287	216
Exports to United States[5]	16.7	17.2	18.5
Total Imports (CIF)[4]	221	267	199

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Imports from United States[5]	13.6	14.2	14.3
Trade Balance	39	53	39
Balance with United States[5]	3.1	3.0	4.2
Current Account Surplus/GDP (pct)[6]	0.5	1.2	N/A
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	6.0	5.3	4.1
Gold and Foreign Exchange Reserves[7]	56	58	60
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] 1996 figure reflects M3 as of September 1996.
[4] 1996 estimate based on 9 months.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] 1996 estimate based on 8 months.
[7] 1996 figure reflects reserves as of August 1996.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual GDP about one-fifth that of the United States. It 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 Commerce Department data, U.S. merchandise exports increased by 4 percent in 1995 to $14.2 billion, yet the U.S. merchandise trade deficit with France has remained stable at $3 billion. (The deficit is overstated, however, because statistics do not capture U.S. exports to France that are transhipped through other EU countries.) With trade in services totaling around $12 billion, the volume of total trade between the United States and France reached approximately $31.4 billion in 1995. The United States and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

Promoting job-creating growth remains the overarching economic policy objective of the French Government. This has become increasingly urgent as solid growth did not take hold in 1996 and the unemployment rate increased to 12.6 percent by the end of the year. Current expectations are for an annual real GDP growth rate of approximately 2 percent in 1997 following growth of around 1 percent in 1996. Limited structural reforms, including tax and fiscal deficit reduction, privatization, and sectoral deregulation, combined with monetary and exchange rate stability have been the main policies through which the government has sought to generate growth. France is also counting on increased trade opportunities, from participation in European Economic and Monetary Union (EMU)and expansion to new markets, to spur growth. The government has made strong efforts to reduce its deficit to 3 percent of GDP as agreed in the Maastricht Treaty on EMU. Despite the reforms made so far, many observers believe the French economy is operating well below its potential. Additional efforts, notably in increasing the flexibility of labor markets, in education, and in the financial sector, will be necessary if France is to achieve solid growth and low unemployment.

With foreign trade accounting for 35 percent of GDP, France's open external sector is a key part of its economy. Strong current account surpluses in recent years reflect the competitiveness of French products. The French Government has encouraged the development of new markets for French products, particularly in Asia and Latin America, and has promoted exports by small and medium-sized firms. France has also actively sought to attract foreign investment. In 1996 it eliminated most remaining restrictions applying to non-EU investors. Remaining investment restrictions apply only in sensitive sectors, such as telecommunications, agriculture, and aviation, and are generally applied on a reciprocal basis.

2. Exchange Rate Policies

The value of the franc against currencies outside the European Exchange Rate Mechanism (ERM) is largely set by market forces. Central bank interventions are usually coordinated with those of other governments, both within the ERM and as part of broader international economic policy coordination efforts among industrialized countries, including the United States.

Exchange rate developments throughout 1996 have been dominated by growing market confidence that France will be among the first group of EU countries to implement Economic and Monetary Union (EMU) as of January 1, 1999. French monetary, fiscal and exchange rate policy remains committed to this objective. The value of the franc against the dollar remained relatively stable throughout 1996.

3. Structural Policies

Reduction of the role of the government in the economy remains a primary policy objective of the French Government. This has been implemented through fiscal reform and privatization of state-owned enterprises. The general government deficit as a share of GDP fell from 6 percent in 1994 to an estimated 4.0–4.2 percent in 1996. The government has targeted a government deficit equivalent to 3 percent of GDP for 1997. Although this goal will be partially achieved by a 2-percent reduction of central government spending in real terms, it also depends on certain one-time transfers to the government by state-owned enterprises, including France Telecom. The government's current policy is to further reduce the government deficit to 2 percent of GDP by 2001.

The French Government announced a reform of its personal income tax system in September 1996 that will phase in over 5 years. The reform, which reduces both tax rates and income brackets and eliminates many tax loopholes, is intended to rationalize the tax system and boost consumption and job creation. Nevertheless, the tax burden remains very heavy (accounting for 50 percent of GDP) and unevenly distributed; many observers see a need for further reforms.

The social security system has been another target for structural reform. The government has proposed introduction of private pension schemes which, in addition to reducing the growth rate of state expenditures, should spur financial activity and opportunities for U.S. financial services exports. Other elements of social security reform include allowing doctors to prescribe generic drugs, which may create opportunities for U.S. pharmaceutical exports.

Privatization of state-owned enterprises continued in 1996, including the sale of Assurances Generales de France and of remaining government interests in Renault, Total, and Elf Aquitaine. Toward the end of the year, however, proposals for sale of the defense and consumer electronics giant Thomson, SA and of the CIC banking group faltered over political and labor union opposition. Nevertheless, the French Government remains committed to the privatization process. In addition to Thomson and CIC, major privatizations scheduled for 1997 include a portion of the government's stake in France Telecom.

Progress on regulatory reform has varied by sector. The French Parliament passed a major telecommunications reform act in June, which liberalized alternative infrastructure as of July 1, 1996. The reform also creates a new telecom regulatory authority outside of the government ministry as of January 1, 1997 and sets the stage for ending France Telecom's monopoly on basic telephone services as of January 1, 1998, in line with EU directives on telecom liberalization.

France has also implemented EU directives on civil aviation deregulation. U.S.-French bilateral relations, however, are based on "comity and reciprocity," as there is no bilateral civil aviation agreement at present. The government has resisted calls for deregulation of the electricity and postal sectors. Many observers see banking regulatory reform as a key priority area for the French economy,where progress so far has been slow.

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 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.

While the vast majority of bilateral trade occurs without controversy, U.S. companies sometimes complain about France's complex technical standards and unduly long testing procedures. Such procedures must usually be done in France and test requirements and standards sometimes appear to exceed reasonable requirements to ensure proper performance and safety. Most of the complaints have involved electronics, telecommunications equipment and agricultural phytosanitary standards.

French trade policy effectively restricts U.S. and other non-EU audiovisual exports. In January 1992, France enacted legislation adopting the 1989 EU broadcast directive, requiring a "majority portion" of programming to be of European origin. France, however, went beyond the EU rules and specified a percentage of European programming (60 percent) and French programming (40 percent), applying quotas both to the 24-hour day and to prime time slots. Such quotas limit the access of U.S. programs to the French market. Nevertheless, the market share of U.S. films and television shows remains high. Despite France's desire for tighter EU television quotas, the situation has not changed much since 1992. Recently, the French Government has concentrated its efforts primarily on new European financial and other subsidies for film and television production.

The 1992 restructuring of the French legal services system has restricted the provision of legal services in France by U.S. and other non-EU law firms and lawyers. The elimination of the "legal consultant" category under which most American lawyers have practiced in the past has created substantial problems. New-to-market U.S. lawyers must currently pass the regular French bar exam, or an alternate short-form exam for non-French nationals, in order to practice any type of law in France. Both exams require a strong command of French and French law. (Note: the American Bar Association and the Paris Bar signed an agreement in November 1996 which should in the near future help ease access problems for U.S. lawyers.)

As noted above, the French Government actively courts foreign investment and has progressively liberalized its investment approval regime since the mid–1980's. With unemployment high, and government officials well aware that U.S. companies can now gain access to the entire EU market by investing in any EU country, attracting foreign investment to France is now a priority. During the past twelve months the government has abolished most remaining restrictions against non-EU investors. The most significant deregulation over the past year has been the complete elimination of the screening process which had put non-EU investors, including U.S. companies, at a disadvantage. However, the French state has a very old tradition of extensive control of business and the economy, and firms controlled by non-EU nationals may be denied national treatment in the following sectors: agriculture, financial services, accounting, legal services, air transport, maritime transport, road transport, publishing, telecommunications, and tourism.

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 through its agencies to the world. By book value, which underestimates its true size, the United States is currently the largest investor in France, with 30 percent of foreign investment.

France is a party to all WTO agreements, including the Agreement on Government Procurement.

6. Export Subsidy 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.

There are virtually no direct French Government subsidies to agricultural production. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. The French Government does, however, offer indirect assistance to French farmers in many forms, such as easy credit terms, startup 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.

The differences between the U.S. and French IPR systems regarding the work of performing artists and audiovisual productions can cause difficulties for American artists and producers. For example, the levy imposed on purchases of blank video tape to compensate rights holders' losses due to private copying of audiovisual works, is in part supposed to be redistributed to authors and producers. Because of the way "producers" are defined under French law, only part of the funds that the United States believes should accrue to American entities have been paid to them. American artists whose works are performed on French radio and television also have not been paid royalties which French collecting societies have received on their behalf. There are lawsuits and multilateral negotiations in progress on these issues.

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 10 percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The French Government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized.

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 of Employment of Children:* With a few minor exceptions for those enrolled in apprenticeship programs, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work:* The minimum wage was raised in France to $7.62 (37FF) per hour as of July 1, 1995. The legal work week is 39 hours and overtime is restricted to 9 hours per week. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. *Right 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,161
Total Manufacturing		16,555
Food & Kindred Products	3,027	
Chemicals and Allied Products	6,052	
Metals, Primary & Fabricated	651	
Machinery, except Electrical	2,327	
Electric & Electronic Equipment	609	
Transportation Equipment	888	
Other Manufacturing	3,000	
Wholesale Trade		4,407

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	383
Finance/Insurance/Real Estate	6,805
Services	2,324
Other Industries	1,010
TOTAL ALL INDUSTRIES	32,645

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

GERMANY

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	2,049	2,419	2,380
Real GDP Growth (pct)[3]	2.9	1.9	1.0
GDP by Sector:			
Agriculture	22	25	N/A
Manufacturing	687	801	N/A
Services	695	840	N/A
Government	284	333	N/A
Per Capita GDP (USD)	24,185	29,580	28,847
Labor Force (000s)	34,968	34,831	34,500
Unemployment Rate (pct)	9.6	9.4	10.2
Money and Prices (annual percentage growth):			
Money Supply (M2)	−2.8	−1.9	1.5
Consumer Price Inflation	2.7	1.8	1.5
Exchange Rate (DM/USD—annual average)	1.62	1.43	1.50
Balance of Payments and Trade:			
Total Exports (FOB)[4]	428.8	524.0	520
Exports to United States[5]	31.7	36.8	38.6
Total Imports (CIF)[4]	384.5	464.5	453
Imports from United States[5]	19.2	22.4	23.4
Trade Balance[4]	43.9	59.6	67
Balance with United States[5]	12.5	14.4	15.2
Current Account Deficit/GDP (pct)	1.0	0.9	0.8
External Public Debt	265.4	394.1	N/A
Debt Service Payments/GDP (pct)	3.4	3.7	3.8
Fiscal Deficit/GDP (pct)	−2.5	−3.5	48.7
Gold and Foreign Exchange Reserves	45.6	57.5	48.7
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 Figures are all estimates based on available monthly data in October 1996 and consensus forecasts.
[2] GDP at factor cost.
[3] Percentage changes calculated in national currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The German economy is the world's third largest at over two trillion dollars (in nominal terms). Coming out of a period of slower-than-expected growth, real GDP growth will likely reach only about one percent in 1996, and most German public and private sector forecasts indicate growth of 2.0–2.5 percent for 1997. The leading private economic institutes, in a report issued in late October 1996, also forecast that growth in western Germany would be stronger than that in the east for the first time since unification. Unemployment, particularly in eastern Germany, remains high. Even moderate growth of two percent a year or more, is unlikely to significantly reduce unemployment.

The German "social market" economy is organized on free market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health and educational benefits. The demands of unification brought Germany's large trade surplus down sharply in 1991, but it has grown quickly to previous levels, despite significant appreciation of the German mark in recent years.

In the 1990s, German fiscal policy has also been driven by the financial exigencies of the country's reunification. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to trying to quickly raise eastern German production potential via public investment and generous subsidies to attract private investment. However, unit labor costs in eastern Germany are still quite high because productivity has not increased at the same pace as wages, which were mandated to increase to West German wage levels in a compressed timeframe. This has resulted in heavy job losses and greatly increased the government's unemployment compensation costs. As a result, western Germany has had to transfer vast sums to eastern Germany on the magnitude of more than DM 150 billion annually, or some five percent of German GDP. These transfers have accounted for the dramatic ballooning of public sector deficits and borrowing since 1990. Slower growth in 1995 and the first half of 1996 also further contributed to a widening fiscal deficit as tax revenues weakened (also due to major tax cuts, required by the Supreme Court) and anticyclical expenditures rose. Despite continued high unemployment and fiscal demands of reunification, the German Government is working to narrow the federal budget deficit for 1997 through postponing the reduction of certain taxes, public spending restraint and cuts in certain social benefits in order to meet the Maastricht criteria for the European Monetary Union.

In the early part of the current decade, the German economy experienced relatively high rates of inflation (the consumer price index rose an average 4.8 percent in 1992 and 1993). Money growth and concern over wage developments and fiscal deficits preoccupied the German central bank (Bundesbank). The Bundesbank places overriding importance on price stability and thus responded to the rising inflation in 1991/92 by hiking short term interest rates, which peaked in July 1992 at post-war highs. Since then, the central bank discount rate has declined by 6.25 percentage points, with the most recent cut, to a historic low of 2.5 percent in April 1996. In 1995 wage settlements were higher than in the previous two years, but inflation declined to less than two percent. Wage settlements in 1996 have been more moderate than in 1995 and inflation remains at well below two percent. The government's public sector deficits are financed primarily through sales of government bonds, the maximum maturity of which normally is ten years. The Bundesbank's primary monetary policy tool is short term liquidity provided to the banking system via repurchasing operations, at a "repurchasing" rate which the Bundesbank largely determines.

2. Exchange Rate Policies

The German mark is a freely convertible currency, and the government does not maintain exchange controls. Germany participates in the exchange rate mechanism of the European Monetary System and has stated its intention to be one of the initial members of the European Monetary Union. The Bundesbank intervenes in the foreign exchange markets infrequently, usually in cooperation with other central banks in order to counter disorderly market conditions.

3. Structural Policies

Since the end of the second World War, German economic policy has been based on a "social market" model which is characterized by a substantially higher level of direct government participation in the production and services sectors than in the United States. In addition, an extensive regulatory framework which covers most facets of retail trade, service licensing and employment conditions has worked to limit market entry by not only foreign firms but also by German entrepreneurs. Although continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the Germany economy with those of its EU partners, the shock of German unification and a perceived decline in competitiveness in its traditional manufacturing industries have forced a rethinking of the German post-war economic consensus in the so-called "Standort" debate. The government has declared a rollback of the state's role in the economy to pre-unification levels to be a principal objective of economic policy and is looking at other ways to restructure the economy and reduce the overall tax burden.

As a result of this debate, numerous structural impediments to the continued growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

—a rigid labor market;

—a regulatory system that discourages new entrants;

—high taxes and social charges; and

—lack of risk and venture capital for start-up firms.

In recognition of the above problems, the German Government has been pursuing a program of reforms since the mid-1980s focusing on tax reform, privatization and deregulation. The governing coalition is currently debating a major reform of the income tax system for introduction in 1999 with proposals to reduce top marginal rates from 53 percent to as low as 35 percent of income. The threshold marginal income tax rates would also be reduced from over 26 percent to perhaps less than 20 percent. 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 telecom sector, the government-owned Deutsche Telekom is selling two tranches of shares, in what is one of the largest stock offerings in history. The revenue will be put back into Telekom, reducing the government's ownership share. Telekom shares are expected to be listed on at least one U.S. stock exchange. The government is committed to opening the telecommunications network monopoly to competition as of 1998. The Federal Government also has reduced its majority holdings in the national airline Lufthansa to less than 36 percent and received European Commission approval in November 1996 to sell its remaining stake, now targeted to occur in the second half of 1997. U.S. firms are likely to benefit from these privatization developments as purchasing decisions are driven more by commercial criteria than in the past. The introduction of competition in formerly protected sectors should also result in lower user costs.

Despite progress in recent years, lack of competition in many protected sectors continues to drive up business costs in Germany. The service sectors still subject to excessive regulation and market access restrictions include communications, energy, banking and insurance. The government intends to modify existing legislation which limits firms' pricing rules, as well as to review laws which limit competition in the insurance, transport and telecommunication sectors. Despite opposition from small shop owners, on November 1, 1996 legislation was implemented permitting stores to stay open longer on weeknights and Saturdays, adding modest flexibility to this longstanding hallmark of overregulation of the German economy. Paralleling German Government efforts to deregulate the economy, the European Union (EU) is expected to continue to pressure its member states to reduce barriers to trade in services within the Community. U.S. firms, especially with operations in other EU member states, will likely benefit from EU market integration efforts over the long term.

4. Debt Management Policies

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 are fairly small, however, in relation to GDP. With demand in eastern Germany slowing and exports strengthening, the trade surplus has increased moderately. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has also contributed to the persistent 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 1970s until the current decade, Germany remains the world's second largest creditor, with net foreign assets estimated at some $185 billion at the end of 1995.

5. Significant Barriers to U.S. Exports

Germany is one of the United States' most important trading partners. Its strong economy poses few formal barriers to U.S. trade or investment. There are some problem areas, especially for those new to the German market, but on the whole Germany is an excellent place for U.S. companies to do business.

Import licenses: Germany has abolished almost all national import quotas. Germany is subject, however, to the import license requirements imposed on some products by the EU, such as the tariff quota on some bananas under the EU's banana import regime.

Service barriers: Foreign access in the insurance market is still limited to some degree. Telecommunications services are being increasingly deregulated, and a large step will be taken in 1998 when the EU implements new rules substantially opening this market. Germany has no foreign ownership restrictions on telecommunications services open to competition.

Standards, testing labeling, and certification: Germany's regulations and bureaucratic procedures can prove a baffling maze, blunting the enthusiasm of U.S. exporters. Intentionally or not, complex government regulations offer a degree of protection to German suppliers. Safety standards, not normally discriminatory but sometimes zealously applied, can complicate access to the market for many U.S. products.

Government procurement practices: Selling to German Government entities is not always an easy process. However, German Government procurement is largely nondiscriminatory and appears to comply with the WTO Government Procurement Agreement (GPA) (to which the EU is a party), as well as to the terms of the U.S.-Germany Treaty of Friendship, Commerce and Navigation. It can nonetheless be difficult for foreign suppliers to compete head-to-head with major German suppliers who have long-term ties to German Government purchasing entities. Those areas which fell outside of GPA coverage before the conclusion of the Uruguay Round, such as military procurement or procurement of services, have been traditionally the most susceptible to these problems.

Germany has also implemented the EU's Utilities Directive and its related Remedies Directive. Under the 1993 U.S.-EU Memorandum of Understanding on procurement of heavy electrical equipment, whereby the EU agreed to waive the discriminatory provisions of the Utilities Directive, U.S. firms enjoy rights equivalent to European firms in this sector. Despite these formal agreements, U.S. equipment makers have continued to express frustration about market access barriers to the German power generation market. As a result, in April 1996, Germany was formally identified under Title VII of the 1988 Trade Act for discriminating against U.S. firms in this sector. The European Commission also filed proceedings against Germany, charging that it had not implemented the Remedies Directive requirement to establish court-based bid review procedures. In late September 1996 the German Cabinet approved a proposal to reform German law to bring it into compliance with EU remedies requirements. Legislation is now being drafted and is expected to be submitted to the Parliament for approval in early 1997.

Investment barriers: The German investment climate is generally very open, but some of the concerns mentioned above, such as access to services markets and standards and procurement questions, may also be seen as obstructive.

Customs Procedures: Customs procedures at German ports-of-entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the EU's framework of export subsidies for agricultural goods. Government or quasi-government entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

7. Protection of U.S. Intellectual Property

Germany is a member of the World Intellectual Property Organization and party to the Berne and Universal copyright conventions, the Paris Convention for industrial property, the Geneva Phonograms Convention, the Patent Cooperation Treaty, the Brussels Satellite Convention, and the Treaty of Rome on neighboring rights. Intellectual property is well protected in Germany. 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 are still concerned 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, may have helped to address this problem.

8. Worker Rights

a. *The Right of Association:* The constitution guarantees full freedom of association (Article 9). Workers' rights to strike and employers' rights to lock out are also legally protected activities.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is uncommon. Basic wages and working conditions are negotiated at the industry level and then are adapted, through local collective bargaining, to particular enterprises.

However, some firms in eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a blind eye to firm-level negotiations. Some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. The law mandates a system of works councils and worker membership on supervisory boards, and workers participate in the management of the enterprises in which they work. The law thoroughly protects workers against antiunion discrimination.

c. *Prohibition of Forced or Compulsory Labor:* The German constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. *Minimum Age for Employment of Children:* German legislation in general bars child labor under age 15. There are limited exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. *Acceptable Conditions of Work:* There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between industrial unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. *Rights in Sectors With U.S. Investment:* The enforcement of German labor and social legislation is strict and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support Chambers of Industry and Commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		2,219
Total Manufacturing		23,671
Food & Kindred Products	2,152	
Chemicals and Allied Products	4,789	
Metals, Primary & Fabricated	1,590	
Machinery, except Electrical	4,486	
Electric & Electronic Equipment	1,647	
Transportation Equipment	5,686	
Other Manufacturing	3,320	
Wholesale Trade		3,322
Banking		2,325
Finance/Insurance/Real Estate		8,344
Services		955
Other Industries		2,165
TOTAL ALL INDUSTRIES		43,001

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

GREECE

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	86.9	101.1	107.7

Key Economic Indicators—Continued

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

	1994	1995	1996 [1]
Real GDP Growth (pct)	1.5	2.0	2.6
GDP by Sector:			
Agriculture	10.4	11.6	11.8
Manufacturing	13.0	15.2	15.9
Services	58.0	67.7	72.4
Government	14.7	16.5	17.6
Per Capita GDP (USD)	9,392	10,910	11,614
Labor Force (000s)	4,193	4,249	4,291
Unemployment Rate (pct)	9.6	10.0	9.8
Money and Prices (annual percentage growth):			
Money Supply (M3 December)	8.8	10.4	9.0
Consumer Price Inflation	10.9	9.3	8.4
Exchange Rate (DRS/USD—annual average):			
Official	242.6	231.7	240.4
Balance of Payments and Trade:			
Total Exports (FOB) [4]	10.0	9.9	10.4
Exports to United States (USD millions) [5]	455	397	484
Total Imports (CIF) [4]	21.5	22.3	23.2
Imports from United States (USD millions) [5]	829	1,519	829
Trade Balance [4]	−11.5	−12.4	−12.8
Balance with United States (USD millions) [5]	−374	−1,122	−345
Current Account Deficit/GDP (pct)	0.1	2.4	3.0
External Public Debt	33.1	34.2	35.0
Debt Service Payments/GDP (pct)	6.2	7.8	10.6
Fiscal Deficit/GDP (pct)	12.1	9.2	7.6
Gold and Foreign Exchange Reserves	15.4	15.4	18.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade, National Statistical Service of Greece, Customs data.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. *General Policy Framework*

Greece has been a member of the European Union (EU) since 1981. Its market economy is segmented into the state sector (40 percent of GDP) and the private sector (60 percent of GDP). Greece has a population of 10.5 million and a work force of about 4 million. Despite the recent revision of national accounts, which boosted GDP by 23 percent by including some previously unrecorded incomes in its measurements, some economic activity still remains unrecorded. (Estimates of how much of the economy remains unrecorded vary, due at least in part to deficient data collection). The moderate level of development of Greece's basic infrastructure—road, rail, telecommunications—reflects its middle-income status. Per capita GDP is estimated to be $11,614, the lowest in the EU.

Services make up the largest and fastest growing sector of the Greek economy, accounting for about 63 percent of GDP (including government services). The industrial sector accounts for about 18 percent of GDP (14 percent manufacturing, 3 percent electricity production and 1 percent mining), construction accounts for 7.5 and agriculture for 11 percent. Greece is an import-dependent country, importing more than it exports. In 1995, it had a trade deficit of $17.1 billion based on total trade of $28.7 billion. A relatively small industrial base and lack of adequate investment in the last 15 years have restricted the export potential of the country. Overvaluation of the currency as a result of the anti-inflationary "hard drachma" policy, coupled with low public sector productivity, has eroded the competitiveness of a large part of the Greek economy. 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 invisibles earnings. Substantial funds from the EU (about $20 billion) have been allocated for major infrastructure projects over the period 1994–99. However, the Greek Government has been slow in utilizing these funds.

The government is in its third year of an austerity program designed to meet the European Monetary Union (EMU) convergence criteria and has announced that the austerity program will continue in 1997. The results of the austerity program on the economy have been positive. The growth of GDP in 1996 is estimated to be 2.5 percent, up from 2 percent in 1995. Unemployment, which stood at 10 percent in 1995 is projected to decline to 9.8 in 1996. Inflation and the government budget deficit, however, remain high. The government has tried to address these problems primarily by cracking down on rampant tax evasion and by reducing the cost of debt servicing. Progress in reducing public expenditures has been limited due to fierce opposition by labor unions, professional associations and politicians both within and outside the governing party (PASOK).

Greece's general government debt (111 percent of GDP or $126 billion) stems to a great extent from government acquisition of failing enterprises and a bloated public sector which has many more civil servants than an economy the size of Greece's can support. It is estimated that the government employs directly about 15 percent of the total labor force. Greece's social security program has also been a major drain on public spending. Deficits are financed primarily through government securities (treasury bills and long-term bonds).

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 state continues to retain privileged access to credit via the still tax-free status accorded to government debt obligations (which includes the right of Greek residents to purchase government debt obligations without having to declare their source of income to the tax authorities). The government will impose taxes on government debt beginning in 1997. Treasury bills and state bonds are issued by the Ministry of Finance but 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. This move brought Greece in line with EU rules on free movement of capital, but some administrative obstacles remain. For example, compliance with tax laws must be demonstrated prior to the transfer of capital and financial institutions must "monitor" the investment. These measures are intended to counter money laundering and tax evasion.

Despite recent exchange rate liberalization, Greece retains a "crawling peg" system for fixing the value of the drachma. Informal mechanisms are also available to the Bank of Greece to help determine the currency's value. In order to combat the high rate of inflation (which, at 8.4 percent is triple the EU average) since the beginning of 1996, the Bank of Greece has allowed the drachma to appreciate gradually against other EU currencies, especially the German mark, with an understandably adverse impact on the country's export potential. The appreciation of the drachma against other currencies is the main reason for the deterioration of Greece's trade balance in 1996. The government has so far resisted domestic industry pressure for depreciation of the drachma out of concern over inflation. It plans to allow a moderate depreciation of the drachma in 1997.

3. Structural Policies

Greece's structural policies are largely dictated by the need to comply with the provisions of the EU Single Market and the Maastricht Treaty on Economic and Monetary Union.

Although Greece's EMU convergence plan provides for the sale of minority stakes in some state-owned companies, no real "privatization" has occurred to date. In April 1996 the government sold new shares worth eight percent of the Hellenic Telecommunications Organization (OTE). Plans to sell the state-owned shipyard of Skaramangas were blocked by a militant labor union, while another previously privatized shipyard returned to state control after its new owners declared bankruptcy. The government has announced it will sell three small banks (Bank of Attica, Bank of Crete and Bank of Central Greece) which account for about three percent of the market, as well as a minority stake in the Public Petroleum Corporation and perhaps some additional shares of OTE.

Pricing policies: The only remaining price controls are on pharmaceuticals and rents, although some liberalization of rent controls was effected in July 1996 as part of a multiyear adjustment process which started in the early 1990s. The Greek Government can also set maximum prices for fuel, and did so several times in 1996.

About one-quarter of the goods and services included in the consumer price index are produced by state-controlled companies. As a result, the government retains considerable indirect control over pricing. While this distorts the domestic economy, it does not directly inhibit U.S. exports.

Tax policies: Tax legislation passed in April 1994 increased the top personal income tax rate from 40 to 45 percent for incomes exceeding 65,000 dollars annually. It also imposed presumptive taxation on a large number of professionals on the basis of a number of factors, including (but not limited to): the location and type of business, the number of years in operation, and the imputed rent of the property. In addition,the legislation increased the corporate tax rate from 35 to 40 percent for all nonpublic corporations. In practice, this has meant that U.S. and other foreign bank branches (due to their status as branches rather than locally incorporated subsidiaries) are required to pay a taxation rate of 40 percent, while other companies pay only 35 percent. The U.S. and other governments believe this practice to be in violation of OECD commitments and EU regulations.

The new law did not change the value added tax (VAT) rates. The lower rate of 8 percent is applicable to basic commodities (mainly food products) and certain services, while all remaining items are subject to the higher rate of 18 percent. A four percent VAT applies to periodicals and books. Significant reduction of tax loopholes as well as higher corporate and personal property taxes are planned for 1997. There is no plan to index rates to compensate for inflation.

4. Debt Management Policies

Greece's "general government debt" (Maastricht definition) was $126 billion, or 111.7 percent of GDP in 1995. Foreign debt does not affect Greece's ability to import U.S. goods and services. Foreign exchange reserves fluctuated in 1996 between $12.9 and $17.5 billion (6.6 to 8.9 months of exports).

Servicing of external debt in 1996 (interest and amortization) is estimated to equal 190 percent of exports and 10.6 percent of GDP. About 65 percent of the external debt is denominated in currencies other than the dollar.

Greece has regularly serviced its debts and has generally good relations with commercial banks and international financial institutions. 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 has both EU-mandated and Greek Government initiated trade barriers in a number of areas.

In the area of services, Greece maintains nationality restrictions on a number of professional and business services, including legal services. U.S. companies can generally circumvent these barriers by employing EU citizens, to whom the restrictions do not apply. Onerous certification requirements hamper entry of non-Greek auditors into the market. The Greek flag air carrier, Olympic, has a monopoly in providing ground handling services to other airlines, who must either contract from Olympic or self-handle. Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. Moreover, Greek laws and practices are currently ineffective in protecting intellectual property rights, especially on films and TV programs as well as software (see below).

Investment barriers: Both local content and export performance are elements which are seriously taken into consideration by Greek authorities in evaluating applications for tax and investment incentives. However, they are not legally mandatory prerequisites for approving investments. Greece restricts foreign and domestic private investment in public utilities. Private power production for sale to the national grid is limited to "nontraditional" energy sources (e.g. wind and solar). 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 land purchases in border regions and on islands near Turkey.

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/WTO government procurement provisions since 1992. Nevertheless, many problems still exist, including 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. Due to massive funding from the EU, it is believed that firms from other EU member states have an automatic advantage over non-EU contenders in winning Greek Government tenders. It has been noted that U.S. companies submitting joint proposals with European companies are more likely to succeed in winning a contract. The real impact of Greece's "buy national" policy is felt in the government's offset policy (mostly for purchases of defense items) where local content, joint ventures, and other technology transfers are required.

The Greek Government has been under pressure by local industry representatives and suppliers to adopt a "defensive procurement policy" and sign "term agreements" with local industry until January 1, 1998 for procurement by public utilities in the water, energy, transportation and telecommunications sectors. These pressures result from Greece receiving an extension until that date to implement the Utilities Directive 93/38. There is sympathy within the Greek Government to these demands.

6. Export Subsidies Policies

The Greek Government does not use any form of national subsidy to support exports. Some agricultural products (most notably cotton, olive oil, tobacco, cereals and certain fruits and vegetables) receive subsidies from the EU.

7. Protection of U.S. Intellectual Property

Greek laws extend protection of property rights to both foreign and Greek nationals. Greece is member of the World Intellectual Property Organization and the European Patent Organization and a signatory of the Paris Convention on industrial property,the Washington Patent Cooperation Treaty, and the Berne copyright convention. As a member of the EU, Greece is in the process of harmonizing its legislation with EU rules and regulations. 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 remains widespread. Greece took a major step toward addressing this problem by enacting a new copyright law in February 1993 (Law 2121/93), which offers a high standard of protection for all copyrighted works. Furthermore, Law 2328/95 (effective August 3, 1995) establishes a new systematic legal framework for the radio-television market, whose anarchic development following termination of the state monopoly in 1989 encouraged piracy of films and TV programs. However, Greek unwillingness to close or fine TV stations pirating copyrighted works resulted in Greece being elevated in December 1994 to USTR's "Priority Watch List" under the Special 301 provisions of the 1988 Omnibus Trade Act. Greece was kept on the "Priority Watch List" by subsequent annual reviews due to continuing TV piracy as well as concerns about software piracy and trademark infringement. Greece remained on the priority watch list following an out-of-cycle review in December 1996.

Intellectual property appears to be adequately protected in the field of patents and trademarks. Patents are available for all areas of technology. Compulsory licensing is not used. Greek trademark legislation is fully harmonized with that of the EU, and trade secrets are protected by law for a period of twenty years. Violations of trade secrets and semiconductor chip layout design are not problems in Greece.

8. Worker Rights

The Greek economy is characterized by significant labor market rigidities. Greek labor law prohibits laying off more than two percent of total personnel employed by a firm per month. This restricts both the flexibility of firms and the mobility of Greek labor.

a. *The Right of Association:* Approximately 30 percent of Greek workers are organized in unions, most of which tend to be highly politicized. While unions show support for certain political parties, particularly on issues of direct concern to them, they are not controlled by political parties or the government in their day-to-day operations. The courts have the power to declare strikes illegal, although such decisions are seldom enforced.

Employers are not permitted to lock out workers, or to replace striking workers (unless they are public sector employees under civil mobilization).

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was guaranteed in legislation passed in 1955 and amended in February 1990 to provide for mediation and reconciliation services prior to compulsory arbitration. Antiunion discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the Labor Inspectorate or to the courts. However, litigation is lengthy and expensive, and penalties are seldom severe. There are no restrictions on collective bargaining for private workers. Social security benefits are legislated by Parliament and are not won through bargaining. Although civil servants have no formal system of collective bargaining, they negotiate their demands with the Ministry to the Prime Minister.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is strictly prohibited by the Greek constitution and is not practiced. However, the government may declare "civil mobilization" of workers in case of danger to national security or to social and economic life of the country.

d. *Minimum Age of Employment of Children:* The minimum age for work in industry is fifteen, with higher limits for certain activities.

e. *Acceptable Conditions of Work:* Minimum standards of occupational health and safety are provided for by legislation. Although the Greek General Confederation of Labor (GSEE) has characterized health and safety legislation as satisfactory, it has also charged that enforcement of the legislation is inadequate, citing statistics indicating a relatively high number of job related accidents in Greece. Inadequate inspection, outdated industrial plants and equipment, and poor safety training of employees contribute to the accident rate

f. *Rights in Sectors with U.S. Investment:* Although labor/management relations and overall working conditions within foreign business enterprises may be among the most progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		140
Food & Kindred Products	(1)	
Chemicals and Allied Products	70	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		82
Banking		(1)
Finance/Insurance/Real Estate		51
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		437

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

HUNGARY

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	41.4	43.7	43.5 [2]
Real GDP Growth (pct)	2.9	1.5	0.5
GDP by Sector: [3]			
Agriculture	2.5	2.8	2.7
Manufacturing	8.0	9.0	9.4
Construction	1.9	1.9	2.1
Services	23.3	23.7	22.5
Government	7.7	7.5	6.9
Per Capita GDP (USD)	4,046	4,273	4,250
Labor Force (000s)	6,272	6,251	6,230
Unemployment Rate (pct)	13.3	11.4	11
Money and Prices (annual percentage growth):			
Money Supply Growth	13.0	18.5	22.6 [4]

Key Economic Indicators—Continued

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

	1994	1995	1996
Consumer Price Inflation	18.8	28.3	24.0
Exchange Rate: (HUF/USD—annual average):			
Official	105.5	125.6	153.0
Balance of Payments and Trade:			
Total Exports (FOB)	10.6	12.9	13.5
Exports to United States (USD millions)[5]	470	547	653
Total Imports (CIF)	14.4	15.5	16.0
Imports from United States (USD millions)[5]	309	295	331
Trade Balance	−3.9	−2.6	−2.5
Balance with United States (USD millions)[5]	161	252	322
Current Account Deficit/GDP (pct)	9.5	5.6	4.4
Net External Public Debt[6]	15.2	11.0	9.5
Debt Service Payments/GDP (pct)	12.5	17.0	N/A
Fiscal Deficit/GDP (pct)	8.2	6.5	4.0
Gold and Foreign Exchange Reserves	6.77	12.01	10.4[7]
Aid from United States	36.0	27.2	17.0
Aid from All Other Sources	N/A	N/A	N/A

[1] Source: Ministry of Finance, except where otherwise noted.
[2] Decrease in 1996 over 1995 is partially due to Hungarian forint devaluation against the dollar.
[3] GDP by sectors is higher than the nominal GDP figure due to some double counting.
[4] Source: National Bank of Hungary, August 19965
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] Source: National Bank of Hungary. 1996 data covers external public debt until the end of August 1996.
[7] Source: National Bank of Hungary, September 1996,

1. General Policy Framework

Starting in the late 1960's, Hungary's former communist regime began certain economic reforms along capitalist lines that continued until the end of communism in 1989. Some academics estimate that Hungary was one-third of the way to capitalism in 1989. The two democratic regimes since then accelerated the pace of economic reform, particularly in trade and foreign investment liberalization. With about $14 billion in foreign direct investment since 1989, Hungary leads the Central European region in relative and absolute amounts.

The revised Foreign Exchange Law, effective January 1, 1996, made the Hungarian forint essentially convertible for current account transactions. The Socialist/Free Democrat coalition government's stabilization and restructuring package introduced in March 1995 led to lower fiscal and current account deficits in 1995 and 1996. The government has also significantly lowered the amount of government expenditures as a percentage of GDP. 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 taking further liberalization measures on capital account transactions. Hungary hopes to join the EU around the turn of the century and expects to harmonize its laws and regulations with EU standards by 1999.

A new law on privatization, passed in May 1995, improved transparency and initiated a simplified process. Privatization progressed dramatically in late 1995 and in 1996, particularly in the energy and telecommunication sectors. Currently about 73 percent of the country's GDP is derived from the private sector. The government hopes to complete the privatization process by 1998, by which time the private sector should account for about 85 percent of GDP.

Despite one of the highest per capita foreign debts in Europe, Hungary has an unblemished payments record. Hungary was granted an investment grade rating by Standard and Poor's in October 1996. Foreign currency reserves ranged between $9 and $10 billion in the first 8 months of 1996, enough for 8 months of imports. The government finances the fiscal deficit primarily through government bonds, issued both domestically and abroad. The consolidated budget deficit in 1996 will equal about 4 percent of GDP, down from 8.2 percent in 1994 and 6.5 percent in 1995.

The government continues to adhere to the March 1995 stabilization program that cut government expenditures, devalued the Hungarian forint (HUF) by 9 percent, introduced a pre-announced crawling peg exchange rate policy, added an 8 percent import surcharge (due to be eliminated by July, 1997) and put a ceiling on wage increases in state-owned companies at 4 to 5 percent below the rate of inflation. Net real wages fell by 11 percent in 1995, and will decline by about 6 percent in 1996. The government projects a $1.8 billion current account deficit for 1996, down from $2.5 billion in 1995.

In accord with government policy to promote foreign direct investment, Hungarian law allows the establishment of companies in customs-free zones which are exempt from foreign-exchange requirements and indirect taxation tied to the turnover of goods.

The Hungarian National Bank (MNB) carries out monetary policy through open market operations focusing on an interest rate policy consistent with a disinflationary goal and within constraints of the foreign exchange regime. Commercial banks can conclude foreign exchange swap transactions with the MNB.

2. Exchange Rate Policy

As of January 1, 1996, the forint became fully convertible for almost all current account transactions within Hungary. Foreigners and Hungarians can maintain both hard currency and forint accounts. Until the end of 1996, the government pegged the forint to a currency basket consisting of the U.S. dollar (30 percent) and the European Currency Unit (70 percent), and conducted a crawling peg monthly devaluation equal to 1.2 percent. In January 1997 the German mark replaced the ECU basket share. Improved fiscal and current account deficits helped pull average inflation down from 28.3 percent in 1995 to a projected 23–24 percent for 1996. The government projects 18 percent inflation for 1997.

3. Structural Policies

While most consumer product and service prices are freely set by the market, the prices for public transport, utilities such as gas, electricity and water, and vehicle fuel continue to be partially set by the state. The government offers a wholesale floor price for unprocessed agricultural products, though this policy has no impact on U.S. agricultural exports to Hungary. Privatized energy companies expected a cost-plus-eight percent price structure beginning January 1, 1997, as stipulated in the 1994 Law on Privatization. The government delayed a decision on a price increase in October 1996. Prices were increased as of January 1, 1997, but not to the level expected by foreign energy firms. On the same date, an independent regulatory office was given authority to review energy prices on a quarterly basis; it is not yet clear if subsequent adjustments will reach market levels. Government subsidies for energy consumption are likely to continue through the end of 1997.

Tax changes designed to cut inflation and release extra resources to the business sector were approved in November 1996 and will take effect in 1997. The changes will lower personal income taxes by an average of 1.5 percent and cut the highest rate from 48 percent to 42 percent. Employees contribute 11.5 percent of their earnings to social security. Employer contributions to social security will drop from 42 to 39 percent under changes effective in 1997. The flat company tax will remain at 18 percent, while the current 23 percent supplementary profit tax on distributed net profit will be replaced by a 20 percent withholding tax. Incentives include a 50 percent tax preference for a maximum of 5 years on investments of at least HUF 1 billion (about $6.5 million as of November 1996)or that increase exports by more than HUF 600 million ($3.9 million), and investments in underdeveloped regions receive a 100 percent tax holiday.

A new competition law which came into effect January 1, 1997, will uphold national treatment while applying extraterritorially, thus closing a loophole that currently allows foreign firms registered outside Hungary to execute mergers through their parent companies abroad. This law will conform with EU regulations.

Major legislation has been passed and is proposed in areas of structural budget reform, including fiscal expenditure and social safety net (pensions, health care) reforms.

4. Debt Management

Although Hungary has one of the highest per capita foreign debts in Europe, with gross foreign debt expected to be $26 billion and net foreign debt $14 billion at the end of 1996, the government has consistently met all interest and principal payments on time. The government used privatization revenues from 1995 and 1996 to prepay $1.5 billion in debt in early 1996 and plans to prepay an additional $1 billion in debt in late 1996. The government concluded a standby credit agreement with the International Monetary Fund in March 1996 and received an investment grade rating on long term debt from U.S. credit rating agency Standard and Poor's in October 1996. Government cash reserves stood at $9.8 billion as of mid 1996.

5. Significant Barriers to U.S. Exports

In the second half of 1996, the Hungarian Government decreased the 8 percent import surcharge by 2 percent. The government plans to eliminate the surcharge completely by July 1, 1997.

Although 95 percent of imports (in value terms) no longer require any type of prior government approval, some 20 product groups, mainly cars, textiles and precious metals, are still affected by global quotas. Hungary imposes a $750 million global quota on imports of consumer goods. Under WTO rules, Hungary will phase-out quotas on textiles and apparel by 2004. As a result of the Uruguay Round, quotas on agricultural products and processed foods have been replaced by tariffs.

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).

Full foreign ownership is allowed in sectors open to private investment. Foreign investment is restricted in defense-related industries, the media and farmland.

Under the law on government procurement, effective since November 1, 1995, public tenders must be invited for purchases of goods with a value over HUF 10 million ($65,000), construction projects worth HUF 20 million($130,000), and designs and services worth over HUF 5 million ($32,500). Bids containing more than 50 percent Hungarian content receive a 10 percent price preference. This procurement process does not apply to military purchases, gas, oil, and electricity contracts.

6. Export Subsidy Policies

There are no export subsidies on industrial products, but some agricultural product groups receive a percentage subsidy from the state. The Export-Import Bank and the Export Credit Guarantee Ltd., both founded in 1994, provide credit or credit insurance for 8 to 10 percent of total exports. Agricultural export subsidies in 1996 will exceed Hungary's Uruguay Round commitments in value and number of products covered. The government claims that faulty base period calculations led to erroneous commitments and is consulting with its partners in the WTO to resolve this issue.

7. Protection of U.S. Intellectual Property

Hungary 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.

In 1993, the United States and Hungary signed a comprehensive bilateral intellectual property rights treaty. Law Number VII (1994) on the Amendment to Industrial Property and Copyright Legislation, effective July 1994, extended patent protection for pharmaceutical/chemical products and addressed rights of intellectual property by providing the legal means to prevent proprietary information from being disclosed or acquired by other than "honest commercial practices." A draft Media Law enacted in December 1995 requires firms in the electronic media to respect international copyrights and includes enforcement provisions against individual offenders as well as corporate violations that affect license renewals. Two laws protecting intellectual property entered into force in January 1992. Act XXXVIII of 1991 protects utility models, and Act XXXIX of 1991 protects the topography (layout design) of semiconductor chips.

8. Worker Rights

a. *The Right of Association:* The labor code passed in 1992 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:* The 1992 labor code permits collective bargaining at enterprise and industry level. The Interest Reconciliation Council (ET), a forum of representatives from employers, employees, and the government, sets minimum wage levels. Trade unions and management negotiate wage levels. The Ministry of Labor drafts labor-related legislation, and special labor courts enforce labor laws. Effected 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 Labor Ministry enforces the prohibition of compulsory labor, as legally mandated.

d. *Minimum Age for Employment of Children:* Labor courts uphold a minimum work age of 16 years. Exceptions exist for apprentice programs, where trainees may begin at age 15.

e. *Acceptable Conditions of Work:* The 1992 labor code specifies conditions of employment: termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlements 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(2)
Total Manufacturing		449
Food & Kindred Products	(1)	
Chemicals and Allied Products	−18	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	6	
Wholesale Trade		90
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		2
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,602

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

IRELAND

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	52.3	61.8	67.7
Real GDP Growth (pct) [3]	5.8	10.1	7.0
GDP by Sector: [3]			
Agriculture	3.4	3.8	N/A
Manufacturing	16.0	19.7	N/A
Services	19.7	22.3	N/A
Government	2.1	2.3	N/A
Per Capita GDP (USD)	14,600	17,307	18,713
Labor Force (000s)	1,399	1,423	1,474
Unemployment Rate (pct) [4]	15.6	13.4	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	10.2	12.4	N/A
Consumer Price Inflation	2.4	2.5	1.75

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Exchange Rate (IP/USD):			
Official	0.67	0.62	0.62
Balance of Payments and Trade:			
Total Exports (FOB)[5]	34.1	44.4	49.4
Exports to United States[6]	2.9	4.1	4.9
Total Imports (CIF)[5]	25.9	32.7	35.7
Imports from United States[6]	3.4	4.1	3.6
Trade Balance	8.2	11.7	13.7
Balance with United States[6]	−0.5	0	1.3
Current Account Balance/GDP (pct)	2.7	2.6	1.4
External Public Debt	17.3	17.5	N/A
Debt Service Payments/GDP (pct)	6.4	6.2	5.5
Fiscal Deficit/GDP (pct)	2.1	2.0	2.6
Gold and Foreign Exchange Reserves	6.1	8.8	N/A
Aid from United States	0.2	0.2	0.2
Aid from All Other Sources	0.2	0.3	0.3

Sources: Central Bank Of Ireland; Central Statistics Office (CSO); Irish Trade Board; National Treasury Management Agency.

[1] Forecasts.
[2] GDP at factor cost, current market prices.
[3] GDP at factor cost, constant market prices.
[4] Standardized labor force rate.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Ireland has a small open economy which is very dependent on trade. Exports of goods and services in 1995 were equivalent to 88 percent of Gross National Product, while imports were equivalent to 70 percent of GNP. Government policies are generally formulated to facilitate trade and inward direct investment. Sales by U.S. companies located in Ireland are estimated to have increased over fourfold from 1983 to 1995, while U.S. exports to Ireland quadrupled over the same period. These investments generate a significant revenue flow to the United States of dividends, royalties, and licensing fees. Ireland has the fastest growing economy in the EU; since 1990, Ireland's Gross Domestic Product grew on average three times faster than the rest of the European Union (EU). Despite the strong economic growth, inflation was kept under tight control and the balance of payments has remained in surplus. High unemployment (13 percent) continues to concern government officials, although the rate is gradually decreasing. Ireland is on track to be among the first tier of EU countries to enter Economic and Monetary Union (EMU).

Fiscal Policy: Since 1992, the Irish Government has pursued a cautious fiscal policy designed to bring Ireland into line with the EMU criteria laid out in the Maastricht Treaty. Ireland's debt/GDP ratio has fallen from over 125 percent in 1987 to just over 81 percent in 1995. Preferential corporate tax rates have been guaranteed at 10 percent until the year 2010 for foreign manufacturing firms and until 2005 for financial services firms. While value added tax (VAT) rates and many excise taxes are subject to EU harmonization, Irish VAT rates are among the highest in the EU.

Most collective bargaining, including the establishment of public and private base wage rates, takes place in the context of national economic programs negotiated every 3 years by the "social partners," i.e., representatives of unions, employers, farmers, and the government. The most recent 3-year agreement, entitled "The Program for Competitiveness and Work" expired at the end of 1996. It is widely acknowledged that these programs have been successful in recent years in achieving economic and social improvement.

Monetary Policy: Given that Ireland is a small open economy with a high level of external trade relative to the level of economic activity, the stability of the Irish pound exchange rate is a significant element in determining the level of domestic inflation. As a result, a key determinant in monetary policy formulation is the expected impact of interest rate changes on the exchange rate. The government implements monetary policy by influencing the level of wholesale interest rates through several instruments: sale and repurchase agreements, foreign exchange swaps, and short term (credit) facilities. The rate charged on its short term (credit) facility is the key interest rate used by the Central Bank to signal its view on the appropriate level of interest rates in the economy.

2. Exchange Rate Policies

When Ireland joined the Exchange Rate Mechanism (ERM) in 1979, it broke the formal link between the Irish pound (punt) and British sterling. Since then, Ireland has committed to maintaining the Irish pound within a fifteen percent band against other ERM currencies, and normally maintains the exchange rate within the ERM narrow band (2.25 percent). However, in late 1996, the punt strayed outside of the narrow band as it maintained parity with sterling, rising against other European currencies. The punt's appreciation vis-a-vis other ERM currencies has hurt Irish exports to mainland Europe, including exports of high technology products produced by U.S. subsidiaries in Ireland. It has, however, reduced inflationary pressure since Ireland imports more finished products from the United Kingdom than from its other trading partners. In choosing whether to intervene, the Central Bank weighs inflation against the risk that Ireland will not qualify for EMU if it continues to remain outside the ERM narrow band.

3. Structural Policies

Ireland receives structural funds from the EU to assist programs in agriculture, the arts, the economic infrastructure, education, energy management, the environment, fisheries, health, industry, urban and rural development, tourism, transportation, and others. The EU has guaranteed structural funds to Ireland because it was deemed a disadvantaged region with per capita GDP below 75 percent of the community average. Ireland's per capita GDP now stands at over 90 percent; thus Ireland may not qualify for continued receipt of structural funds after 1999, at least at the same levels. Under the current round of EU structural and cohesion funds, Ireland is to receive a total of approximately $10.9 billion for the period 1993–1999. This will complement public and private sector funding in Ireland for a total structural investment in excess of $16 billion. Infrastructure improvements were welcomed by U.S. investors which have manufacturing plants in Ireland.

Tax Policies: The government offers a number of tax incentives to firms wishing to establish in Ireland. Manufacturing companies, firms engaged in international financial services, data processing, research and development, and other priority industries are eligible for a corporate tax rate of 10 percent compared to the standard 38 percent rate. Distribution and financial services companies located in the Shannon duty-free zone at Shannon Airport are also eligible. The 10 percent rate has been guaranteed by the government through the year 2010 for manufacturing companies and 2005 for financial services companies.

Regulatory Policies: Successive governments have actively sought and encouraged foreign investment in Ireland. Government investment incentives are weighted toward high technology and export oriented companies. Capital grants by the Irish Industrial Development Authority (IDA) tend to favor capital-intensive over labor-intensive investments. Several key industries remain state-controlled: electricity, natural gas, transportation, and telecommunications, among others. Despite receiving national treatment (or better), foreign investors have been subject in the past to restrictions designed to prevent foreign control of privatized companies. The foreign ownership restrictions have varied depending upon the state firm being privatized.

4. Debt Management Policies

Ireland's total Exchequer debt amounted to about $48.3 billion or about 89.4 percent of estimated 1995 GNP, down from 96.2 percent of GNP at the end of 1994. The vast majority of the 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 government employment. The debt has generally been financed by the sale of government securities. Ireland is expected to be the only EU member state which will have a lower debt/GDP ratio in 1996 than it had in 1991. The foreign portion of Ireland's debt in 1995 was $17.5 billion. Debt service costs in 1995 were $3.8 billion, about 12.8 percent of estimated Irish exports of goods and services and about 11.4 percent of GNP. Legislation enacted in 1990 provided for the establishment of the National Treasury Management Agency, to which the government delegates the borrowing and debt management functions of the Minister for Finance.

5. Significant Barriers to U.S. Exports

As a member of the EU, Ireland administers tariff and nontariff barriers in accordance with applicable EU policies. With regard to services trade, 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 Irish banking and insurance sectors are slowly becoming deregulated. Full deregulation in insurance will not occur until 1998.

In the area of telecommunications, Ireland's offer in the WTO telecom services negotiations was improved when Ireland narrowed the scope on the restriction of the international interconnection of mobile telephones, to January 1, 1999, instead of January 1, 2001. Ireland also offered to drop its restrictions to telex and telegraph services from January 1, 2000, to January 1, 1998. Restrictions remain on the opening of voice telephony and public infrastructure until January 1, 2000.

Ireland still maintains some of the strictest animal and plant health import restrictions in the EU, although there has been some liberalization in recent years. In concert with EU import duties, these restrictions effectively exclude many meat-based foods, fresh vegetables and other agricultural products.

Ireland has been a member of the World Trade Organization since it came into effect on January 1, 1995. As a member of the EU, Ireland is subject to the WTO plurilateral agreements on government procurement and civil aircraft.

6. *Export Subsidies Policies*

The government generally does not provide direct or indirect support for local exports. There are no tax or duty exemptions on imported inputs except for those companies located in the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy Port, Ireland's major deep water port located in the Cork harbor complex. The SDFPZ benefits from the reduced corporate tax rate of 10 percent, while Ringaskiddy does not. No duties are levied at the SDFPZ on goods destined for non-EU countries. U.S. investors take advantage of the duty exemptions which apply to the SDFPZ.

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

Irish laws provide protection of U.S. intellectual property rights; however, there are legislative inadequacies, and in some cases U.S. companies report poor enforcement of existing laws. Ireland is a member of the World Intellectual Property Organization and a party to all principal multilateral intellectual property agreements, including the Paris Convention on industrial property and the Berne Convention on copyright.

Patents: Ireland's Patent Law fails to conform to the World Trade Organization Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPs) 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 to some applications processed after December 20, 1991, do not conform to the non-discrimination requirement of TRIPs Article 27.1. The Attorney General will determine whether to seek to amend the Patent Law by ministerial order or by primary legislation.

Copyrights: There have been complaints from the U.S. Motion picture industry about enforcement of the 1963 Copyright Law and the inadequacy of penalties. The government is in the process of drafting a new copyright law and expects to complete drafting of headings by August 1997. Further legal drafting will be required, thus a new law is unlikely to be implemented for one to 2 years.

New Technologies: Following a complaint that Irish courts were not applying Irish copyright law to non-EU origin software because of a misinterpretation of the EU Copyright Directive by the Irish courts, the Irish Attorney General obtained a clarification of the EU Copyright Directive from European Commission legal services.

Video piracy, software piracy, and lax enforcement of copyright laws causes losses to U.S. firms. U.S. industry claims that Ireland has the highest incidence of software piracy in the EU, estimated at 70 percent. The average EU rate is 50 percent. The U.S. Motion Picture Export Association of America reported that its members lose $7 million per year in Ireland to pirated video cassettes. The Association estimate a 27 percent video piracy rate for Ireland.

8. *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. The right to strike is freely exercised in both the public and private sectors. The Irish Congress of Trade Unions, which represents unions in both the Republic and Northern Ireland, has 65 member unions with 682,000 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 are determined through collective bargaining in the context of a national economic pact. Employer interests in labor matters are generally represented by the Irish Business and Employers Confederation.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. *Minimum Age of Employment of Children:* By law, children are required to attend school until the age of 15. The employment of children under 15 is generally prohibited by the 1977 Protection of Young Persons (Employment) Act, but 14-year-olds are allowed to do light, nonindustrial work during school holidays with the written permission of their parents. The law limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Department of Enterprise and Employment.

e. *Acceptable Conditions of Work:* There is no national minimum wage legislation, but there are several minimum rates of pay applicable to specific industrial sectors, mainly those with lower-than-average wages. Although the lowest of these minimum wages would not be sufficient to provide a decent living for a family of four, low income families are entitled to additional benefits such as subsidized housing and children's allowances. The standard workweek is 39 hours. Working hours in the industrial sector are limited to 9 hours per day and 48 hours per week. Overtime is limited to 2 hours per day, 12 hours per week, and 240 hours in a year. The Department of Enterprise and Employment is responsible for enforcing four basic laws dealing with occupational safety that provide adequate and comprehensive coverage.

f. *Rights in Sectors with U.S. Investment:* Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		6,894
Food & Kindred Products	286	
Chemicals and Allied Products	3,646	
Metals, Primary & Fabricated	221	
Machinery, except Electrical	−2	
Electric & Electronic Equipment	768	
Transportation Equipment	28	
Other Manufacturing	1,947	
Wholesale Trade		252
Banking		(1)
Finance/Insurance/Real Estate		3,018
Services		621
Other Industries		104
TOTAL ALL INDUSTRIES		10,970

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	1,016	1,087	1,142
Real GDP Growth (pct)[3]	2.2	3.0	1.2

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
GDP by Sector:			
Agriculture	28.7	28.4	N/A
Manufacturing	183.9	192.4	N/A
Services	414.6	421.6	N/A
Government	107.1	105.9	N/A
Per Capita GDP (USD)	17,831	19,072	20,042
Labor Force (000s)	22,681	22,692	22,999
Unemployment Rate (pct)	11.3	11.7	12.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	1.7	2.6	4.3
Consumer Price Inflation	4.0	5.4	3.9
Exchange Rate (Lira/USD—annual average):			
Official	1612	1629	1547
Balance of Payments and Trade:			
Total Exports (FOB)[4]	191.0	231.2	258.9
Exports to United States[5]	14.8	16.3	18.2
Total Imports (CIF)[4]	169.2	204.0	212.1
Imports from United States[5]	7.2	8.9	8.8
Trade Balance[4]	21.8	27.2	46.8
Balance with United States[5]	7.6	7.4	9.4
Current Account Surplus/GDP (pct)	1.4	2.5	3.2
External Public Debt	51.6	65.2	76.0
Debt Service Payments/GDP (pct)[6]	10.7	11.1	11.0
Fiscal Deficit/GDP (pct)	9.0	7.1	6.6
Gold and Foreign Exchange Reserves	56.0	61.0	72.0
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on data available through October 1996.
[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; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.[6] Represents total debt servicing costs; less than 6 percent of total debt is foreign debt.

1. General Policy Framework

The Italian economy is the world's fifth largest, having undergone a dramatic transformation into an industrial power in the last 50 years. A member of the Group of Seven (G-7), OECD, GATT, WTO, IMF, other multilateral organizations, and the European Union (EU), Italy maintains an open economy. Economic activity in Italy is centered predominantly in the North, resulting in a divergence of wealth between North and South that remains one of Italy's most difficult economic and social problems.

Italy has a dynamic private sector. While a few major conglomerates with extensive overseas operations exist (i.e., FIAT, Pirelli, Olivetti), the private sector is characterized primarily by a large number of small and medium-sized firms that produce for domestic and export markets. The state plays an active role in the economy, not only in the formulation of macroeconomic policy and regulations, but also through state ownership of several large industrial and financial concerns. European Union regulations have begun to encourage Italy to liberalize various sectors in the economy. In addition, recent governments have begun a process of privatization that is reducing state ownership. Several large banks and and some industrial firms have been privatized. The government has sold 30 percent of its gas and oil company, and is expected to initiate the sale of its telecommunications and electricity parastatals in 1997 (these were slated for sale in 1996 but delayed due to political resistance). Foreign firms, including U.S. firms, have been active both as purchasers of privatizing companies as well as privatization advisors.

Italy's large public sector deficit and public debt remain its most pressing economic problem. The stock of debt is currently estimated to be 123 percent of GDP. The budget deficit is expected to be about 6.6 percent of GDP in 1996. Italy's deficit spending is attributable primarily to generous social spending, particularly on pensions, government inefficiency, and a political system which, until recently, actively used government spending for patronage and political objectives. Pushed in part by prospects for European Monetary Union (EMU), successive governments since 1992 have implemented budget austerity policies. The 1997 budget is a major package which aims to cut 62.5 trillion lire ($40 billion) off the deficit, reducing it to 3.0 percent of GDP. This goal is consistent with European Monetary Union criteria, which require a 1997 deficit/GDP ratio of 3.0 percent. Deficits are financed by the issuance of government bonds. Italy's debt, though large, is almost all domestically held.

The primary objective of monetary policy is price stability. Over the last several years, monetary policy has been quite restrictive in an effort to defeat Italy's long-term inflation problem. It appears to be working. M–2 grew only 2.6 percent in 1995, well below the rate of nominal GDP growth (8.4 percent), and inflation is expected to average 3.9 percent in 1996. The Bank of Italy uses indirect instruments, primarily open market operations exercised through repurchase agreements with commercial banks, to implement monetary policy. The central bank discount window is seldom used, although changes in the discount rate are used to signal policy shifts.

2. Exchange Rate Policy

The Italian lira reentered the Exchange Rate Mechanism of the European Monetary System (EMS) on November 25, 1996, after a four-year absence. The lira had been driven out of the EMS in September 1992 by speculation against the currency which the Bank of Italy, facing rapidly depleting reserves, could not counter. EMS re-entry obligates Italy to maintain the lira within a 15 percent band of fluctuation vis-a-vis central parities with other EMU currencies. Participation in the EMS is a prerequisite for membership in European Monetary Union, so Italy's re-entry removes a potential EMU stumbling block. In the period following the lira's re-entry, the currency has fluctuated closely around the new parities, indicating that financial markets consider the parities viable. Italian EMS re-entry will require Italy to continue on its path of fiscal austerity and to keep a watchful eye on inflation in order to prevent new pressures developing on the lira.

The Prodi Government has committed to bringing the lira back into the ERM by end-1996. Participation in the ERM is a prerequisite to eventual EMU membership. Given the relative stability of the lira in the latter half of 1996 and the strong foreign reserve position of the Bank of Italy, lira re-entry into the ERM is considered technically and politically viable.

3. Structural Policies

Italy has not implemented any structural policies over the last 2 years which impede U.S. exports. Several long- standing irritants regarding access by U.S. banks and financial service firms to the Italian market have been resolved, or are nearing resolution. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a heavy state role in the production sector. Increased competition from abroad, as well as EU requirements, have begun to eliminate some of these structural barriers.

Privatization over the last 2 years is the most visible attempt to reduce the state role in the economy. The finalization of the sale of several major banks, an insurance firm, and several industrial concerns, and the anticipated sale of major sectoral utilities in 1996/97, have significantly reduced the government's involvement in the economy. The privatization process has been open to foreign participants, and U.S. firms have been active as advisors in privatizations, as well as buyers of privatized assets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors of national interest, or in cases which create anti-trust concerns.

Italy has taken steps to modernize its financial and banking sectors. The 1993 single banking law removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives in 1996 have injected further competition into the sector. As of September 1996, 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 CONSOB, the securities regulatory body. In addition, in August 1996, the Bank of Italy eliminated certain lending limits based on branch capital which had put non-EU banks at a disadvantage vis-a-vis EU banks. U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets.

4. Debt Management Policy

Although Italy has not had external debt or serious balance of payments problems since the mid 1970's, its domestic public debt is extremely high, slightly over 123 percent of GDP in 1995. Public debt is financed primarily through domestic capital markets, with securities ranging from 3 months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.5 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

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 over the past year in making the laws and regulations governing government procurement more transparent, although Italy has not yet fully updated its government procurement code, nor has it completely implemented EU directives on government procurement.

U.S. agricultural exports to Italy compete with products covered under the EU's Common Agricultural Policy (CAP). For this reason, U.S. products, such as meat and sugar, continue to be subject to quantitative restrictions which are enforced through licenses. Sanitary and phytosanitary requirements also are used to restrict or hamper imports of U.S. products such as some seeds for planting, forest products, beef, dairy products, seafood, and other animal products. Finally, qualitative restrictions also hamper U.S. bull semen imports into Italy.

Telecommunications services are still tightly regulated by the state, which maintains a monopoly on voice telephony (except for cellular service) and the telecommunications infrastructure, including all switching. Enhanced services must be offered over the public switched network or through dedicated leased circuits. Multiuser networks are officially outlawed, but sometimes tolerated where need is demonstrated. Mobile phone services are no longer the monopoly of the state-owned telephone utility, Telecom Italia. Omnitel, holder of the second cellular operating license, began service in December 1995. The Omnitel consortium has one third U.S. participation. Italy plans to award a third cellular license in late 1996 or early 1997.

In keeping with the 1989 EU Broadcast Directive, Italy's 1990 Broadcast Law requires that upon conclusion of 3 years from concession of a national broadcast license, a majority of TV broadcast time for feature films be reserved for EU-origin films. The Italian law also requires that half of the European quota be dedicated to Italian films. The Italian law is more narrowly focused than the Broadcast Directive, since it encompasses only films produced for cinema performance, and excludes TV films and series and other programming. The film sector decree-law enacted on January 18, 1994, calls for application of the Italian broadcast quotas proportionately during evening viewing hours, but its language is strictly hortatory.

Attempts to tighten European content requirements in 1996 appear to be on "hold." The Government of Italy introduced a telecommunications reform bill in July 1996 that included a provision to make 51 percent European content mandatory during prime time. However, the chances of this provision's passing appeared slim as of early November 1996. The European Parliament voted in November 1996 to let stand EU Broadcast Directive language that quotas will be applied "where practicable...and using appropriate means." The Parliament thereby rejected more restrictive language.

In the areas of standards and standards setting, Italy has been slow both in accepting test data from foreign sources, and in implementing EU standards in this area. In sectors such as pollution control, the uniformity in application of standards may vary according to region, thus complicating certification requirements for U.S. business.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by GOI institutions.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Since 1990, the United States/Italy civil aviation relationship has undergone some liberalization, including the entry of new U.S. carriers in 1991, 1992, and, most recently, in 1996. Nevertheless, the market remains somewhat restrictive. U.S. carriers have expressed concern over a range of doing-business issues, a number of which relate to the lack of competition in the provision of certain ground-handling services at international airports.

While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits from the many-layered Italian bureaucracy, and foreign investments often receive close scrutiny. These lengthy procedures can, in and of themselves, present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport, aircraft manufacturing, and the state monopolies (e.g., railways and tobacco manufacturing).

The expansion of modern distribution methods, such as chain stores, department stores, supermarkets, hypermarkets, and franchises, is severely restricted by local practice and national legislation which subjects applications for large retail units above a certain merchandising area to a lengthy and cumbersome authorization process. Italy provides a number of investment incentives consisting of tax breaks and other measures to attract industrial investment to depressed areas, especially in the south of Italy.

In September, 1990, the Italian Parliament approved an anti-trust law. The law gives the government the right to review mergers and acquisitions over a certain threshold. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" 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 in the law applies to purchases by foreign entities of five or more percent of an Italian credit institution's equity.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the 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 an extensive array of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides direct assistance to industry and business firms to improve their international competitiveness. This assistance includes export insurance through SACE, the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

7. Protection of U.S. Intellectual Property

The Italian Government is a member of the World Intellectual Property Organization, and a party to the Berne and Universal Copyright conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

Since 1989, the U.S. Trade Representative has placed Italy on the intellectual property rights "watch list" under the Special 301 provision of the U.S. Trade Act of 1988, primarily reflecting problems with protection of copyrights for computer software and film videos. Enactment in Italy (at the end of 1992) of the EU software directive making software copyright violations a criminal offense was a major step forward. In response to U.S. IPR concerns, the Italian authorities have created an Interministerial Anti-Piracy Committee, introduced IPR training courses for law enforcement officers, and created specialized "pools" of prosecutors charged with combatting intellectual property crimes in major municipal centers (i.e., Milan, Rome, and now Naples). Italian implementation of the EU Rental Rights Directive in November 1994 established explicit protections for rental, distribution, and lending rights, as well as penal sanctions against the bootleg recording of performances. A decree-law issued in June 1995 (and renewed after 3 months) extended copyright protection in Italy from 50 to 70 years in accordance with the EU Directive on Copyright Duration; this decree took immediate effect, but still must be confirmed by Parliament.

Application of the December 1992 software law appears to be making a significant dent in Italy's software piracy problem. U.S. industry reports that Italian enforcement actions against software pirates have continued to increase. As a result of these actions, the industry estimates that the rate of software piracy in Italy declined from about 86 percent in 1992 to 61 percent in 1995, and legitimate software sales have expanded rapidly as businesses have moved to legalize their holdings.

Film video piracy remains a serious problem. U.S. motion picture distributors estimate that some 40 percent of the video market consists of pirated material. U.S. industry has noted a significant increase in raids and confiscations of illegal cassettes and equipment. The Italian Government recently introduced in Parliament new anti-piracy legislation for the audiovisual sector that would impose administrative penalties and increase criminal sanctions on importation of pirated materials. The United States will continue to closely monitor developments in this area.

8. Worker Rights

a. ***The Right of Association:*** Italian law gives workers the right to establish and join unions and to carry out union activities in all workplaces employing more than 15 employees (5 employees in the agricultural sector). 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.

Workers may strike, a right which is frequently exercised. Hiring workers to replace strikers is effectively prohibited. A 1990 law restricts strikes affecting essential public services such as transport, sanitation, and health.

Work councils with trade union representation can be established in multinational corporations in accordance with an EU Directive. The directive ensures a worker voice in multinational companies employing more than 1,000 people, and more than 150 in at least two member states, in cross-border decisions that affect them.

b. ***The Right to Organize and Bargain Collectively:*** The law ensures workers the right to organize and bargain collectively. By custom (though not by law), national collective bargaining agreements apply to all workers regardless of union membership.

c. ***Prohibition of Forced or Compulsory Labor:*** The law prohibits forced or compulsory labor, and it does not occur.

d. ***Minimum Age for Employment of Children:*** The law provides that no child under 15 years of age may be employed (with some specified exemptions). The Ministry of Labor may authorize the employment of children aged 13 or 14 for certain jobs. There are also specific restrictions on employment of males under age 18 and females under age 21 in various hazardous or unhealthful occupations. Enforcement of the minimum age laws is effective only outside the extensive underground economy, which is mainly in Southern Italy.

e. ***Acceptable Conditions of Work:*** Minimum wages are set not by law but rather by national collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. When an employer and union fail to reach an agreement, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

By law the maximum workweek is 48 hours, with no more than 6 days per week and 8 hours per day. Collective bargaining contracts have reduced this considerably. Average work weeks now vary from 37 to 39 hours. Women are usually forbidden to work at night.

There is an extensive body of law and regulation governing occupational health and safety and guidelines for compensation for on-the-job injuries. On November 7, 1995, the Italian Government enacted legislation implementing the EU directive on health and safety in the workplace. Small enterprises are, however, exempt from the new EU standards until January 1997.

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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		529
Total Manufacturing		9,822
Food & Kindred Products	709	
Chemicals and Allied Products	2,035	
Metals, Primary & Fabricated	259	
Machinery, except Electrical	2,695	
Electric & Electronic Equipment	1,778	
Transportation Equipment	247	
Other Manufacturing	2,100	
Wholesale Trade		2,676
Banking		401
Finance/Insurance/Real Estate		1,875
Services		1,257
Other Industries		158

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Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	16,718

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

NETHERLANDS

Key Economic Indicators

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

	1994	1995	1996 [2]
Income, Production and Employment:			
Nominal GDP [3]	299.7	350.8	348.9
Real GDP Growth (pct) [4]	3.4	2.1	2.8
GDP by Sector:			
Agriculture	12.8	13.0	15.0
Manufacturing	61.1	65.0	67.0
Services	164.3	167.0	169.0
Government	31.5	32.0	35.0
Per Capita GDP (USD)	19,590	22,632	22,365
Labor Force (000s)	6,540	6,628	6,764
Unemployment Rate (pct)	8.7	8.3	7.8
Money and Prices (annual percentage growth):			
Money Supply (M2)	−1.5	4.8	6.0
Consumer Price Inflation	2.7	2.0	2.25
Exchange Rate (guilders/USD—annual average):			
Official	1.82	1.61	1.68
Balance of Payments and Trade:			
Total Exports (FOB) [5]	139.3	173.1	176.2
Exports to United States [6]	6.0	6.4	6.6
Total Imports (CIF) [5]	128.8	156.7	159.7
Imports from United States [6]	13.6	16.6	16.5
Trade Balance [5]	10.4	16.5	16.5
Balance with United States [6]	−7.6	−10.2	−9.8
Current Account Deficit/GDP (pct)	5.1	5.3	5.3
External Public Debt [6]	0	0	0
Debt Service Payments/GDP (pct) [7]	11.9	9.0	7.7
Fiscal Deficit/GDP (pct)	3.7	4.0	2.3
Gold and Foreign Exchange Reserves	40.8	42.6	40.1
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

[1] All figures have been converted at the average guilder exchange rate for each year.

[2] 1996 figures are all estimates based on available monthly data in November 1996.

[3] GDP at factor costs.

[4] Percentage changes calculated in local currency.

[5] Merchandise trade.

Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

[7] All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.

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 location 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 reduced its role in the economy since the 1980's, and privatization and deregulation continue with little debate or opposition. Nevertheless, the state dominates the energy sector, and plays a large role in public transport, aviation, and telecommunications.

A three-party coalition in office since August 1994 has achieved many of its targets, helped by strong (by EU standards) economic growth. The Dutch economy continues as one of Europe's strongest, and can look forward to continued GDP growth in 1996 (2.5 percent) and 1997 (2.75 percent), fueled by rising consumer demand, higher domestic investment, and firming exports. Unemployment is expected to fall to near 7 percent (EU definition) in 1996 and 1997. Inflation is low, but expected to creep up from an average 2.25 percent in 1996 to 2.75 percent in 1997. The current account should show a surplus of 5 percent of GDP in 1996 and 1997.

The Netherlands has been relatively successful meeting the criteria for European Economic and Monetary Union (EMU). Fiscal policy aims to further reduce public spending, taxes, and social security contributions. The budget deficit should fall from 2.6 percent of GDP in 1996 to 2.2 percent 1997, well below the 3 percent EMU criterion. However, the stock of public debt will fall from 78.8 percent of GDP in 1996 to 76.2 percent in 1997, still above the 60 percent EMU criterion.

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

The guilder is one of Europe's strongest currencies. 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 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.

3. Structural Policies

Public Procurement: The Dutch comply with EU and WTO public procurement obligations. Existing public procurement laws require nondiscriminatory treatment of foreign suppliers, except for sectors excluded from coverage under the WTO Agreement on Government Procurement.

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.

New Dutch competition legislation will be enacted in 1997, which will comply with EU legislation. The new law will include a provision for the supervision of company mergers by a new agency. 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 5 percent of GDP and no external debt, the Netherlands is a major creditor nation. Since the early 1980's, gross public sector debt (EMU criterion) grew sharply, to 79.7 percent of GDP by 1995. Most observers now predict a small decline over the next 4 years. Debt servicing and rollover has fallen to almost 8 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. Since the late 1980's, the fiscal balance is much improved. The Netherlands belongs to, and strongly supports, the IMF, IBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

There are no significant Dutch barriers to U.S. exports. Those 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 increasingly 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.

Offsets for defense contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch guilders (about $2.7 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 Media Act was amended in 1992 to admit local and foreign commercial broadcasters onto the cable network. The Dutch comply with the EU Broadcast Directive, but U.S. television shows and films are popular and readily available.

Cartels: Cartels exist in the domestic sector of the economy. They are legal if accepted for registration by the government. Cartels are not necessarily limited to Dutch companies. In response to EU pressure, 1996 legislation allows the cartels only where they are shown to be in the public interest; effective in 1997, cartels will be banned unless they promote the 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: 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 of two Dutch companies in public utility construction for local authorities.

6. Export Subsidies Policies

Under the Export Matching Facility, the Dutch Government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies 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.

There are some subsidies for shipping. Under strict conditions, Dutch shipowners ordering new vessels or buying existing vessels not older than 5 years may be eligible for a premium of 10 percent of the contract price distributed over 5 years. The present guideline is the seventh EU directive. Despite termination of the EU shipbuilding subsidies regime in 1996, the shipbuilding subsidies budget doubled to 120 million guilders ($66 million) in 1995. In conformity with the OECD understanding on subsidies, the government also grants interest rate subsidies (maximum 2 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. The government may also guarantee loans to Dutch shipping companies for investment purposes.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR protection, with the exception of the enforcement of antipiracy laws. 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 1 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 3 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 scope of resources devoted to enforcement of antipiracy 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. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively is recognized and well-established. There are no union shop requirements. Discrimination against union membership does not exist. Dutch society has developed a social partnership among government, private employers, and trade unions. This tripartite system involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such agreements cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by the constitution and does not exist.

d. *Minimum Age for Employment of Children:* Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than 8 hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development. In order to promote the employment of young people who have finished formal schooling, the Netherlands has a reduced minimum wage for employees between ages 16 and 23.

e. *Acceptable Conditions of Work:* Dutch law and practice adequately protect the safety and health of workers. A forty hour maximum workweek is set by law, but collective bargaining agreements generally establish the workweek. The average workweek for adults working full time is 38 hours, but collective bargaining negotiations are heading toward an eventual 36 hours workweek. The legally-mandated minimum wage is subject to semiannual living cost 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,950
Total Manufacturing		10,451
Food & Kindred Products	1,387	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Chemicals and Allied Products	4,103	
Metals, Primary & Fabricated	625	
Machinery, except Electrical	1,227	
Electric & Electronic Equipment	869	
Transportation Equipment	121	
Other Manufacturing	2,118	
Wholesale Trade		4,453
Banking		139
Finance/Insurance/Real Estate		17,976
Services		1,040
Other Industries		1,411
TOTAL ALL INDUSTRIES		37,421

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

NORWAY

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	123.2	146.0	155.1
Real GDP Growth (pct)[3]	5.0	3.3	5.3
GDP by Sector:			
Agriculture/Fishing	3.1	3.5	3.3
Energy and Shipping	21.4	25.0	29.8
Manufacturing	-14.7	18.6	19.9
Services	36.2	47.3	48.1
Government	19.6	22.8	24.0
Per Capita GDP (USD)	28,385	33,418	35,161
Labor Force (000s)	2,131	2,151	2,245
Unemployment Rate (pct)	5.4	4.9	4.3
Money and Prices (annual percent change):			
Money Supply (M2)	6.6	5.1	4.9
Consumer Price Inflation	1.4	2.4	1.3
Exchange Rate (NOK/USD)	7.06	6.34	6.47
Balance of Payments and Trade:			
Total Exports (FOB)[4]	34.6	41.9	47.0
Exports to United States[5]	2.4	3.1	4.0
Total Imports (CIF)[4]	27.3	32.9	34.5
Imports from United States[5]	1.3	1.3	1.6
Merch. Trade Balance[4]	7.3	9.0	12.5
Balance with United States[5]	1.1	1.8	2.4
Current Account Surplus/GDP (pct)	2.4	3.1	6.6
External Public Debt	9.3	9.8	7.3
Debt Service Payments/GDP (pct)[6]	0.1	0.1	0.2
Fiscal Surplus/GDP (pct)	−3.3	0.4	3.8
Gold and Foreign Exchange Reserves	20.0	22.7	30.0
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1996 Figures are all estimates based on monthly data in November 1996.
[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; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] Principal payments.

1. General Policy Framework

Energy—including oil, gas, and hydropower—will continue to dominate Norway's resource base and drive the country's economic growth for at least the next two decades. Offshore, Norway's remaining discovered oil reserves will last for another 16 years at current extraction rates, while the equivalent figure for natural gas is 108 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. Availability of labor is limited by Norway's small 4.3 million population and a restrictive immigration policy. Norway is also a high-cost country with a highly centralized collective bargaining process and generous social welfare benefits. Several inefficient sectors, including agriculture, survive largely through subsidies and protection from international competition. These sectors face a long period of adjustment as the government implements its obligations under the World Trade Organization (WTO) and the European Economic Area (EEA) Accord, which is bringing Norway into the European Union's (EU's) "Single Market."

State intervention in the economy is significant. The government owns just over 50 percent of domestic businesses, including a majority stake in the two largest industrial conglomerates and the two largest commercial banks. While new legislation governing investment was implemented in 1995 to meet EEA and WTO obligations, there is still some screening of foreign investment and restrictions on foreign ownership.

The government's dependence on petroleum revenue has increased substantially since the early 1970's, now generating over 15 percent of total government revenue. Following the 1986 collapse of world oil prices, the government used oil revenue to cover shortfalls in the non-oil portion of the budget in the 1986–1994 period. With GON budgets in surplus since 1995, Norway has eliminated its net foreign debt. The government is projecting a budget surplus of about $ five billion (2 percent of the budget) for 1996. The surplus is being set aside in an oil fund to supplement future budgets after 2015, when oil revenues may be substantially less.

No general tax incentives exist to promote investment, although tax credits and government grants are offered to encourage investment in northern Norway. Several specialized state banks provide subsidized loans to sectors including agriculture and fishing. Transportation allowances and subsidized power are also available to industry.

Although rejecting EU membership in November 1994 following a national referendum, Norway has preferential access to EU markets and theoretically is bound to nearly all EU directives (except that regulating agriculture) through the EEA Accord which entered into force in January 1994. The ruling labor party recently announced it does not plan to apply for EU membership in the 1997–2000 period.

The government controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the Central Bank overnight lending rate. Since the government's priority is to maintain a stable exchange rate, the Central Bank's flexibility is limited in using the money supply as an independent policy instrument.

2. Exchange Rate Policy

The Norwegian Krone remains on a managed float with the central bank using open market operations and interest rate policy to keep the currency stable. While the Krone was unpegged from the ECU in December 1992, Norway continues to keep the Norwegian Krone stable vis-a-vis European currencies included in the ECU. The Krone has remained relatively stable vis-a-vis the dollar during 1996.

Quantitative restrictions on credit flows from private financial institutions were abolished in the late 1980's. Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating within Norway have never reported problems to the Embassy in remitting payments.

3. Structural Policies

The government's highest economic priorities include maintaining high employment, generous welfare benefits, and rural job opportunities. Thus, parts of mainland economy—particularly agriculture and rural industries—remain protected and 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 for the manufacturing sector, support remains significant in areas including 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. However, large parts of the transportation and telecommunications markets remain subject to restrictive regulations, including statutory barriers to entry. Looking ahead, the GON remains committed to an ambitious structural reform program which may gradually improve U.S. market access, but progress will likely be slow for political reasons.

4. Debt Management Policies

Norway's prudent budgetary and foreign debt policies in recent years are limiting the state's exposure in foreign markets. The government's gross external debt (foreign liabilities) of about $10 billion at the end of 1995 has declined through 1996 and will likely continue to do so in 1997 thanks to Norway's improved budgetary position. Norway's net foreign debt (foreign liabilities less foreign assets) evaporated in mid-1995 with rising foreign trade surpluses contributing to the improvement.

Since 1990, the Government has allowed the private sector increased access to long-term foreign capital markets to facilitate improvements in the term structure of its foreign debt. Following the floating of the krone, foreign capital inflows have contributed to falling Norwegian interest rates.

5. Significant Barriers to U.S. Exports

Norway supports the principles of free trade but significant barriers to trade remain in place. While Norway is in the process of reforming its agricultural support regime, the government maintains high agricultural tariffs which are administratively adjusted when internal market prices fall outside certain price limits. These unpredictable administrative tariff adjustments disrupt advance purchase orders and severely limit agricultural imports into Norway from the U.S. and other distant markets.

State ownership in Norwegian industry continues to raise competitive issues in a number of sectors including telecommunications, financial services, oil and gas, and alcohol and pharmaceutical distribution. Despite some ongoing reforms, Norway still maintains regulatory practices, certification procedures and standards that limit market access for U.S. materials and equipment in a variety of sectors, including telecommunications and oil and gas materials and equipment.

While there has been substantial banking reform, competition in this sector still remains distorted due to government ownership of the two largest commercial banks, and the existence of specialized state banks which offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcohol and medical drugs, which historically have been handled through state monopolies. Norway is obligated to terminate these monopolies under the EEA Accord but implementation is slow. The European Free Trade Association (EFTA) Surveillance Agency (ESA—the organization responsible for ensuring EEA compliance) has been monitoring Norway's progress in these areas. While Norwegian policy clearly favors liberalization, progress has been limited due to opposition by Norwegian trade unions and other interest groups which are concerned about safeguarding national ownership.

6. Export Subsidy Policies

As a general rule the Government of Norway does not subsidize exports, although some heavily subsidized goods, such as dairy products, may be exported. The Government indirectly subsidizes chemical and metal exports by subsidizing the electricity costs of manufacturers. In addition, the Government provides funds to Norwegian companies for export promotion purposes. Under its WTO obligations, Norway is reducing its agricultural subsidies in stages over 6 years. Norway has also ratified the OECD shipbuilding subsidy agreement and probably will eliminate shipbuilding subsidies when the agreement is ratified by the United States.

7. Protection of U.S. Intellectual Property

The impact of Norwegian intellectual property practices on U.S. trade is negligible. 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 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. *The Right of Association:* Workers have the right to associate freely and to strike. The Government can invoke compulsory arbitration under certain circumstances with the approval of Parliament.

b. *The Right to Organize and Bargain Collectively:* All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited by law and does not exist.

d. *Minimum Age for Employment of Children:* Children are not permitted to work full time before age 15. Minimum age rules are observed in practice.

e. *Acceptable Conditions of Work:* Ordinary working hours do not exceed 37.5 hours per week, and 25 working days of paid leave are granted per year (31 for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The Workers' Protection and Working Environment Act of 1977 assures all workers safe and physically acceptable working conditions.

f. *Rights in Sectors with U.S. Investment:* Norway has a tradition of protecting worker rights in all industries, and sectors where there is heavy U.S. investment are no exception.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		3,516
Total Manufacturing		591
Food & Kindred Products	(1)	
Chemicals and Allied Products	14	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	-9	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		265
Banking		126
Finance/Insurance/Real Estate		230
Services		73
Other Industries		104
TOTAL ALL INDUSTRIES		4,904

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

POLAND

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	92.6	115.2	140.1

Key Economic Indicators—Continued

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

	1994	1995	1996
Real GDP Growth (pct)	5.0	7.0	5.5
GDP by Sector (pct):			
Agriculture	6.2	6.6	6.3
Manufacturing	24.3	28.9	29.8
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (USD)	2,402	3,057	3,400
Labor Force (000s)	17,762	17,597	17,465
Unemployment Rate (pct)	16.0	14.9	13.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	38.3	34.9	21.0
Consumer Price Inflation	29.5	21.6	19.0
Exchange Rate (PZL/USD—annual average)	2.27	2.42	2.85
Balance of Payments and Trade:			
Total Exports (FOB) [1]	17.2	22.9	25.2
Exports to United States [2]	0.7	0.7	0.6
Total Imports (CIF)	21.6	29.1	35.7
Imports from United States [2]	0.6	0.8	1.0
Trade Balance	−4.3	−6.2	−10.5
Balance with United States [2]	0.1	−0.1	−0.3
Current Account Deficit/GDP (pct) [3]	1.7	1.9	−0.4
External Public Debt	42.2	44.0	44.0
Debt Service Payments/GDP (pct) [4]	3.0	1.5	2.0
Fiscal Deficit/GDP (pct)	2.7	2.6	2.6
Gold and Foreign Exchange Reserves	6.0	15.0	17.0
Aid from United States (USD millions)	75	90.4	66
Aid from All Other Sources (USD millions)	330	390	419

[1] Polish trade figures, which include direct trade only. As a result, figures quoted for Polish-U.S. trade differ from U.S. data (which include transshipments via third countries).
[2] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[3] Including estimated unrecorded trade.
[4] Debt service includes interest and principal.

1. General Policy Framework

Introduction: Poland capped its seventh year of transition to a free market economy by joining the Organization for Economic Cooperation and Development (OECD) in 1996. Poland has steadfastly pursued a policy of liberalizing trade, investment and capital flow measures; it stands out as one of the most successful and open transition economies, with 7 percent GDP growth in 1995 and estimates of 5–6 percent through the year 2000. 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 at least two-thirds of economic activity and 70 percent of exports. In contrast, Polish agriculture, which employs 27 percent of the labor force but contributes only 6 percent of GDP, remains handicapped by structural problems, inefficient small farms, and lack of investment. A shadow "grey economy" is estimated at almost 20 percent of GDP.

Government Priorities: For economic, political, security, and cultural reasons, Poland has placed a premium on joining Western institutions. Poland's main foreign economic policy goal is European Union (EU) membership. Its Association Agreement with the EU entered into force in 1994; accession negotiations should begin in late 1997–early 1998, and membership by 2002 appears realistic. U.S. exporters may find themselves at a growing disadvantage vis-a-vis EU exporters through the year 2002 as Poland eliminates duties on the latter's exports. Poland also supports regional integration via the Central European Free Trade Agreement (CEFTA), which includes Slovakia, Slovenia, Hungary, and the Czech Republic. CEFTA eliminates most tariffs on industrial goods in 1997 and agricultural goods in 1998.

Recent Major Changes: The national government has devolved significant economic authority to regional governments, including responsibility for privatizing and restructuring some 1,200 state-owned enterprises. The 1996 law on the reorganization of governmental ministries mandates that, by October 1997, ministries with regulatory authority (telecommunications, transportation, economy) will no longer be the owner of the enterprises they regulate.

Fiscal Policy: For the past 3 years, the government has held the budget deficit to less than 3 percent of GDP. Domestic commercial banks finance most of the deficit. Further progress on public finance depends on comprehensive reform of the social welfare system and privatization of Poland's large remaining state sector. The social welfare system consumes almost 20 percent of GDP, funded in part by a 48 percent payroll tax. In 1996, Poland successfully developed a mass privatization plan through national investment funds. However, privatization of "sensitive sectors" has been delayed by the government's decision to form industry-wide holding companies; the government has also postponed long-awaited privatizations in copper, aviation, energy, and telecommunications.

Monetary Policy: The President of the independent National Bank of Poland (NBP) sets monetary policy and has attempted to curb inflation through control of the money supply. The NBP's principal tools have been reserve requirements, basic interest rates, and open market operations. The NBP succeeded only partially in sterilizing a huge surge in capital inflows in 1995; the resulting pressure on the money supply kept inflation above 20 percent. Despite a slowdown in foreign exchange reserve growth in 1996 (8 percent vs 55 percent in 1995), inflation remained around 18–20 percent.

2. Exchange Rate Policies

In 1991 the NBP began managing the exchange rate through a crawling peg mechanism; it currently devalues the zloty 1 percent per month against a basket of reserve currencies (in percentage terms: Dollar—5; D-Mark—5; Sterling—0; and French and Swiss Francs—5 each). In mid 1995, the NBP allowed the zloty to float within a 7-percent band of the peg. The slowing of the crawl rate has led to a real appreciation of the zloty in 1995–96 (17 percent) and a resulting loss in competitiveness for Polish exporters, which should benefit U.S. exporters.

In 1995 Poland achieved IMF Article VIII current account convertibility; in 1996, it allowed Polish firms to retain foreign currency earnings by eliminating the requirement to convert them into zloty. As part of the OECD accession process, Poland liberalized rules governing capital account transactions; it will remove nearly all limits on capital account outflows by Polish citizens on January 1, 1997.

3. Structural Policies

Prices: Most subsidies and controls on the prices of consumer goods were eliminated in Poland's 1990 "big bang" shock therapy. Price controls on fuel and electricity continue, though the Polish Government has pledged to the EU to deregulate prices and start to privatize both sectors in the next several years.

Taxes: Poland successfully introduced a value added tax in 1993. In 1996 the Polish Parliament voted to reduce corporate tax, currently 40 percent of net profit on Poland-source income, gradually to 32 percent by 2000. In 1995, Poland established a series of special economic zones which provide foreign investors with substantial tax holidays for several years. Personal income tax rates range from 21 to 45 percent, though the Ministry of Finance would like to lower the highest rate to 40 percent by 2000. U.S. investors often complain about inconsistent tax administration. The lowering of tariffs from WTO, EU and CEFTA commitments and the elimination of the 3 percent import surcharge in 1997 will substantially diminish customs receipts.

Regulatory Policies: The primary difficulties concern product certification standards (below) and regulation of telecommunications, in which the Ministry of Communications has allowed the government monopoly, TPSA, to pursue predatory pricing and business practices. New products/technology never before sold in Poland require Ministry of Industry approval.

4. Debt Management Policies

Poland's foreign debt situation has dramatically improved since its default in the 1980's. The 1991 agreement with the Paris Club, together with the 1994 deal with the London Club of commercial banks, reduced debt by nearly half ($23 billion in net present value terms). At the end of 1996, Poland's total foreign debt stood at $44 billion, including $27.7 billion to the Paris Club, $7.7 billion to the London Club, and $2.5 billion to the World Bank. Total repayments for 1996 totaled $2.8 billion ($1.2 billion in principal, $1.56 billion in interest), amounting to 11.1 percent of exports and 2.0 percent of GDP. Flush with soaring foreign exchange reserves, Poland fully repaid its IMF drawings in July 1995. In 1995 it also received an investment grade rating from various rating agencies and returned to international capital markets with a $250 million Eurobond flotation. Polish officials noted at the time of the second modest (DM250 million) issuance in 1996 that the primary goal was to establish creditworthiness, since domestic borrowing fully covered the government's needs. Total state debt (foreign and domestic) shrank to 56 percent of GDP by 1996.

5. Significant Barriers to U.S. Exports

Import Licenses: Poland requires import licenses for strategic goods on the Wassenaar dual use and munitions lists. It also issues licenses for beer and wine, fuel, tobacco, dairy and poultry. The plant quarantine inspection service issues a mandatory phytosanitary import permit for all imports of live plants, fresh fruits, and vegetables into Poland. Certificate applications must specify the product, time of delivery, and place of entry, and certify that the product is free of specified diseases, insects, and weeds. Poland's quarantine list contains many common weeds such as "ragweed" (ambrosia). Without special protocols between the Ministry of Agriculture and the Plant Quarantine Inspection which "bypass" these requirements, U.S. grain exports to Poland would come to a halt.

The Veterinary Department issues similar certificates for meat and meat products (fish excepted), dairy products, eggs, and live animals. U.S. dairy and beef cattle genetics have only limited access to the Polish market because of import approval procedures, restrictions, and fees administered by the Central Animal Breeding Office (CABO). The CABO system is not transparent and may not be consistent with WTO rules. Poland is preparing a new animal breeding law which will affect future access for livestock genetics products.

Services Barriers: Poland still maintains significant barriers in services. Telecommunications and financial services are the leading examples. In its April 1996 WTO offer, Poland agreed to break the domestic voice transmission monopoly of Polish Telecom (TPSA) no earlier than 2003 and made no commitment on international voice (facilities and resale) and satellites; negotiations to improve that offer continue. While Poland permits foreign banks to establish subsidiaries in Poland, either wholly-owned or as joint ventures, the NBP has indicated foreign banks must bail out an ailing Polish bank in order to receive their own banking licenses. Under its OECD accession agreement, Poland agreed to allow unlimited bank and insurance branches as of January 1, 1999 (it has not issued any such branch bank licenses since it granted two in 1991; all insurance firms, foreign and domestic, currently must be established as joint-stock companies).

Article 44 of Poland's 1994 Association Agreement with the EU provides for national treatment and full rights of establishment for subsidiaries, branches, and agencies, with a 5-year phase-in period (until February 1, 1999), along with a "no new restrictions" clause. Poland pledged to the OECD that all such liberalization measures would also be extended to all OECD members. These commitments notwithstanding, the Polish Parliament (Sejm) has drafted a law which would limit the right of new foreign law firms to provide advice on topics other than foreign and international law, though the U.S. and EU Governments have protested this as being inconsistent with national treatment commitments in the Association Agreement, the WTO's General Agreement on Trade in Services (GATS) and the OECD.

Standards, Testing, Labelling, and Certification: The primary Polish regulation adversely affecting U.S. exports is a requirement for some 1400 products sold in Poland to obtain a safety "B" certificate from the Center for Testing and Certification (PCBC) or one of 15 specialized institutes supervised by the PCBC. Poland is currently reforming its product certification system, which does not automatically recognize international product standards. New product liability and safety laws should be implemented in early 1998, allowing for acceptance of producer declarations (so-called "self-certification") of the "CE" mark. Despite initialing an agreement with the European Commission in February 1996, PCBC has not begun automatic recognition of third party issuances of the "CE" product standard. As a result of these difficulties, Poland has agreed to suspend full implementation of the "B" system, which includes the levying of fines up to 100 percent of the value of the goods sold, through 1997.

Because of the need to gain separate "B" certification, U.S. exports meeting international standards (ISO, CE) might not receive Polish approval, pending appeals on technical grounds. U.S. companies have also complained about the length of time for product certification, the need to leave the product at the lab for the entire process, the need to have spare parts tested, the necessity of having the product tested in Poland, inappropriate standards for new products, and vague information on costly testing fees.

Investment Barriers: Polish accession to OECD in 1996 accelerated changes facilitating foreign investment, including national treatment, easing capital flow restrictions, and streamlining regulations on foreign purchase of land. Polish law permits

100 percent foreign ownership of most corporations (sole proprietorships and partnerships not allowed; the legal form requirement will remain through January 1, 1999). However, the current coalition has declared that the state should retain a key role in certain "strategic sectors": mining, steel, defense, transportation, energy, banking, and telecommunications. The OECD has stated that Poland limits foreign participation in too many sectors, citing telecommunications, aviation, insurance, broadcasting, and casino operations.

While foreigners may own 100 percent of a corporation, the Polish State Treasury often retains a significant stake in enterprises being privatized and restricts foreign ownership to less than 50 percent in sensitive industries (listed above). Foreign companies owning a strategic minority stake are meant to have managerial control of the enterprise, but in at least one joint venture, Centertel, the supposedly passive Polish majority stake holder (TPSA—state-owned telecommunications monopoly) seized managerial control from the minority foreign partners and prevented additional investment, leading the U.S. partner to file for arbitration.

Certain controls remain on foreign investment. Broadcasting legislation restricts foreign ownership to a 33 percent stake; this forced HBO to abandon its plans for a broadcasting operation in Poland in favor of transmitting programming produced in Hungary by satellite. The management of sea and airports requires authorization, and foreign stakes in air and maritime transport, as well as fisheries, are capped at 49 percent. The government has proposed auto assembly/manufacturing regulation changes which would encourage operators to increase domestic content and move toward full manufacturing operations.

In 1996, Poland also adjusted laws on foreign purchase of real estate. Foreign companies no longer need to obtain pre-approval before bidding for a project or privatization, and it is possible to purchase an apartment, 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, requires approval from the Ministry of Interior, with the consent of the Defense and Agriculture Ministries. The Interior Ministry has pledged to process permit applications within 30 days.

Government Procurement Practices: Poland's new government procurement law came into effect in January 1995 at the national level and in January 1996 at the regional (Gmina) level. It is modelled on the U.N. model procurement code and based on competition, transparency, and public announcement. It does not, however, cover most purchases by state-owned enterprises. The only single source breaches of the stated preference of unlimited tender come for reasons of state security or national emergency. There have been complaints by U.S. companies that several defense-related tenders announced prior to the procurement code's entry into force were neither transparent nor awarded on the basis of technical merit or price considerations. The law established a central Office of Public Procurement and a National Bulletin of Public Procurement listing all tenders over 20,000 ECU. The bulletin is available in English on the Internet: http://www.Urm.Gov.Pl/uzp/indexuzp.Htm/. Poland has indicated its intention to join the WTO's Government Procurement Agreement (GPA) in 1997.

There are two elements of domestic preference in Poland's procurement policy. First, there is a mandated 50 percent domestic content for all goods and services provided; for construction, it is 50 percent of both raw materials and labor. In addition, domestic bidders are given a 20 percent price preference. According to implementing regulations, companies with foreign participation organized under the Joint Ventures Act of June 14, 1991 may qualify for "domestic" status under procurement laws. There is also a protest/appeals process for tenders viewed to be unfairly awarded.

Customs Procedures: Members of the American Chamber of Commerce in Poland have been critical of Polish Customs' performance, citing long delays, indifferent and incompetent officials, and inconsistent application of customs rules. The Polish Government acknowledges the problems that have developed since the opening of Poland's economy in 1989 overwhelmed border and port facilities and personnel. The Parliament (Sejm) is expected to pass a comprehensive overhaul of the Customs Law and procedures in mid-1997, including preferential treatment for large customers with a proven track record.

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 and the CEFTA agreement grants EU and CEFTA country firms certain tariff preferences over U.S. competitors.

6. Export Subsidies Policies

With its 1995 accession to the WTO, Poland ratified the Uruguay Round Subsidies Code. Poland has announced its intention to join the OECD Code on Shipbuilding but is negotiating a 5-year restructuring transition period. 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 in finished products within thirty days. A new law restructuring the sugar refining industry finances what amounts to export subsidies for sugar from high domestic prices. Most Polish coal, whether sold domestically or abroad, is sold for a price less than the cost to mine it. A number of politically powerful state-owned enterprises continue to enjoy special tax breaks—the largest source of subsidies left for Polish industry.

In general, Polish industry and exporters have been critical of the government for not providing more support for export promotion. The one existing financing scheme (KUKE) 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.

7. Protection Of U.S. Intellectual Property

The Polish 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, audiovisual 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, in all other ways adequate, did not provide 20 year pipeline protection favored by the pharmaceutical industry.

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.

While enforcement has improved noticeably, remaining difficulties, particularly in the prosecution of IPR cases, allow for continuing, if reduced, levels of piracy and trademark infringement. 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, working closely with police and prosecutors, and pursuing the case under the unfair competition clause in Poland's Criminal Code (art. 24) rather than under the trademark provisions of the Civil Code (art. 57).

8. Worker Rights

The new labor code effective June 1996 thoroughly redefined the rights and duties of employers and employees in much more general, less intrusive, 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 reported that these rights were largely observed in practice.

b. *The Right to Organize and Bargain Collectively:* The laws on trade unions and resolution of collective disputes (which date from 1991) 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. The absence of strong, independent employers' organizations has complicated collective bargaining.

c. *Prohibition of Forced or Compulsory Labor:* Poland has ratified ILO conventions 29 and 105 on forced labor. Compulsory labor, except for prisoners convicted of criminal offenses, is prohibited by law. There have been no reports of coerced or bonded labor.

d. *Minimum Age for Employment of Children:* Polish law contains strict legal prescriptions over the conditions in which children may work. In 1995, however, the state labor inspectorate 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 grey economy, along with the insufficient number of labor inspectors, complicate enforcement of minimum wage requirements (currently about 75 cents/hour) and minimum workers' health and safety standards. Enforcement is a significant problem because the State Labor Inspectorate is unable to monitor sufficiently the state or private sector, home to a growing percentage of accidents.

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 of 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 ("greenfield") facilities.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		527
Food & Kindred Products	203	
Chemicals and Allied Products	40	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	5	
Electric & Electronic Equipment	5	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		79
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		47
TOTAL ALL INDUSTRIES		787

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

PORTUGAL

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	87.0	103.5	107.2
Real GDP Growth (pct) [3]	0.7	2.4	2.8
GDP by Sector:			
Agriculture	4.3	5.0	5.0
Industry	30.7	36.9	38.8
Services	52.0	61.6	63.8
Per Capita GDP	8,790	10,452	10,824
Labor Force (000s)	4,530	4,520	4,551
Unemployment Rate (pct)	6.8	7.2	7.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.3	8.1	8.7
Consumer Price Inflation (pct)	5.2	4.1	3.1
Exchange Rate (PTE/USD—annual average)	165.9	150.0	155.0
Balance of Payments and Trade:			
Total Exports (FOB) [4]	18.6	24.1	25.8
Exports to United States [5]	0.9	1.1	1.0

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Total Imports (CIF)[4]	26.6	32.6	34.2
Imports from United States[5]	1.1	0.9	1.0
Trade Balance[4]	−8.1	−8.5	−8.4
Balance with United States[5]	−0.2	0.2	−0.1
Current Account Deficit/GDP (pct)	1.7	0.2	1.0
External Public Debt	8.6	12.3	13.6
Debt Service Payments/GDP (pct)	4.8	5.5	4.9
Fiscal Deficit/GDP (pct)	5.7	5.2	4.0
Gold and Foreign Exchange Reserves	21.3	21.7	22.3
Aid from United States	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in November 1996.
[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; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The government seeks to modernize Portuguese markets, industry, infrastructure, and workforce in order to match the productivity and income levels of its more advanced European Union (EU) partners. Portugal's per capita GDP (on a purchasing power parity basis) will be close to 70 percent of the EU average by the end of 1996.

The government aims to be in the first tier of EU countries eligible to join the Economic and Monetary Union (EMU) on January 1, 1999. To this end, Portugal will continue to reduce inflation, budget deficits, public debt, and interest rates in line with EMU convergence criteria. The current policy mix to meet these criteria includes continued budget discipline and tight monetary policy in support of a stable exchange rate; wage moderation to support the disinflation process; and privatization and free trade policies to increase the efficiency and productivity of the economy.

Portuguese agriculture accounts for about 5 percent of GDP, industry for 35 percent, and services for 60 percent. Portuguese exports are based on traditional industries—textiles, clothing, footwear, cork/wood products, beverages (wine), porcelain/earthenware, and glass/glassware—as well as machinery, transport equipment (autos and components), minerals/metals, and chemicals. The multibillion dollar AutoEuropa project that started up in 1995 to produce Ford and Volkswagen vans for export to European markets has steadily increased output and now accounts for a substantial proportion of Portuguese exports and GDP. The tourism industry continues to expand: some 21 million tourists visit Portugal each year from Spain, the United Kingdom, Germany, France, and the United States.

Portugal traditionally runs a large merchandise trade deficit, which is made possible by net receipts from tourism, remittances from Portuguese workers abroad, and net transfers from the EU. Net EU transfers in 1997 are expected to be about $3.5 billion, or 3.1 percent of GDP. During 1989–1995, Portugal's current account was broadly in balance and foreign direct investment averaged close to $2 billion, or 2.3 percent of GDP.

Fiscal Policy: The government finances its deficit through issuance of medium-term escudo and foreign currency-denominated treasury obligations. The risk premium on 10-year escudo-denominated bonds versus equivalent German bonds declined from over 400 basis points in October 1995 to about 150 basis points in November 1996. The GOP enjoys a solid international credit rating and has ready access to international financial markets. Three kinds of government spending put pressure on the deficit: government personnel outlays, including pensions; current transfers for social programs; and domestic counterpart funding for major public investment projects co-financed with the EU. As in other EU countries, value-added taxes (17 percent in Portugal's case) raise prices to consumers. Other direct taxes, such as the stamp tax on financial transactions, and the cylinder-based automobile tax, affect product demand in specific markets.

Monetary Policy: The government subordinates monetary policy to the need to maintain a stable exchange rate. Interest rates and the monetary aggregates therefore generally reflect market conditions. The Bank of Portugal intervenes as necessary—through liquidity absorption/provision and foreign exchange operations—to smooth market exchange rate fluctuations and ensure medium-term price stability.

2. Exchange Rate Policyy

Portugal participates in the exchange rate and intervention mechanism (ERM) of the European Monetary System (EMS). In accordance with this agreement, Portugal maintains the spot exchange rates between the Portuguese escudo and the currencies of the other participants within margins of 15 percent above or below the cross rates based on the central rates expressed in European Currency Units (ECUs).

The monetary authorities have kept the escudo within a narrow band around its central rate against the German mark for the past 2 years. Since the partial realignment of the central rate in March 1995, the escudo has appreciated from 105 to 101 escudos per German mark. During 1995–1996, real appreciation of the escudo against the dollar improved the price competitiveness of U.S. exports by some 8 percent: the escudo appreciated about 6 percent against the dollar, while Portuguese inflation exceeded that of the United States by about 2 percentage points. U.S. exports to Portugal increased accordingly over this period, although increased economic growth/import demand in Portugal was an even more important reason for continued expansion of U.S. exports to Portugal.

3. Structural Policies

The Portuguese Government continues to liberalize the economy to stimulate growth and convergence with EU standards. Investment in new public infrastructure, privatization and foreign direct investment are changing the face of the economy and creating demand for U.S. exports.

Portugal is rapidly improving its road, energy, health, and environmental infrastructure. The government has earmarked a large portion of its $23 billion EU-backed regional development financing package for 1996–2000 for new infrastructure projects. Site construction and associated urban renewal for the Lisbon World Exposition in 1998 involves investment of $5 billion in the Lisbon area, of which $3 billion will have been made by 1998. A $4.5 billion natural gas pipeline from Algeria through Morocco to Spain and Portugal involves investment of $2 billion in Portugal and will supply 2.5 billion cubic metres of natural gas per year for 25 years on a take-or-pay basis. The northern rail modernization, subways, dams, water treatment facilities, and environmental projects offer numerous additional opportunities for U.S. exporters of equipment and services.

The government has been steadily rolling back the state presence in the economy since joining the European Community in 1986. Full or partial privatization of over 120 companies since 1989 has reduced the weight of the state-held sector in the economy from 20 percent to 10 percent. By the end of 1996, privatization will have yielded over $12.2 billion in cumulative receipts, equivalent to an average of 1.7 percent of GDP per year, one of the highest ratios in the OECD. Privatization has helped to reduce public debt, increased the efficiency of Portuguese industry, promoted the development of the local equity market, and contributed to the development of more sophisticated Portuguese industrial and financial groups. State-owned companies in sectors such as telecommunications, steel, cement, and basic chemicals will be streamlining and upgrading operations under private management and thereby creating new markets for U.S. goods and services.

Foreign investment in the automotive, electronics and financial sectors are steadily integrating Portugal's economy with those of Europe and other developed countries. These investments have direct spillover effects for U.S. exports.

4. Debt Management Policies

Portugal's external debt is relatively small and can be serviced comfortably. Effective direct state external debt stands at about $14 billion—13 percent of GDP and 60 percent of international reserves. In July 1996, the debt service ratio stood at 11.8 percent, with long-term principal and interest payments amounting to 9.4 percent and 2.5 percent, respectively, of current account receipts. Large gold and foreign exchange reserves (amounting to 21 percent of GDP), and the ability to tap international financial markets on favorable terms, enable Portugal to manage balance of payments pressures and maintain financial stability.

Portugal is an aid donor nation and closely follows development issues in its former African colonies. Portugal's aid as a proportion of GDP exceeds the average for the OECD Development Assistance Committee members. Portugal participated in the debt rescheduling negotiations for Algeria in the Paris Club with respect to its export credits to Algeria. It conducted a bilateral rescheduling of export credits to Angola.

5. Significant Barriers to U.S. Exports

As of January 1, 1993, all barriers to trade, capital flows and labor mobility between Portugal and its EU partners were eliminated. Most barriers to U.S. exports, therefore, are common to all EU member states.

Quantitative import restrictions remain for the following products: automobiles, fabrics and nets, fuses, parts of footwear, iron and steel tubes and pipes, and weaving machines for certain countries. Textiles are covered by the Multi-Fiber Arrangement (MFA) and protected by EU-wide quotas that will be phased out over 10 years under the Uruguay Round Agreement.

Portugal follows EU directives for standards, testing, labeling, and certification. The Portuguese Quality Institute establishes national standards and implements EU directives. Portugal has already adopted most EU directives into Portuguese law. The Portuguese Telecommunications Institute sets standards for telecommunication products, and the National Laboratory of Civil Engineering sets construction standards.

Low voltage electrical and electronic equipment must meet the requirements of EC directive 73/23/EEC. Imported textiles, apparel, and leather goods must carry a label indicating country of origin and composition by percentage of the fabric.

EU-funded Projects: 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 they must partner with an EU or a Portuguese firm (depending on the project) in order to receive full consideration. For certain high-profile direct imports (i.e., aircraft), the GOP has shown a political preference for EU products (i.e., Airbus).

Value-Added Tax: Value-added tax (IVA) is collected at the time of import on products coming from outside the EU. Portuguese importers and distributors therefore have an incentive to import U.S. products through another EU country, rather than directly from the United States, in order to defer paying IVA until the product has been sold. In some instances, however, the need to take a circuitous route to obtain U.S. products without up-front IVA payment encourages Portuguese importers/distributors to buy European products instead.

Policymakers see foreign investment as a crucial pillar in building a more competitive economy. The government offers a generous package of incentives to investors, including 100 percent foreign-owned subsidiaries. The package of incentives ranges from 25 to 35 percent of the total investment but can go higher to attract certain desired investments.

Portugal's 1990 privatization law limits foreign participation in state-owned enterprises being privatized. Portugal limits foreign (non-EU) investment to 15 percent in television broadcasting and 25 percent in telecommunications firms. Only companies headquartered in Portugal and whose majority of capital and management control belongs to Portuguese national entities can receive licenses to operate marine and air transport. Air transport between the Azores and Madeira and mainland Portugal remains a public monopoly.

Government procurement legislation makes no distinction as to country of origin. The only exception is for purchases of items manufactured in Indonesia. In July 1993, the GATT accepted Portugal's list of entities covered by the Government Procurement Code.

6. Export Subsidies Program

Portugal instituted the Special Program of Support for the Export Sector (PEASE) to promote diversification of Portugal's export markets. Under this program, the government contracts with a private insurance firm, COSEC, to provide political risk coverage for interbank credit lines to support Portuguese exports to "non-traditional" (high-risk) markets.

State-owned Banco de Fomento e Exterior (BFE), which owns 40 percent of COSEC, executes the transactions for the government. Through BFE, the government has established credit lines and agreements with financial institutions in 17 target markets: Algeria, South Africa, Argentina, Czech Republic, Iran, Morocco, Zimbabwe, Chile, Hungary, Israel, Tunisia, Namibia, Venezuela, Slovenia, Brazil, Poland, and Mexico. BFE also maintains a short-term credit line with the National Bank of Angola in the amount of US$10 million to support exports to Angola of consumer and intermediate goods of Portuguese origin.

7. Protection of U.S. Intellectual Property

The Portuguese Government passed a revised Code of Industrial Property which became effective on June 1, 1995. The new code conforms with the trademark and patent provisions of the TRIPs agreement. Portugal's current substantive law on copyright protection, promulgated in 1985, is also largely in accordance with TRIPs;

however, the Portuguese Government is currently in the process of transposing EU directives on rental and broadcasting into law. Penalty provisions also have yet to be raised to TRIPs levels. Portugal is a member of the World Intellectual Property Organization and is party to the Berne and Universal Copyright Conventions and the Paris Industrial Property Convention.

On October 20, 1994, Decree Law 252/94, which transposes the EU software law, entered into effect in Portugal. This law explicitly offers copyright protection for computer programs and stipulates stiff fines for software piracy. The government has undertaken efforts to improve enforcement, but small-scale copying occurs. Business and software organizations have taken a proactive role in the fight against piracy, and industry sources indicate that the piracy rate declined in Portugal in 1995. Enforcement action against unauthorized copying of software and audio and video cassettes has also become more common. Nevertheless, Portugal is still near the top of the league for software piracy rates in Western Europe, with a rate of 61 percent in 1995, versus a regional average of 49 percent.

Enforcement of patent laws is sometimes weak, but enforcement agencies are being strengthened. The 1995 Code of Industrial Property significantly increased penalties for trademark violation. Portugal's patent law also contains compulsory license provisions for insufficient use.

8. Worker Rights

a. *The Right of Association:* Workers in both the private and public sectors have the constitutional right to associate freely and establish unions in the workplace "to defend their interests." Unions may be established by profession or industry. Strikes are permitted for any reason, including political causes; they are not common, usually of short duration, and generally are resolved through direct negotiations. There are two principal labor federations. The General Confederation of Portuguese Workers—Intersindical (CGTP-IN) is linked to the Communist Party. It is affiliated with the European Trade Unions Confederation (ETUC). The General Union of Workers (UGT) has links with the Socialist and Social Democratic parties and is affiliated with the International Confederation of Free Trade Unions and the ETUC.

b. *The Right to Organize and Bargain Collectively:* Unions are free to organize without interference by the government or by employers. Collective bargaining is guaranteed by the Constitution and practiced extensively in the public and private sectors. When collective bargaining disputes lead to prolonged strike actions in essential sectors such as health, energy, or transportation, the government is empowered to order the workers back to work for a specific period. Under a modification of the strike provisions, a "minimum level of service" must be provided during strikes in essential sectors.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited and does not occur. This prohibition is enforced by the General Labor Inspectorate.

d. *Minimum Age for Employment of Children:* The minimum employment age is 16 years. The minimum age was raised on January 1, 1997, when a period of 9 years of compulsory schooling took effect. The two main labor federations and observers from other European countries have charged that a number of "clandestine" companies in the textile, shoe, and construction industries exploit child labor. In September 1996, the government created a new inter-ministerial National Commission to Combat Child Labor (CNCTI), tasked with eradicating child labor. New measures the CNCTI will implement include stiffer fines for employers with children on the payroll, subsidies for vulnerable families with children, and curriculum changes to keep children in school. The CNCTI will preside over an upgrading of the government's General Labor Inspectorate, which is responsible for enforcing child labor laws. The Inspectorate's funding, the number of inspectors, and inspections will increase. The Inspectorate reports that thousands of children under age 15 are employed illegally, but believes the number is declining.

Government statistics derived from labor inspections suggest the incidence of child labor has been greatly reduced in recent years. Nevertheless, the Inspectorate acknowledges that the transfer of work involving children from factories and workshops into the home and other settings beyond the reach of inspectors complicates the task of accurately measuring and arresting child labor violations.

e. *Acceptable Conditions of Work:* The national minimum wage (currently 54,600 escudos, or about $360 per month) was last adjusted on January 1, 1996, and is generally enforced. A new law adopted in July 1996 provides for phased reduction of the normal maximum workweek from 44 hours to 40 hours by December 1997. The new law limits regular work hours to 8 hours per day, with a maximum of 2 hours paid overtime per day and 200 per year, and with a minimum interval of 12 hours between normal working days. The law also introduces job flexibility—employers may assign workers tasks beyond those specifically included in their job category.

Another new law provides for the phased reduction of the normal maximum work-week for all hours by 1999, beginning with a reduction to 39 hours in 1996. These working hour limits are respected in practice. Workers receive 22 days of paid annual leave per year, plus vacation and Christmas ("13th month") bonuses. Employers are legally responsible for accidents at work, and are required by law to carry accident insurance. Accidents average between 70,000 and 75,000 per quarter. A relatively large proportion are in the construction industry. These figures have focused the government's attention on improving worker safety, particularly in the construction sector. There is also considerable concern about poor environmental controls in the textile industry.

f. *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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		512
Food & Kindred Products	186	
Chemicals and Allied Products	115	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	35	
Wholesale Trade		382
Banking		(1)
Finance/Insurance/Real Estate		133
Services		281
Other Industries		2
TOTAL ALL INDUSTRIES		1,712

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	30.1	35.5	36.6
Real GDP Growth (pct)[3]	3.9	6.9	4.8
GDP by Sector:			
Agriculture	6.0	7.2	7.1
Industry	9.7	11.6	12.5
Services[4]	14.3	16.7	17.0
Per Capita GDP (USD)	1,325	1,566	1,550
Labor Force (millions)	10.1	10.2	10.1
Unemployment Rate (pct)	10.9	8.9	6.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	138.1	70.9	47.9
Consumer Price Inflation	61.7	27.8	40.0
Exchange Rate (Leu/USD—annual average):			
Official	1,655	2,033	3,000
Parallel	2,003	2,439	3,750

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Balance of Payments and Trade:			
Total Exports (FOB)[5]	6.2	7.5	7.1
Exports to United States (USD millions)[6]	195	222	245
Total Imports (CIF)[5]	7.1	9.5	8.4
Imports from United States (USD millions)[6]	340	253	261
Trade Balance[5]	−0.96	−1.96	−1.33
Balance with United States (USD millions)[6]	−145	−31	−16
Current Account Deficit/GDP (pct)	1.4	3.7	1.9
External Public Debt	4.2	4.9	5.7
Debt Service Payments/GDP	3.7	2.8	2.8
Fiscal Deficit/GDP (pct)	4.2	4.1	4.0
Gold and Foreign Exchange Reserves[7]	2.76	2.39	2.18
Aid from United States (USD millions)	44.1	39.0	26.1
Aid from All Other Sources (USD millions)	200.7	200.7	274.0

[1] All figures for 1996 are estimates extrapolated from data available in November 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Government expenditure is included in services.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Total banking system net foreign assets; end of period.

1. General Policy Framework

In 1996, Romania made further progress toward privatizing its economy and establishing the legal framework for a market economy. The Parliament enacted copyright and antitrust legislation and partially completed work on a bank privatization bill. A government-supported mass privatization program transferred partial equity in 3,900 state-owned enterprises to the general public. The rest is now in the process of being sold to private investors. In October, Romania inaugurated an over-the-counter stock market (RASDAQ) patterned in part after the U.S. NASDAQ. Cumulative foreign investment in Romania rose $450 million in the first 8 months of 1996 to reach $2.05 billion. Finally, in 1996 the country successfully returned to international capital markets, borrowing $1.5 billion.

Preliminary indications are that Romania's economy will grow 4.8 percent in 1996, down from 6.9 percent in 1995. (Per capita GDP measured in dollars has remained stable at around $1,550.) An important factor contributing to slower growth was severe weather, which delayed agricultural planting and sharply cut production. Pushed by election year spending, the consolidated fiscal deficit may reach 4 percent of GDP, considerably above target. This failure coupled with a government attempt to manage exchange rates caused the IMF to hold up planned disbursements of $200 million.

The European Union (EU) remains by far Romania's largest trading partner. In the first 9 months of 1996, the EU received 54.3 percent of Romania's total merchandise exports and provided 61.6 percent of its merchandise imports. In contrast, the United States accounted for only 2.1 percent of Romania's exports and 3.8 percent of its imports during the same period.

2. Exchange Rate Policy

Motivated by a desire to keep domestic energy prices low, the Romanian Government slowed depreciation of the leu through administrative measures. Foreign exchange dealing was restricted to four pliant banks, three of which are state-owned. By late 1996, the system had created a severe disequilibrium in foreign exchange markets, with importers and investors complaining that they could not find dollars at the official reference rate. In late November, the leu was under severe pressure with the gap between the official reference rate (3500 lei/$1) and the rate available at exchange houses (5000/$1) exceeding 40 percent. The administrative controls on the foreign exchange rate are seen factors curbing exports and imports.

3. Structural Policies

Economic reform has entailed creating new laws in virtually every sphere: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. In 1995, the Romanian Parliament enacted laws on bankruptcy and mass privatization. This was followed in 1996 by the passage of antitrust legislation and a modern copyright law, which includes protection for software. A draft law on bank privatization was before Parliament in late 1996. Since 1989, Romania has also gradually liberalized prices and ended most direct producer and consumer subsidies. The main areas of exception are energy, public transportation, bread, milk and meat.

In contrast to progress in legislation and price liberalization, Romania has moved slowly to restructure heavy industry, which remains largely in state hands. Private sector job growth and an election year pause in labor shedding by state enterprises pushed unemployment down to 6.2 percent in late 1996, the lowest level in 5 years. The government maintained a policy of supplying selective indirect subsidies to state-owned industries, many of which are inefficient and highly intensive energy consumers. The backlog of inter-enterprise arrears, both in the public and private sectors, totaled an estimated $6 billion, equivalent to 16 percent of GDP.

4. Debt Management Policies

In 1989, Romania's foreign debt was virtually zero due to the policy adopted by former dictator Ceausescu to reduce foreign influence over the Romanian economy. After the revolution, foreign borrowing resumed, and by the end of 1996 medium and long term external debt amounted to $5.7 billion. In spite of the rapid run-up of external obligations, 1995 debt service amounted to only 11 percent of Romania's exports of goods and services.

Romania has had three standby agreements with the International Monetary Fund (IMF) since 1991. The initial two agreements were terminated by mutual agreement when Romania proved unable to meet targets for monetary growth. Romania is currently out of compliance with the third agreement due to the government's reluctance to liberalize the foreign exchange market and curtail the fiscal deficit. The shortfall of IMF funding has been more than offset by $1.5 billion in borrowings from international capital markets during 1996.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania. There are no laws which directly prejudice foreign trade or business operations, but high tariffs can make some U.S. goods (in particular, agricultural products, computers and telephone equipment) uncompetitive in the Romanian market. Romania is a World Trade Organization (WTO) member but not a signatory to the WTO government procurement agreement.

The changing legal and regulatory environment has been a source of difficulties affecting foreign participation in the Romanian economy. There is little experience in western methods of negotiating contracts and, once concluded, there is no effective means to enforce contracts. In addition, title insurance is not available for property acquisitions and purchasers are potentially subject to legal challenge by former owners or managers. The absence of effective legal means for pressing 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 payments system further delays transactions in Romania. The capital requirements for foreign investors are not onerous, but income taxes are steep. Foreign companies investing over $50 million qualify for certain tax exemptions.

Investment barriers are few in Romania. The Foreign Investment Law allows up to 100 percent foreign ownership of an investment project (excluding land), and there are no legal restrictions on the repatriation of profits and equity capital. Foreigners are permitted to lease land. Governmental approval of joint ventures requires extensive documentation. U.S. investment in Romania is increasing and by mid-October 1996 totaled $164 million, ranking the United States fifth among foreign investors.

Romania will need to attract more foreign direct investment as a source of funding for its current account deficit. This will require taking effective steps to cut both the cost and risk of doing business in Romania.

6. Export Subsidies Policies

The Romanian Government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides for the total or partial refund of import duties for goods that are processed for export or are incorporated into exported products. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters of goods produced in Romania.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. For example, the government has on occasion banned the export of various commodities due to domestic shortages. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property

Romania has made significant progress in the area of intellectual property protection since the end of the communist era. Patent and trademark laws are in place. Copyright legislation, which was enacted in 1996, has sparked new interest among American technology firms in investing and marketing their products in Romania. The Romanian Government has proven receptive to offers of international assistance in enforcement, but has yet to establish a strong enforcement record in the copyright area.

Pirated copies of audio and video cassette recordings are available, but not openly displayed. In a few cases, pirated films are broadcast via local cable television stations. Illegal compact discs sold in Romania are imported, but there are no known exports of pirated products from Romania. Prior to the introduction of the new copyright law, 1995 losses to U.S. companies due to piracy of intellectual property were estimated by private industry associations to be in the range of $100 million.

8. Worker Rights

a. *The Right of Association:* All workers except public employees, police, and military personnel, 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 unionists.

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 legal limitations on the right to strike only in industries such as defense, health care, transportation, and telecommunications, which the government considers critical to the public interest.

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 as young as 14 may work with the consent of their parents or guardians but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are obliged to assist in this regard.

e. *Acceptable Conditions of Work:* Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard workweek of 40 hours, with overtime for work in excess of 40 hours, and paid vacations of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. Nevertheless, some labor organizations press for healthier, safer working conditions. 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. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality. The average gross monthly wage in September 1996 was around $150, insufficient to provide a decent standard of living for families with a single wage earner.

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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		49

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

RUSSIA

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP[2]	163.3	357.5	448.5
Real GDP Growth (pct)	−12.6	−4	−6
GDP by Sector:[2]			
Manufacturing	67.0	145.5	166.0
Services	82.5	184.1	247.6
Per Capita GDP (USD)	1,931	2,457	3,031
Labor Force (000s)	74,972	73,000	73,200
Unemployment Rate (pct)	7.1	8.2	9.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	200	219	25
Consumer Price Index	215	131	26
Exchange Rate (ruble/USD—annual average)	2205	4562	5128
Balance of Payments and Trade:			
Total Exports (FOB)[3]	48.0	59.8	87.3
Exports to United States[4]	3.2	4.0	3.4
Total Imports (CIF)[3]	35.7	31.9	64.1
Imports from United States[4]	2.6	2.8	3.3
Trade Balance[3]	12.3	27.9	23.2
Balance with United States[4]	0.6	1.2	0.1
Current Account Surplus/GDP (pct)	1.3	1.5	N/A
External Public Debt	100	120	140
Debt Service Payments/GDP (pct)	2.5	1.9	2.0
Fiscal Deficit/GDP (pct)	10.4	2.9	5.0
Gold and Foreign Exchange Reserves	6.5	13.6	19.2
Aid from United States (millions of USD)	1,625	286	182
Aid from All Other Sources	N/A	N/A	N/A

[1] Figures are from the Russian Statistics Committee (Roskomstat) and U.S. Embassy estimates.
[2] GDP at factor cost. These figures can only be used as relative approximations due to high inflation and rapid depreciation of the ruble against the dollar.
[3] 1996 trade data are estimates based on first 10 months data.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

At the beginning of 1996, the government and Central Bank of Russia embarked on a 3-year economic stabilization program. The program expands on the tight fiscal policy, restrictive monetary policy, and trade and energy sector liberalization initiatives begun in 1995, and forms the basis for a 3-year $10.2 billion Extended Fund Facility (EFF) credit from the IMF. Through June, Russia successfully met the monthly and quarterly targets under the IMF program, although poor revenue performance substantially compressed spending patterns and election uncertainties sharply drove up borrowing costs. The IMF temporarily delayed disbursements under the EFF in July, and then again in October and November, pending substantial improvement in the revenue situation.

Even as the budget came under increasing pressure due to the revenue shortfall, the authorities continued to pursue tight monetary measures and noninflationary financing of the deficit through the issue of government securities. These steps have led to a drop in inflation from 17.8 percent a month in January 1995 to -0.2 percent a month in August 1996; monthly inflation was running 1–2 percent in the last quarter of 1996.

Early signs of stabilization of Gross Domestic Product and industrial production in the last half of 1995 gave way to a slump in output in 1996 expected to reach 5 percent, according to official statistics, although official data continues to underreport new economic activity. The Russian tax system, which is seen as unfair and highly burdensome, continues to be a major brake on economic growth and investment in Russia. Some domestic producers have turned tax avoidance into high art, and foreign investment is often dissuaded by Russia's complex maze of tax laws and regulations. Growth is also inhibited by Russia's high interest rate environment, where high yielding government securities have effectively crowded out investment in the real economy.

2. Exchange Rate Policy

A currency corridor has been employed by the government since July 1995 to increase ruble stability and to help dampen inflationary expectations. Although the trend is generally toward depreciation, occasionally appreciation pressures on the ruble appear, often connected with external demand for domestic government securities. On July 1, 1996, the corridor was replaced with a crawling band mechanism, whose parameters shifted gradually from R5000–R5600 per dollar on July 1, to R5500–R6100 per dollar at the end of the year. Russia became an IMF Article VIII signatory on July 1, 1996, and has removed almost all restrictions from current account transactions, although significant capital account restrictions continue.

3. Structural Policies

The pace of consolidation of economic liberalization in 1996 slowed in comparison with 1995, which saw passage of laws covering securities, the Central Bank, commercial banks, state regulation of foreign trade activity, and a law on natural monopolies. In 1996 the government has made little progress in deepening privatization. The controversial loans-for-shares program begun in the fall of 1995 has been phased out, although the rights of most of the new shareholders have been upheld in the courts. Actual privatization proceeds have come to only a small fraction of budgeted targets for 1996.

The first part of a new tax code, designed to replace the obsolete collection of tax laws from 1991 and 1992, was passed in 1996. Taxes remain confusing, however, inconsistently applied and subject to constant revision. Taxes are divided between the center and regions according to a revenue-sharing formula, although much ad hoc bargaining still occurs. A value-added tax (VAT) of 20 percent is imposed on most non-food products of Russian and foreign firms conducting commercial activities in Russia. Corporate profits are taxed at 33 percent, with banks and other financial entities taxed at 38 percent. Personal income tax rates range from 12 to 30 percent. Wages are subject to payroll taxes (income tax plus social security deductions) totaling 39 percent. (A 38 percent tax levied on "excess wages" above the equivalent of $74 per month expired in January 1996.) Russian sourced "passive" income earned by foreigners is subject to a 15 percent withholding tax on dividends and interest and a 20 percent tax on royalties and rents.

4. Debt Management Policies

Russia enjoys an external debt servicing to GDP ratio of 2 percent and an external debt servicing to exports ratio of 12.2 percent. In April 1996, the Paris Club of official creditors agreed to reschedule Russia's outstanding stock of debt (more than $40 billion and including debt inherited from the former Soviet Union) over 25 years. The agreement is subject to periodic reviews which are tied to performance under the IMF EFF program. In May, the London Club of commercial bank creditors fleshed out an agreement in principle with the Russian Government reached in November 1995 to reschedule $32.5 billion in debt, which is now expected to be finalized in the first quarter of 1996. The agreement calls for principal to be repaid over 25 years, with a 7-year grace period.

5. Significant Barriers to U.S. Exports

The Russian Federation is in the process of negotiating accession to the World Trade Organization (WTO), having completed its fourth working party in October 1996. It is considering safeguard actions on several products (including vodka and ethyl alcohol) in the form of import quotas to protect domestic industry, but in general relies on tariff barriers. The June 1993 customs code established Russian customs procedure in accordance with international norms. Customs regulations change frequently and often without sufficient notice, however, and are subject to arbitrary application.

Russia has raised import tariffs in several stages beginning from zero when the Soviet Union collapsed. In March 1995, by Presidential decree, these rates were revised to raise the floor (except for a small list of zero-duty goods) to 5 percent and lower the ceiling (except for a few luxury goods) to 30 percent. In the spring of 1996, the government raised tariffs on alcoholic drinks, chicken and some other food products, resulting in an average weighted tariff of 14 percent, as calculated by the IMF.

Besides import tariffs, there are two other types of duties applied to imported goods: excise tax and value-added-tax (VAT). Excise tax applies to a number of luxury goods, including alcohol, cigarettes, and cars, and varies from 20 percent to 570 percent of the import price. The VAT rate is now 20 percent, with the exception of selected food products where it is 10 percent, and is applied to the import price plus tariff and excise tax.

Licenses are required for importation of various goods, including combat and sporting weapons, self-defense articles, explosives, military and ciphering 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.

Based on the July 1993 Consumer Protection Law, many products imported for sale into the Russian Federation are required to have a certificate of conformity issued by the Russian State Committee on Standards (GOSSTANDART). GOSSTANDART tests and certifies products according to a combination of international standards (notably EU). All imported food items are subject to food quality and safety standards and require a certificate for each shipment, as well as additional sanitary and phytosanitary certificates as necessary. Manufactured items can receive certificates allowing import of a good over a 3-year period. U.S. companies have complained of costly procedures and arbitrary certification requirements. The Russian Federation is considering the establishment of reciprocal standardization with the United States and other countries and acceptance of foreign certification by accredited institutions.

Service industries in Russia are not yet well developed, and it is difficult for the government to know what degree of foreign participation it will permit. Many service industries still lack comprehensive regulatory legislation. Although little of Russia's services legislation is overtly protectionist, the banking, securities and insurance industries have secured concessions in the form of Presidential decrees. Foreign participation in banking, for example, is limited to 12 percent of total banking capital. In practice, foreign companies are often disadvantaged compared to their Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees.

Although there are no significant legal barriers to doing business in Russia, foreign investment regulations regarding permissible activities, prior authorization and notification requirements are 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, defense industries (which may be prohibited in some cases), exploitation of natural resources, and incomplete housing and construction projects, as well as all investments over 50 million rubles and ventures in which the foreign share exceeds 50 percent. Additional registration requirements exist for investments exceeding 100 million rubles. Projects of foreign enterprises may also be subject to expert examination for ecological considerations or in cases involving large-scale construction or modernization.

The 1991 Investment Code guarantees foreign investors rights equal to those enjoyed by Russian investors. Although senior officials have reconfirmed many times Russia's desire to attract foreign participation in privatization, in practice the bounds of the foreign role varies by sector and region. For example, foreign participation is sharply limited in certain "strategic" sectors, a restriction which has been enforced more rigorously of late. Russia's cash privatization program (which followed the massive voucher privatization that distributed enterprise shares to employees) has been carried out by decree. Parliamentary legislation is pending. However,in the 1995 loans-for-shares privatization program, foreign investors were banned from most of the more attractive offerings, including the oil, gas, and precious metals sectors.

6. Export Subsidies Policies

The Russian Federation has not yet instituted export subsidies, although during its fourth working party for accession to the WTO it indicated that it would like to maintain this option for the future. The government does provide some subsidies for the production of coal, but coal exports are minimal. It also maintains a monopoly on the sale of precious metals and several rare-earth metals and conducts centralized sales of diamonds. Exports of military technology are handled through centralized purchases coordinated through a single state entity, ROSVOORUZHENIYE.

7. Protection of U.S. Intellectual Property

In 1992–93 Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, as well as copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. Legal enforcement of intellectual property rights improved somewhat in 1996 with a series of raids on pirates and the passage of a new criminal code, to take effect January 1, 1997, that contains considerably stronger penalties for IPR infringements. In late summer of 1996, a government interagency group compiled and distributed a manual on IPR protection for use by enforcement agencies. Nevertheless, widespread marketing continues of pirated U.S. video cassettes, recordings, books, computer software, clothes, toys, foods and beverages. This lack of enforcement resulted in Russia being placed on the Special 301 Watch List in 1995. Russia remained on the Watch List following an off-cycle review in December 1996.

The patent law, which accords with the norms of the World Intellectual Property Organization, includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for 10 years, and utility models for 5 years. Application for compulsory licenses may be made only after a wait of 4 years. The law on trademarks and appellation of origins introduced for the first time in Russia protection of geographical designations.

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. However, Russia does not provide full retroactive copyright protection for U.S. works, as required by the Berne Convention. 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.

Russia succeeded to the obligations of the Former Soviet Union under the Universal Copyright Convention, the Paris Convention on industrial property, the Patent Cooperation Treaty, and the Madrid Agreement on trademarks. In March 1995 Russia acceded to the Berne Convention on copyright and the Geneva Phonograms Convention. Under the U.S.-Russian bilateral investment treaty (not yet ratified by the Russian Parliament) Russia has undertaken to protect investors' intellectual property rights. The bilateral trade agreement stipulates protection of the normal range of literary, scientific and artistic works through legislation and enforcement.

8. Worker Rights

a. *The Right of Association:* Workers enjoy the legal right to join and form trade unions, and roughly 65 percent of the labor force is organized. The Federation of Independent Trade Unions of Russia (FNPR), the successor organization to the communist trade unions, dominates the trade union movement. However, wage arrears have significantly reduced the dues money collected by unions. Most of FNPR's member unions include management as part of the bargaining unit.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is protected under the law. However, despite the thousands of strikes that took place in this period, most strikes were considered illegal in that the labor dispute at issue was not first reviewed by an arbitration commission. Unions have complained that arbitration commission findings favor management. Transportation unions in particular have complained that, because transportation can be considered an essential service, their right to strike has been effectively eviscerated. Various employers have refused to negotiate collective bargaining agreements. This has been a particular problem for unions outside of FNPR's organization, as the free trade unions generally are more aggressive in protecting worker rights. There have also been incidences of reprisals for union organizing and strike activity.

There are no export processing zones; worker rights in the few special economic zones are fully covered by the Labor Code.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor.

d. *Minimum Age for Employment of Children:* Regular employment for children under the age of 16 is prohibited under the Labor Code, which 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 age 14 and 15. Although children can be found selling consumer goods on street corners in some instances, accepted social prohibitions against employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor legislation.

e. *Acceptable Conditions of Work:* Nonpayment of wages was the most widespread abuse of the Labor Code experienced by Russian workers and the primary reason for the more than 3000 strikes that occurred during the first 6 months of 1996. Wage arrears across industries range between three and 9 months and were common across regions and industries, especially in the education, transport and energy/coal sectors. The Federation of Independent Trade Unions estimated that wage arrears totaled 40 trillion rubles (approx. $7.5 billion) in September 1996, while government statistics as of July 8 acknowledged that wage arrears had reached 29.8 trillion rubles (approx. $5.6 billion). Some enterprises are attempting to pay workers in kind or by providing benefits. Redress through courts has been sought but has proven ineffective, as many enterprises are themselves owed substantial sums by their customers or cannot afford to pay wages. Others simply chose not to use their funds to pay workers. Government action to promote timely wage payments through decrees or court action have not remedied the problem. The government itself, at different levels, has been an offender in not paying teachers, medical personnel and others dependent on its budget. The minimum wage in Russia as of April was 75,900 rubles (roughly $15) per month.

Wage arrears are a very significant problem for workers because of the relative lack of labor mobility. Thus, workers find it difficult to exchange or sell their apartments. A system of residency permits and notifications exists that makes it both difficult and expensive to move to areas of relatively low unemployment, such as Moscow.

According to statistics compiled by the Federal Employment Service for 1995 , certain workers face unacceptably high levels of risk of industrial accidents or death. The Service found that violations of norms were especially high in the energy industry (80 percent violating norms), foundries/metallurgical enterprises (60 percent), and underground transport (50 percent). It is unlikely that occupational safety and health are improving, since industrial accidents have consistently increased over the past 5 years.

Workers have also complained of other conditions, including long workweeks and 10–12 hour workdays, abrogations of negotiated labor agreements, forced transfer of workers, and involuntary leave. Discrimination against women workers is also widespread.

f. *Rights in Sectors with U.S. Investment:* Established U.S. firms operating in Russia attempt to comply fully with Russian labor law. Observance of worker rights where Russian partners retain control over management did not significantly differ from the norm for that sector.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		343
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(2)	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	−2	
Transportation Equipment	(2)	
Other Manufacturing	9	
Wholesale Trade		−3
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		6
Other Industries		100
TOTAL ALL INDUSTRIES		954

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

SPAIN

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
GDP (at current prices)[2]	483.2	559.6	574.3
Real GDP Growth (pct)	2.1	2.8	2.6
GDP by Sector:			
Agriculture	16.0	16.4	19.1
Industry	114.5	135.0	135.2
Construction	38.5	46.0	45.7
Services	285.3	329.7	338.8
Government	81.9	92.9	94.4
Per Capita GDP	12,327	14,239	14,595
Labor Force (000s)	15,469	15,878	15,895
Unemployment Rate (pct)	23.9	22.8	22.2
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	6.6	3.1	1.0
Consumer Price Inflation	4.7	4.7	3.6
Exchange Rate (Pta/USD—annual average)	127.0	133.9	124.7
Balance of Payments and Trade:			
Total Exports (FOB)[4]	75.9	94.5	102.0
Exports to United States[5]	3.6	3.9	4.3
Total Imports (CIF)[4]	95.5	118.3	123.0
Imports from United States[5]	4.6	5.5	5.5
Trade Balance[4]	−19.6	−23.8	−21.0
Balance with United States[5]	−1.0	−1.6	−1.2
Current Account Balance/GDP (pct)	−0.9	1.3	0.9
External Public Debt	N/A	N/A	N/A
Debt Service Payments (paid)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	6.7	6.6	6.0
Gold and Foreign Exchange Reserves	44.5	38.2	54.7
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1996 figures are all estimates based on available monthly data in July 1996.

[2] GDP at factor cost.
[3] Billions of U.S. dollars.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Spain's economy is growing slightly faster than the average for the European Union with about 2.3–2.6 percent GDP growth generally expected for 1996 (compared to about 1.5 percent average for EU member states). This should improve somewhat in 1997, with the government predicting 3.0 percent growth, and many observers only slightly less optimistic. This optimism is based largely on expectations of a pick-up in currently anemic consumer demand. Investment is reasonably strong, and businesses are making good profits, while the stock market achieves record levels. Spanish export growth is strong, with Spain enjoying an unusual current account surplus during the first 8 months of 1996. Unemployment nevertheless remains high, at over 22 percent of the labor force.

The new center-right government advocates liberalization, privatization and deregulation of the economy, and has taken a few steps in that direction, including some important tax and structural reforms introduced in June. The principal focus of government economic policy, however, is macroeconomic stability, and particularly the effort to qualify for Europe's Economic and Monetary Union (EMU) by the spring of 1998. The government enacted spending cuts early in the summer to ensure that its 1996 deficit will not exceed the target level of 4.4 percent of GDP. It introduced a 1997 budget which is intended to meet the EMU goal of an overall deficit for that year of no more than 3 percent of GDP. This goal is to be met largely through restraint in government spending, including a wage freeze for public employees and a sharp cut in direct expenditures for infrastructure. The government is also counting on a sharp reduction in interest rates to reduce the cost of servicing its debt.

2. Exchange Rate Policy

Financial markets responded positively to the budget cuts, driving long term interest rates sharply down and keeping the peseta among the strongest currencies in the European Monetary System (EMS). In fact, the Bank of Spain appears to have intervened significantly in exchange markets to prevent the peseta from rising too far, as its reserves have grown by some 50 percent in 12 months. The peseta can fluctuate within a band of 15 percent around its central EMS rate; in recent months, it has stayed mostly within the range of 84–85 pesetas against the German mark.

3. Structural Policies

Joining the EU in January 1986 required Spain to open its economy. By December 1992, Spanish tariffs were phased out for imports from other EU countries and lowered to the EU's common external tariff level for imports from non-EU countries. Many nontariff barriers also had to be reduced or eliminated. The EU program to establish a single market has accelerated Spain's integration into the EU.

Spain's membership in the EU also required liberalization of its foreign investment regulations. In July 1989, a securities market reform went into effect. The reform has provided for more open and transparent stock markets, as well as for licensing of investment banking services. The reform also liberalized conditions for obtaining a stock brokerage license. A new foreign investment law passed in June 1992 removed many of the administrative requirements for foreign investments. Investments from EU resident companies are free from almost all restrictions, while non-EU resident investors must obtain authorization from the authorities to invest in broadcasting, gaming, air transport, or defense.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an enlargement agreement under the GATT with the EU in 1987 which established a 2.3 million ton annual quota for Spanish imports of corn, specified nongrain feed ingredients and sorghum from non-EU countries during a 4-year period, later extended through 2000. The Uruguay Round agreement had the effect of extending this agreement indefinitely. U.S. exports of corn and sorghum, valued at about $500 million annually, are an important part of U.S. trade with Spain.

Spain was obliged under its EU accession agreement to establish a formal system of import licenses and quotas to replace the structure of formal and informal import restrictions for industrial products existing prior to EU membership. The United States objected that the new import regime for non-EU products was illegal under GATT. In response to U.S. concerns, in October 1988 Spain initiated an automatic, computerized licensing system for Spanish imports of the affected U.S. products.

Since the system became effective, U.S. exporters have not reported any market access impediments to their products covered under the automatic approval system.

4. Debt Management Policies

About 20 percent (some $35 billion) of the government's medium and long term debt is held by nonresidents of Spain. The Spanish Government has signed standby loan arrangements in foreign currency with consortia of private banks, and reached agreement with investment banks to float bonds in foreign markets, as alternatives to domestic financing. Roughly one-third of government debt is short term (less than 1 year), while less than one-quarter of its debt falls due more than 5 years out.

International reserves of the Bank of Spain totaled over $55 billion at the end of August 1996. Moody's rates Kingdom of Spain debt as AA2.

5. Significant Barriers to U.S. Exports

Spain is a founding member of the WTO. In general, the barriers faced by U.S. exporters in Spain are due to practices and policies adapted as an EU member.

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs and variable levies (as much as 788 percent for some commodities) that effectively keep lower priced imports from entering the domestic market to compete with domestic production. However, the Uruguay Round agreement has required that these variable levies be replaced by fixed import duties. In addition all import duties on agricultural products will be reduced by an average of 20 percent during the 5 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 severely restrict or prohibit Spanish imports of certain plant and livestock products. For example, 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.

EU-wide phytosanitary regulations and regulations governing food ingredients, labeling and packaging have a significant impact on the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation became fully implemented in Spain. While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain now requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is now required for any packaged food items. Spain imposes EU requirements on product labeling, composition, and ingredients and, like the rest of the EU, prohibits imports which do not meet a variety of strict product standards. Food producers must conform to these standards, and importers must register with government health authorities prior to importation.

Telecommunications: Spain is preparing for full liberalization of telecommunications services before the end of the century. General reaction from potential foreign investors has been favorable despite the need for case-by-case review of non-EU investment above 25 percent of equity. Liberalization thus far in a few sub-sectors such as cellular telephone and cable TV service has provided opportunities for firms to establish themselves in areas previously dominated by the local telecommunications firm, Telefonica de Espana. New opportunities are emerging in advanced telecom services, such as the Internet. Cellular telephone service has experienced rapid growth in subscribers, and bidding for a third license is expected to open in 1998.

The Spanish Government has set early 1997 as the target date for full privatization of Telefonica under pressure from the EU and as a result of economic considerations. Retevision, the state broadcaster, is to be privatized and has been designated as the second telephone operator. The new government has created a new regulatory entity—the Telecommunications Market Commission—to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Spain's obligations under the bilateral U.S.-EU government procurement agreement agreement took effect on the same date, except in the area of services, which took effect on January 1, 1997. Offset requirements are common in defense contracts and some large nondefense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements: The government implemented the EU Broadcast Directive in July 1994. The directive imposes a requirement that 51 percent of broadcast time be reserved for European products "where practicable." The EU is considering revisions to this directive. Should the revisions result in further increases in the European content reservations, this would further restrict the Spanish market for U.S. products.

Motion Picture Dubbing Licenses and Screen Quotas: Spain requires issuance of a license for dubbing non-EU films into Spanish for distribution in Spain. Dubbed movies are commercially more successful than subtitled original language films in the Spanish market. To obtain a license, distributors must contract to distribute an EU film. Changes in the Cinema Law, implemented in December 1993, increased the number of viewers which the EU film must attract for it to confer a dubbing license and imposed incentives (in effect requirements) for dubbing into minority languages. The law also requires cinemas to show 1 day of EU films for every 2 days of non-EU films. Negotiations between the government and industry have taken place regarding possible administrative revisions to the law to limit its prejudicial effects on non-EU producers and distributors.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU. For example, after several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations to conform to EU directives. All telecom equipment must now carry the CE mark, which certifies that it complies with applicable EU directives. This certification process can take three to 4 months after all tests have been performed and necessary documents are submitted. However, certification by 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 certification requirements for equipment imported for military use is still valid.

In general the transparency of the process has improved. For example, the CE registration for medical equipment from any of the EU member states is considered valid, shortening the product registration procedure (to about 6 months) and ending the requirement to initiate the process 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 certification brought to their attention. The United States is now 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 EU. Total EU subsidies for Spanish agricultural exports amounted to about $360 million in 1995. Spanish exports of grains, olive and other oils, tobacco, wine, sugar, dairy products, beef, and fruits and vegetables benefited most from these subsidies in 1995.

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

Spain has adopted new patent, copyright and trademark laws as agreed at the time of its EU accession. It enacted a new patent law in March 1986, a new copyright law in November 1987, and a new trademark law in November 1988, all of which meet or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Berne, and Universal copyright conventions and the Madrid Agreement on trademarks. Spanish Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

The patent law greatly increased the protection accorded patent holders. In October 1992, Spain's pharmaceutical process patent protection regime expired and product protection took effect. Industry sources have advised that the impact of this product protection law will not be felt until early in the next century when new pharmaceutical products patents applied for after October 1992 enter the market, following the 10 to 12 years of research and development normally associated with the introduction of a new product. U.S. makers of chemical and pharmaceutical products have complained that this provides effective patent protection only for approximately 8 years. The U.S. pharmaceutical industry would like to see some lengthening of the patent term.

The copyright law is designed to redress historically weak protection accorded movies, video cassettes, sound recordings and software. It provides protection for computer software as a literary work, unlike the prior law. In December 1993, legislation was enacted implementing the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits. Some searches have taken place under these provisions.

Nevertheless, U.S. software producers complain of losses from business software piracy. Spain has one of the highest rates of illegal copying in Europe, according to an industry group. U.S. producers are taking legal action under the new law to correct this situation. The Spanish Government has responded to concerns over software piracy by sending instructions to prosecutors calling for rigorous enforcement of the law and urging private industry to pursue pirates aggressively through the courts.

Continuing government enforcement efforts have reduced video and audio cassette piracy, although it remains a significant problem. Operators of small neighborhood cable networks, called "community video," broadcast video programs without broadcast rights, but the government has prohibited them from running cables across public ways and is attempting to eliminate them. The copyright law has clearly established that no motion picture can be publicly exhibited without the authorization of the copyright holder and that "community video" is considered as public exhibition.

The trademark law is intended to facilitate improved enforcement. It incorporates by reference the enforcement procedures of the patent law, defines trademark infringements as unfair competition, and creates civil and criminal penalties for violations. Aggressive Spanish enforcement efforts have resulted in numerous civil and criminal actions; however, the infringement of trademark rights in Spain is still a problem, particularly in the textile and leather goods sector.

8. Worker Rights

a. *The Right of Association:* All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

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 to bargain collectively 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:* U.S. capital is invested primarily in the following sectors: petroleum, automotive, food and related products, chemicals and related products, primary and fabricated metals, nonelectrical machinery, electric and electronic equipment, and other manufacturing. Workers in these sectors enjoy all rights guaranteed under the Spanish Constitution and law, and conditions in these sectors do not differ significantly from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		167
Total Manufacturing		5,806
Food & Kindred Products	961	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	213	
Machinery, except Electrical	537	
Electric & Electronic Equipment	845	
Transportation Equipment	1,541	
Other Manufacturing	(1)	
Wholesale Trade		875
Banking		1,541
Finance/Insurance/Real Estate		729
Services		421
Other Industries		148
TOTAL ALL INDUSTRIES		9,689

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

SWEDEN

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	196.7	230.3	254.6
Real GDP Growth (pct)[3]	2.2	3.9	1.8
GDP by Sector:			
Agriculture	1.8	1.9	2.0
Energy and Water	5.1	5.7	6.0
Manufacturing	36.9	44.5	48.9
Construction	10.9	12.2	12.7
Financial Services	8.0	9.2	10.6
Other Services	64.9	73.1	78.0
Per Capita GDP (USD)	22,412	24,647	28,130
Labor Force (000s)	4,233	4,300	4,294
Unemployment Rate (pct)	8.0	7.0	7.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	1.7	1.5	11.3
Consumer Price Inflation	2.2	2.6	1.4
Exchange Rate (SEK/USD)	7.71	7.10	6.60
Balance of Payments and Trade:			
Total Exports (FOB)[4]	61.2	78.9	88.4
Exports to United States[5]	5.0	6.3	7.1

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Total Imports (CIF)[4]	51.8	63.7	70.8
Imports from United States[5]	2.5	3.1	3.3
Trade Balance[4]	9.4	15.2	17.6
Balance with United States[5]	2.5	3.2	3.7
Current Account Surplus/GDP (pct)	0.4	2.0	N/A
External Public Debt	49.6	59.2	60.5
Debt Service Payments/Exports (pct)	28.2	23.66	21.25
Fiscal Deficit/GDP (pct)	8.7	6.5	3.4
Gold and Foreign Exchange Reserves	22.9	26.8	22.5
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[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; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

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 on January 1, 1995, (and had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area).

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices are particularly important. The Central Bank enjoys significant autonomy in pursuit of its avowed goal of price stability. 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 macro-economic stability and created the conditions for moderate, low-inflation economic growth.

During 1995 and 1996, Sweden has been pulling out of its worst and longest recession since the 1930's. (GDP declined by 6 percent from 1991 to 1993). Unemployment has recently averaged 12 to 14 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in training and work programs, accounts for some 5 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 and are now less that 2 percentage points above German rates.

Sweden's export sector is strong, but domestic demand remains weak. Structural changes in recent years have prepared the way for future economic growth. 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

Sweden floated the crown in November 1992 after briefly defending the krona during the turbulence in European financial markets. From 1977 to 1991 the krona was pegged to a tradeweighted basket of foreign currencies in which the dollar was double weighted. From mid-1991 the krona was in the European Exchange Rate Mechanism (ERM).

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 exceeds 50 percent of GDP. Central government current expenditure during the severe recession was nearly 75 percent of GDP. The maximum marginal income tax rate on individuals is 55 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add one-third or more to employers' gross wage bills. The value added tax is two-tiered, with a general rate of 25 percent and a lower rate of 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 5 percent ad valorem on finished goods and around 3 percent on semi-manufactures. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some dual use products that have potential military 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 reregulation 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 borrowed heavily in foreign currencies since the fall of 1992, increasing the central government's foreign debt fivefold 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 1996 is about 78 percent of GDP.

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

Sweden is open to imports and foreign investments and campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferraalloys, some semi-manufactures of iron and steel, etc. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents, in order to facilitate exports.

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 areas of air and maritime transportation and the manufacture of military materiel. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases in excess of ECU 400,000. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant GATT codes concerned with government procurement, standards, etc. There are no official countertrade requirements.

6. Export Subsidies Policies

The Swedish Government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium and longterm 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

Sweden strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are 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.

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 87 percent of Sweden's work force belongs to trade unions. Unions operate independently of the government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. *The Right to Organize and Bargain Collectively:* Labor and management, each represented by a national organization by sector, negotiate framework agreements every two to 3 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 of Employment of Children:* Compulsory 9-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 5 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		10,377
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	9	
Machinery, except Electrical	770	
Electric & Electronic Equipment	31	
Transportation Equipment	(1)	
Other Manufacturing	216	
Wholesale Trade		423

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	(1)
Finance/Insurance/Real Estate	852
Services	488
Other Industries	−10
TOTAL ALL INDUSTRIES	12,226

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	256.9	302.9	298.7
Real GDP Growth (pct)[2]	1.0	−0.3	−0.7
GDP by Sector:[2]			
Agriculture	7.2	8.4	8.3
Manufacturing	80.0	93.8	92.4
Services	182.5	214.0	211.0
Government	22.0	25.5	24.9
Per Capita GDP (USD)[3]	36,504	42,789	41,931
Labor Force (000's)[4]	2,728	2,709	2,668
Unemployment Rate (pct)	3.8	3.5	3.7
Money and Prices (annual percentage growth):			
Money Supply (M3)	5.1	2.2	7.1
Consumer Price Inflation (pct)	0.9	1.8	0.8
Exchange Rate (SFr/USD)	1.37	1.18	1.21
Balance of Payments and Trade:			
Total Exports[5]	65.8	78.0	65.1
Exports to United States[6]	6.4	7.6	7.8
Total Imports[5]	63.7	76.9	64.3
Imports from United States[6]	5.6	6.2	8.6
Trade Balance[5]	2.1	1.0	0.7
Balance with United States[6]	4.3	5.5	−0.8
External Public Debt[7]	55.3	69.6	74.4
Fiscal Deficit/GDP (pct)	3.4	2.9	3.5
Current Account Surplus/GDP (pct)	6.9	7.0	6.9
Debt Service Payments/GDP (pct)	0.9	0.9	0.9
Gold and Foreign Exchange Reserves[8]	42.2	44.4	42.4
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] All 1996 figures are estimated.
[2] Estimates for 1995.
[3] Nominal.
[4] Full-time workers only.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Federal Government only, excluding cantons and communities.
[8] As of 9/96.

1. General Economic Framework

Switzerland is a small, highly developed, internationally oriented, and open multilingual market, characterized by a developed manufacturing sector, a highly skilled workforce, a large services sector and a high savings rate. Per capita GDP is the highest in Europe. When Swiss voters decided in December, 1992 to reject the European Economic Area (EEA) Treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, without being part of the EEA or a member of the EU. With over 60 percent of its exports going to Europe, the Swiss Government is making every effort to maintain its competitiveness in Europe while diversifying its export markets. Currently, Switzerland is in bilateral negotiations with the EU, but these could fail over the sensitive dossiers of the free movement of persons and transport. Swiss experts believe that the conclusion of the Uruguay Round will offset any possible negative effects of the EEA "no" vote and prevent possible discrimination against Swiss products in EU markets.

After economic prosperity in the eighties, the Swiss economy has been Europe's weakest since 1990, with growth averaging barely 1 percent per year. As a result, Switzerland has run large deficits causing a corresponding increase in public debt. The Federal Government's strict expenditure controls should reduce the deficit to below 3 percent in 1998. No systematic use is made of fiscal policy to stimulate the economy. In October 1996, however, the Swiss National Council voted to spend SFr 250 million on an investment bonus to support the sluggish economy. If the measure is approved in the Upper House, the stimulus package will support projects in the construction and energy sectors.

The Swiss National Bank (SNB) is independent from the Finance Ministry. The main 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 extremely weak domestic economic outlook became clear, the SNB has prevented further appreciation of the Swiss franc by accelerating growth of the money supply. The high Swiss franc had been seen as one of the main reasons for the weak performance of exports. 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. The Swiss Parliament is currently considering a legislative package which would liberalize and privatize the Swiss telecommunications sector, opening a market to investment and competition from U.S. firms. The liberalization is scheduled for implementation by January 1,1998.

Agriculture is heavily regulated and supported by the Federal Government. Farmers' revenues are pegged to those of blue collar workers in industry through guaranteed prices or direct payments. As a result of the Uruguay Round, Switzerland must convert all nontariff barriers into tariffs and reduce them by an average of 30 percent by the year 2000. In June 1996, Swiss voters supported a revision of the agriculture article in the Federal Constitution. The new article establishes the basis for more market and environment oriented agriculture production, including greater reliance on direct payments.

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.

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 agricultural products are subject to quotas and tied to an obligation for importers to take a certain percentage of domestic production. The implementation of the Uruguay Round will remove some of these restrictions, including those affecting U. S. exports of asparagus and wine. Tariffs remain quite high for many other agricultural products.

Services Barriers: With the exception of telecommunications, 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. The most serious barriers to U.S. exports exist in the domain of telecommunications. The Swiss PTT controls the public network and all services related to voice transmission and satellite communication. A legislative package designed to liberalize and privatize the Swiss telecommunications sector by January 1, 1998, is currently moving through Parliament.

Standards, Testing, Labeling, and Certification: By adopting EU automobile standards in 1995, Switzerland allowed cars made in the EU (including EU-made products of U.S. manufacturers) to enter the Swiss market without further testing. This development puts automobiles manufactured in the United States at a significant competitive disadvantage. As a result of action by the United States, Switzerland agreed that U.S.-made cars imported directly by individuals can be registered with only minimal modification and testing. However, the United States is still seeking complete parity with the favorable access now enjoyed by EU models and encouraging the Swiss Government to recognize U.S. auto standards and test results. In 1995, the United States also encountered problems over Swiss standards for imported pet food. U.S. pet food exports were jeopardized when Switzerland began enforcing a new, but not yet implemented, EU directive on pet food. The Swiss Government has recently asserted the requirement that products containing genetically modified organisms must be labeled as such. This administrative requirement will be addressed in legislation currently before the Parliament, and threatens to seriously disadvantage American agricultural products. Other standards and technical regulations in force in Switzerland are based on international norms. Labels are required to be in German, French and Italian.

Investment Barriers: In most cases, foreign investment in Switzerland is granted national treatment. Some restrictions on foreign investment apply to the following areas: ownership of real estate by foreigners; 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 new law passed by the Parliament in October 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland reached agreement in mid–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.

6. *Export Subsidies Policies*

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Rare temporary surpluses of domestic products, like beef or concentrated apple juice, are also subsidized, but the United States has challenged recent beef export subsidies in the WTO. The implementation of the Uruguay Round will require a gradual reduction of export subsidies.

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

Switzerland has one of the best regimes in the world for the protection of intellectual property, and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good.

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: surgical, therapy and diagnostic processes for application on humans and animals; inventions liable to disturb law and order and offend "good morals"; and animals and biological processes for their breeding. In virtually all other areas, coverage is identical to that in the United States, but there have been increasing instances of prohibitions by subFederal units of government on the use of genetically altered plants or animals, and the Federal Government will shortly issue labeling requirements for all products containing genetically modified organisms (GMOs). A decision on applications to import certain products containing GMOs is due in December 1996.

Trademarks are also well protected. Switzerland recognizes well known trademarks and has established simple procedures to register and renew all marks. The initial period of protection is 20 years. Service marks also enjoy full protection. Trademark infringement is very rare in Switzerland—street vendors are relatively scarce here, and even they tend to shy away from illegitimate or gray market products.

A new copyright law in 1993 improved a regime that was already quite good. The new law explicitly recognizes computer software as 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 is on the rise, however. The problem appears to be largely due to illegal copying by individuals and perhaps some retail 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. Theft of encoded satellite signals (premium channels and pay TV) is a serious and growing problem in Switzerland; U.S. officials and industry representatives are actively engaged with the Swiss Government on this problem.

The Swiss also protect layout designs of semiconductor integrated circuits, trade secrets, and industrial designs. Protection for integrated circuits and trade secrets is very similar to that available in the U.S., and protection for designs is somewhat broader.

Industry sources estimate lost sales due to software piracy at $132 million in 1995. Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

8. Workers Rights

a. *The Right of Association:* All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

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 government encourages voluntary negotiations between employer and worker organizations. The right to strike is legally recognized, but a unique informal agreement between unions and employers—in existence since the 1930's—has meant fewer than 10 strikes per year since 1975. There were no significant strikes in 1996.

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 under 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated. For example, youths may not work at night, on Sundays, or under hazardous or dangerous conditions.

e. *Acceptable Conditions of Work:* There is no national minimum wage. Employer associations and unions negotiate industrial wages during the collective bargaining process. Such wage 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 120 hours annually.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor, providing a high standard of workers health and safety. Revised labor law, to be voted on by referendum in December 1996, will abolish the ban on night and Sunday work or women in industry and protect the safety and health of and provide appropriate compensation to night shift workers. 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,038
Total Manufacturing		3,843
Food & Kindred Products	(1)	
Chemicals and Allied Products	850	
Metals, Primary & Fabricated	170	
Machinery, except Electrical	396	
Electric & Electronic Equipment	433	
Transportation Equipment	(1)	
Other Manufacturing	855	
Wholesale Trade		9,308
Banking		2,255
Finance/Insurance/Real Estate		18,303
Services		1,440
Other Industries		154
TOTAL ALL INDUSTRIES		36,342

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

TURKEY

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP	130.2	169.8	180.1
Real GDP Growth (pct)	−5.5	7.2	7.4
GDP by Sector:			
Agriculture	20.1	26.7	27.5
Manufacturing	34.3	44.7	46.6
Services	64.1	84.9	90.6
Government	11.6	13.6	15.3
Per Capita GDP (USD)	2,151	2,755	2,872
Labor Force (000s)	22,179	22,446	22,809
Unemployment Rate (pct)	8.4	7.2	6.3 [2]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	120	97.7	77.4
Consumer Price Inflation	125.5	76.0	84.5

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Exchange Rate (TL/USD—annual average)	29,704	45,705	81,250
Balance of Payments and Trade:			
Total Exports (FOB)	18.1	21.6	24.5
Exports to United States[3]	1.6	1.8	1.8
Total Imports (CIF)	23.3	35.7	45.0
Imports from United States[3]	2.8	2.8	2.8
Trade Balance	−5.2	−14.1	−20.5
Balance with United States[3]	−1.2	−1.0	−1.0
External Public Debt	65.6	73.3	75.8[4]
Fiscal Deficit/GDP (pct)	−3.9	−4.1	−9.0
Current Account Deficit/GDP (pct)	2.0	−1.4	−3.8
Debt Service Payments/GDP (pct)	7.2	5.9	5.6
Gold and Foreign Exchange Reserves	16.5	23.9	28.5
Aid from United States (USD millions)	526	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

[1] Unless otherwise indicated, 1996 figures are estimates based on available monthly data in November 1996.
[2] Official unemployment rate in April 1996.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[4] As of end-June 1996.

1. General Policy Framework

From the establishment of the Republic in 1923 until 1980, Turkey was an insulated, state-directed economy. In 1980, however, the country embarked on a new course. The government abandoned protectionist policies and opened the economy to trade and investment. The state gave up much of its role in directing the economy and abolished outdated restrictions on private business. These reforms unleashed the country's private sector and have brought impressive benefits. Since 1981, Turkey's average 4.8 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 1996 with the finalization of a customs union with the EU. Turkey has now harmonized nearly all of its trade and industrial policies with those of the EU. Over the coming years, Turkey is likely to reap substantial benefits from the customs union, both in terms of trade creation and improved economy efficiency. This should have an overall positive impact on U.S. exports.

Despite the impressive reforms introduced since 1980, Turkey continues to suffer from an inefficient public sector and weak economic management. These remain the source of the country's perennial problems—large budget deficits and high inflation—and are a bottleneck to sustainable growth. Inflation has averaged about 75 percent since 1988, and is likely to reach 85 percent in 1996. In 1994, these economic imbalances triggered a financial crisis and forced the government to introduce a tough austerity program. The 1994 recession was Turkey's worst since World War II. The economy has bounced back strongly, however, growing by over 7 percent in 1995 and 1996, indicating that Turkey's cyclical boom-bust growth pattern remains unbroken. Strong domestic demand has sparked a surge in imports, as has the reduction of import duties and surcharges which accompanied the introduction of the customs union on January 1, 1996. Imports in 1996 are running about 50 percent higher than those posted in 1993 (i.e., prior to 1994's recession).

After declining in 1994 and 1995, the budget deficit and public sector borrowing requirement (PSBR) both rose significantly in 1996, reflecting the cost of the December 1995 elections and populist economic measures introduced by the new government. The budget deficit is likely to reach 9 percent of GNP in 1996. To finance the deficit in the face of political uncertainty, the government is forced to offer very high interest rates on short term domestic bonds, further exacerbating the deficit. The Treasury also relies on Central Bank borrowing and a small number of foreign bond offerings. Turkey's recent coalition governments have had little success implementing the structural reform elements of the 1994 program. Public sector reform—including privatization, social security and tax reforms, and trimming of agricultural and other subsidy programs—is widely acknowledged as the key to resolving the economy's problems and setting the stage for stable, private sector led growth.

Turkey and the IMF concluded a standby arrangement in 1994, which lapsed in 1995; they are discussing the possibility of a new agreement.

Building on significant liberalization of the economy in the mid-1980's, 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 (11 percent in 1995), while it also expanded its share of Turkey's GDP. Turkey's most successful companies are foreign oriented and very competitive. U.S. companies have experienced a boom in exports to Turkey, expanding both their market share and their overall value of trade. The United States maintains a large and growing trade surplus with Turkey.

2. Exchange Rate Policy

The Turkish lira (TL) is fully convertible and the exchange rate is market determined. The Central Bank intervenes in money markets to dampen short term exchange rate fluctuations and 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 19 percent against the dollar in real terms in 1994. Since then, government's stated policy has been to maintain a stable real TL exchange rate, measured against a trade-weighed dollar/German mark basket. However, partly in response to IMF recommendations, the government allowed the TL to strengthen in 1995, when it appreciated 14 percent in real terms against the dollar. The government has allowed the TL to depreciate more rapidly in 1996 and no significant change in the real TL/dollar rate is likely during the course of the year.

3. Structural Policies

Since 1980, Turkey has made substantial progress implementing certain structural reforms and liberalizing its trade and foreign exchange regimes. The resulting high growth rate and high rate of creation of private businesses has generated tremendous demand for imported goods, particularly investment goods and raw materials, which together account for over 85 percent of total imports.

The government's failure to pursue unfinished structural reform measures has constrained private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises 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 economy. 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. 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. Turkey has adopted the EU's common external tariff for third countries, which has resulted in lower tariffs for U.S. products. Nearly all industrial goods from EU and EFTA countries, however, now enter Turkey duty free. 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.

4. Debt Management Policies

As of June 1996, Turkey's gross outstanding external debt was $76 billion. Debt service payments in 1996 will amount to an estimated 5.6 percent of GNP (and 41 percent of exports), which is down from the 7.2 percent ratio (52 percent of exports) recorded in 1994. The public sector remains the major borrower, accounting for over 80 percent of total outstanding debt. Turkey has had no difficulty servicing its foreign debt.

Turkey's relatively low credit rating has limited its access to foreign borrowing since 1994. As a result, Turkey's domestic debt stock has increased significantly. Forced to offer high real interest rates for short periods to attract capital, interest payments have become a large budget burden. In 1996 they account for nearly 40 percent of total budget expenditures.

5. 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. 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. The customs union does not cover agricultural trade. Turkish customs procedures have been streamlined to meet EU standards.

Import Licenses: While there is generally no requirement for government permission or license in the importation of new products, there are sometimes problems introducing new foodstuffs and foodstuff ingredients. Turkey does require import licenses for agricultural commodities, which are issued based on domestic supplies. The government also requires certification that quality standards are met for importation of human and veterinary drugs and certain foodstuffs. Import certificates are necessary for most products which need after-sales service (e.g. photocopiers, ADP equipment, diesel generators).

The Turkish Government is very concerned to protect domestic agricultural crops. In November 1996, it broadened its interpretation of a 1991 decree mandating zero tolerance standards for levels of various toxins found in grains to apply to imports for consumption, rather than only seed imports. Discussions with the Ministry of Agriculture successfully resolved the issue on an interim basis. The Ministry has convened a committee that will propose new standards compatible with international guidelines to replace the 1991 decree in 1997.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It normally follows competitive bid procedures for domestic, international and multilateral development bank assigned tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding 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.

U.S. bidders for Turkish Government contracts are subject to a 15 percent withholding tax. A bilateral tax treaty between the U.S. and Turkey was signed in March 1996 but has not yet been ratified by either side. Once in effect, this withholding tax will be eliminated for U.S. bidders.

Investment Barriers: The U.S.-Turkish bilateral investment treaty entered into force in May 1990. Turkey has an open investment regime. The government approves investment on national treatment and MFN bases; once approved, firms with foreign capital are treated as local companies. There are, however, restrictions on the level of foreign capital in firms established in a number of sectors including banking, insurance, petroleum, broadcasting, aviation and maritime transportation.

6. *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. Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits are also available to exporters.

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

Turkey's intellectual property regime improved considerably in 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, have given Turkey a comprehensive legal framework for protecting intellectual property rights. Efforts are underway to educate businesses, consumers, judges, prosecutors and others on the implications of the new laws. The Turkish judicial system, however, remains overburdened and it will likely be some time before the necessary elements for a smoothly functioning system are in place.

Copyrights: In June 1995 Parliament passed a bill amending Turkey's 1951 copyright law. The bill:

—extends the term of copyrights from 20 to 70 years,
—extends coverage to computer software,
—increases fines for violators, and
—removes many previous exemptions to full copyright protection.

Turkey also acceded to a number of international copyright conventions during 1995, including the Paris Act (1971) of the Berne Convention and the 1961 Rome Convention.

While a significant improvement, the amended copyright law still has deficiencies. The government has acknowledged the need for further amendments to bring Turkey's laws fully into compliance with Uruguay Round standards, but its ability to pass legislation in 1996 has been hampered by multiple changes of government.

Patents: A new patent law came into effect in June 1995 replacing Turkey's 19th century patent law. The new law was subsequently amended in August and November 1995. Turkish officials insist the law is fully compatible with the Uruguay Round's TRIPs agreement, although U.S. officials have questioned the law's broad compulsory licensing provisions.

The United States has pressed for further improvements, including coverage for pharmaceutical products and processes which will not begin until 1999 in accordance with Turkey's Customs Union commitments to the EU. The legislation does not contain "pipeline" protection for pharmaceutical products. The Turkish Patent Institute is now accepting applications for pharmaceutical patents in accordance with the TRIPs agreement's "mailbox" provisions.

Trademarks: Along with the patent law, Turkey replaced its trademark law in 1995. Here, too, it remains to be seen how effective the Turkish bureaucracy and legal system will be in controlling the current widespread counterfeiting of foreign trademarked products.

Turkey acceded to a number of 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.

8. Worker Rights

a. *The Right of Association:* All workers except police and military personnel have the right to associate freely and 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. The law specifies a series of steps which a union must take before it may legally strike, and a similar series of steps before an employer may engage in a lockout. Nonbinding mediation is the last of these steps. Once a strike is declared, the employer involved may respond with a lockout. If the firm chooses to remain open, it is prohibited from hiring strikebreakers or having administrative personnel perform jobs normally done by strikers. Solidarity, wildcat, and general strikes are illegal. The law on free trade zones forbids strikes for 10 years following their establishment, although union organizing and collective bargaining are permitted. The high arbitration board settles disputes in all areas where strikes are forbidden.

b. *The Right to Organize and Bargain Collectively:* Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent, a union must represent not only "50 percent plus one" of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, and it is not practiced.

d. *Minimum Age for Employment of Children:* The Constitution prohibits work unsuitable for children, and current legislation forbids full time employment of children under 15. The law requires that school children of age 13 and 14 who work part time must have their working hours adjusted to accommodate school requirements. The Constitution prohibits children from engaging in physically demanding labor, such as underground mining, and from working at night. The laws are effectively enforced only in organized industrial and service sectors. Unionized industry and services do not employ underage children. In the informal sector, many children under 13 work as street vendors, in home handicrafts, on family farms, and in other enterprises.

e. *Acceptable Conditions of Work:* The Ministry of Labor is legally obliged, through a tripartite government-union-industry board, to adjust the minimum wage at least every 2 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		714
Food & Kindred Products	147	
Chemicals and Allied Products	148	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	−8	
Transportation Equipment	160	
Other Manufacturing	101	
Wholesale Trade		43
Banking		109
Finance/Insurance/Real Estate		−1
Services		(1)
Other Industries		3
TOTAL ALL INDUSTRIES		1,167

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	24.1	36.0	40.6
Real GDP Growth (pct)[2]	−23.0	−11.8	−10.0
GDP by Sector:			
Agriculture	3.3	4.9	N/A
Manufacturing	8.7	12.7	N/A
Services (annual pct change)	N/A	−11.7	−12.7
Government	N/A	N/A	N/A
Per Capita GDP (USD)	1,913	1,632	1,486
Labor Force (000s)	22,179	21,150	21,150
Unemployment Rate (pct)	0.4	0.6	1.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	532	117	40
Consumer Price Inflation	401	181	40
Exchange Rate (hryvnia/USD—ann. average):			
Official	0.4986	1.47	1.84
Balance of Payments and Trade:			
Total Exports (FOB)[3]	12.1	13.6	14.7
Exports to United States (USD millions)[4]	323	406	510
Total Imports (CIF)[3]	14.5	16.0	18.1
Imports from United States (USD millions)[4]	180	223	388
Trade Balance[3]	−2.4	−2.3	−3.5
Balance with United States (USD millions)[4]	143	183	122

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Current Account Deficit/GDP (pct)	−5.8	−4.3	−3.1
External Public Debt	7.2	8.1	9.9
Debt Service Payments/GDP (pct)	1.2	3.7	3.5
Fiscal Deficit/GDP (pct)	8.6	6.7	6.0
Gold and Foreign Exchange Reserves	N/A	1.1	1.7
Aid from United States (USD millions)[5]	77.3	44.8	545.8
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data through October 1996.
[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; 1996 figures are estimates based on data available through November 1996.
[5] Figures are actual fiscal year expenditures. Cumulative budgeted assistance (credits and grants)for fiscal year 92–96 totals $2.09 billion.

1. General Policy Framework

Ukraine is a country in transition to a market economy. Its economic inheritance from the Soviet Union of a large defense sector and energy-intensive heavy industry has made this transition particularly difficult. The move to market pricing, the interruption of relationships with producers and suppliers in other parts of the former Soviet Union, and the delay in undertaking serious economic reform have led to steep declines in production and widespread hardship among the population. Ukraine's principal resources and economic strengths include rich agricultural land, significant coal and more modest gas and oil reserves, a well developed infrastructure, a strong scientific establishment, and an educated, skilled workforce.

Following the election of President Kuchma in mid–1994, economic reform in Ukraine was substantially accelerated from its formerly slow place. Economic stabilization has been particularly significant. In 1996, inflation will be about 40 percent, down from 400 percent 2 years earlier, the budget deficit much reduced and the exchange rate largely stabilized. Ukraine successfully introduced a new currency, the hryvnia, in September 1996. A new post-Soviet constitution adopted by the legislature in June 1996 guarantees basic democratic freedoms and rights, including private property. Ukrainian leaders, frustrated by continued declines in economic growth despite the relative stabilization, proposed a new legislative program in fall 1996 aimed at removing structural obstacles to growth. The package includes tax reduction and reform, regulatory reform, expenditure cuts, and a move to a partially self-financed pension system.

Ukraine's budget deficit, which in the early years of independence was very large and financed through highly inflationary borrowing from the National Bank of Ukraine (NBU), is now largely under control, although continued shortfalls in expected revenue have meant that the government normally operates on a "cash management" basis and wage arrears are prevalent and growing. The main sources of deficit financing are carefully limited government borrowing from the NBU, increasing issuance of domestic government securities, and inflows of international financing through grants and credits. The latter are almost exclusively from official sources, although it is likely that Ukraine will shortly begin borrowing on the Eurobond market. The role of international financial institutions, in particular the IMF and the World Bank, has been very important in Ukraine.

The government has made expanded investment, including foreign investment, a top priority, although high rates and arbitrary application of taxes, a plethora of regulations, an uncertain legal climate and widespread corruption have acted as a brake on investment and business development. The government has addressed many of these problems in its fall 1996 legislative package. Foreign trade as a percentage of gross domestic product continues to grow, and trading patterns have shifted somewhat to western countries, although Russia continues to be Ukraine's dominant trading partner.

The NBU considers fighting inflation a top priority, and is aware that Ukraine's thin monetary base, a legacy of previous hyperinflation, means that even small changes in the money supply can be highly inflationary. Weak control over government spending also presents challenges, as do Ukraine's relatively large inflows of international assistance and its substantial debt repayment obligations, which are spread unevenly throughout the year. Ukraine has greatly cut back on credits to industry and agriculture, which previously had led to high inflation.

2. Exchange Rate Policy

Ukraine has had a single unified exchange rate since October 1994. The exchange rate is determined by daily auctions of the Ukrainian Interbank Currency Exchange (UICE). A large number of currency exchange points also exists. The difference between the UICE-set rate and the average rates at the currency exchange points is normally insignificant. The National Bank of Ukraine intervenes in the currency market to prevent rapid changes in the exchange rate and normally tries to keep the hryvnia inside an informally set trading band against the dollar. Ukraine's policy of requiring the mandatory exchange into hryvnia of 50 percent of foreign currency earnings remains unchanged.

3. Structural Policies

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment and business development. In addition, the regulatory environment is chaotic and taxes excessively high, forcing much business activity underground and providing fertile ground for corruption. However, Ukraine's successful adoption of a new constitution in June 1996 and its continued economic stabilization helped set the stage for a new series of structural reforms announced in fall 1996. It is hoped that these reforms, which reduce and rationalize taxes, decrease regulation, and introduce a more realistic budget, will help spur economic growth and investment.

The government accelerated its privatization program in 1996. About 400 firms per month are now entering the privatization auction process. As of September 1996, almost 4,000 enterprises had sold shares for privatization certificates, and about 1,300 for compensation certificates. About 34,000 small scale enterprises out of a total of 40–45,000 have been privatized. The State Property Fund, Ukraine's privatization authority, streamlined its procedures for attracting strategic investors and has begun holding commercial and noncommercial tenders for enterprises that are being privatized according to individual plans. The draft privatization plan for 1997 calls for the completion of certificate privatization by mid–1997 and a transition to cash privatization.

Most prices were liberalized in late 1994 with controls remaining on only a handful of products and on production of natural monopolies. Prices on communal services such as rent and utilities were increased several times in 1996 and now stand at 80 percent of cost recovery, up from about 40 percent at the beginning of the year.

4. Debt Management Policies

Ukraine's foreign debt stood at about $11–12 billion in late 1996 and at $8.8 billion at the end of 1995. About half of Ukraine's debt at the end of 1995 was owed to Russia and Turkmenistan, primarily for gas deliveries, while the remainder is to Western creditors, mostly to international financial institutions and bilateral export credit agencies. The proportion of debt to Russia and Turkmenistan is continuing to decline, since Ukraine is no longer building up significant arrearages for fuel deliveries. Debt service as a percent of GDP, approximately 3 percent in 1996, is expected to climb in 1997 as larger portions of previously rescheduled debt to Russia and Turkmenistan become due.

Ukraine has not yet borrowed externally from commercial markets, but is expected to begin doing so in 1997. Ukraine has made extensive use of IMF resources, starting with a Systemic Transformation Facility in fall 1994, a standby loan in spring 1995, and a second standby loan in spring 1996. Ukraine negotiated a 3-year Extended Fund Facility agreement in fall 1996; final approval by the IMF board is contingent on parliamentary passage of the government reform package and a satisfactory budget. Ukraine also has made extensive use of World Bank structural adjustment lending.

5. Significant Barriers to U.S. Exports

The significant progress made over the last 2 years on economic stabilization and the reduction in inflation have greatly improved conditions for U.S. companies in Ukraine. However, foreign firms still 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 well functioning legal system impede U.S. exports and investment to Ukraine.

The U.S. Export-Import Bank is currently open for short and medium term transactions, and OPIC risk insurance and direct financing programs are available to U.S. investors 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. 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.

6. Export Subsidies Policies

As part of its efforts to cut the budget deficit, the government has significantly reduced the amount of subsidies it provides to state-owned industry over the last 2 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. Ukraine's subsidy policy may change in the context of its application to join the World Trade Organization.

7. Protection of U.S. Intellectual Property

Ukraine is committed legislatively to the protection of intellectual property, but enforcement remains inadequate. Ukraine is a successor state to many of the conventions and agreements signed by the former Soviet Union and is a member of the World Intellectual Property Organization (WIPO). It is a member of the Paris Convention on industrial property and the Universal Copyright Convention, and in 1995 joined the Berne Convention. Ukraine is also a member of the International Copyright Convention, the Madrid Agreement on registration of marks, and the Patent Cooperation Treaty. Ukraine is not on the Special 301 watch list or priority watch list, nor is it identified as a priority foreign country.

Ukraine has already established a comprehensive legislative system for the protection of intellectual property rights. Since 1993 Ukraine has enacted five IPR laws covering inventions, industrial designs, trademarks, plant varieties, and copyrights. Computer programs and sound recordings can be copyrighted according to Articles 18 and 19 of the Ukrainian copyright law. There are no data on infringement or counterfeiting of trademarks. According to the Ukrainian Copyright Agency, there are also no statistics on the extent of piracy of books, music recordings, videos, or computer software, although pirated movie videos, music cassettes and CDs are widely and openly available in stores and street kiosks in Kiev and other major cities. Piracy and counterfeits clearly have some effect on U.S. exports.

8. Worker Rights

a. *The Right of Association:* The new constitution guarantees 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 stipulates noninterference by authorities in the activities of these organizations and their right to establish and join federations and to affiliate with international organizations on a voluntary basis. In negotiating wages with the government, all unions are permitted to participate. In principle, all workers and civil servants including members of the armed forces are free to form unions, but in practice the government discourages certain categories of workers (e.g., nuclear power plant workers) from doing so.

There are no official restrictions on the right of unions to affiliate with international trade union bodies, The independent miners' union and independent trade unions have not been pressured to limit their contacts with international nongovernmental organizations. The AFL/CIO has a permanent representative in Kiev who interacts freely with the consultative council of independent trade unions.

b. *The Right to Organize and Bargain Collectively:* The law on labor conflict resolution guarantees the right to strike to all but members of the armed forces, civil and security services, and employees of "continuing process plants" (e.g., metallurgical factories). This law prohibits strikes that "may infringe on the basic needs of the population" (e.g., rail and air transportation). Strikes based on political demands are illegal. However, this has not stopped miners and other workers from striking and making political as well as economic demands.

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 unions to participate in the negotiations. Under current law, disputes are to be resolved by the courts. 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 exist.

d. *Minimum Age for Employment of Children:* The minimum employment age is 17. In certain nonhazardous industries, however, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent. School attendance is compulsory to the age of 15, a regulation vigorously enforced by the Ministry of Education.

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 15 days of paid vacation per year. Stagnation in some industries (e.g., defense industry) significantly reduced the workweek for some categories of workers. The constitution and other laws contain occupational safety and health standards, but these are frequently ignored in practice. Lax safety standards caused many serious mine accidents, resulting in 243 deaths over 8 months of 1996 (358 in all of 1995), which represents a considerable increase in the ratio of fatalities per ton of coal extracted amid decreasing coal output. In theory workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. In reality, however, independent trade unionists report 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—1995

[Millions of U.S. dollars]

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

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

UNITED KINGDOM

Key Economic Indicators

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

	1994	1995	1996[2]
Income, Production and Employment:			
Nominal GDP	885.3	953.5	970.8
Real GDP Growth	3.8	2.5	2.1
GDP by Sector:[3]			
Agriculture	15.8	18.8	N/A
Industry	233.7	256.0	N/A
Services (including rents)	476.4	500.9	N/A
Government	167.3	177.7	N/A
Per Capita GDP (USD)	13,000	13,700	13,800
Labor Force (millions)	28.1	28.0	27.9
Unemployment Rate (pct)	9.3	8.6	7.7
Money and Prices (annual percentage growth):			
Money Supply (M4)	4.0	9.9	5.3
Consumer Price Inflation	2.4	3.5	2.4
Exchange Rate (BPS/USD)	1.53	1.58	1.56
Balance of Payments and Trade:[4]			
Total Exports (FOB)	206.5	240.4	253.2
Exports to United States[5]	25.1	26.9	28.5
Total Imports (FOB)	222.9	258.8	281.3
Imports from United States[5]	26.9	28.9	31.2
Trade Balance	−16.5	−18.4	−28.1
Balance with United States[5]	−1.8	−2.0	−2.7
Current Account Deficit/GDP	0.4	0.4	1.5
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	6.6	5.4	4.8
Gold and Foreign Exchange Reserves	43.9	47.0	45.6
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

Sources: U. K. Office for National Statistics, Bank of England.
[1] Converted from British pound sterling (BPS) at the average exchange rate for each year.
[2] Data for 1996 are estimates based on available data through October, 1996.
[3] No sectoral data is available for 1996. For 1994 and 1995, sectors do not add to total due to treatment of net exports and construction.
[4] Merchandise trade (does not include services).
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The United Kingdom (UK) has a free market economy and a liberal financial services environment which encourage competition.

As of year-end 1996, the economy is in its fourth year of recovery. The government refocused its economic policy after leaving the European Union (EU) Exchange Rate Mechanism (ERM) at the beginning of 1993. Low inflation (the target rate is 2.5 percent or below) with sustainable growth is now the primary goal. Average monthly inflation at the retail level reached 3.5 percent in 1995, but appears to have settled back to about 2.5 percent in 1996. Economic growth was exceptionally strong in 1994—almost 4 percent—but slowed to just under 2.5 percent in 1995, and is expected to be about the same in 1996. The unemployment rate fell below 10 percent in 1994 and has continued to fall to well below 8 percent in 1996. While high by U.S. standards, the UK unemployment rate is low compared to most of continental Europe.

Fiscal Policy: The 1990–92 recession substantially increased cyclical spending on unemployment benefits and reduced revenues. These developments, combined with pre-election spending in 1992, led to a record budget deficit level and Public Sector Borrowing Requirement (PSBR) by 1993. Seized by the need to rein in the spiraling PSBR, in 1994 the government initiated a series of stringent fiscal measures to take effect over the next three fiscal years. Progress in meeting fiscal targets has been mixed. The 1997 budget is expected by many in the market to include additional spending cuts sufficient to meet deficit reduction targets while allowing a very small reduction in the basic income tax rate. The deficit/GDP ratio remains above the level that would permit the UK to join the EU Economic and Monetary Union (EMU or the "single currency").

The Conservative Government has set a goal of reducing the basic personal income tax rate to 20 percent. Current tax rates are 20, 25 and 40 percent. For tax purposes, capital gains are adjusted for inflation. The first five thousand pounds in capital gains are tax free, and the remainder is generally taxed at regular income tax rates. Gains from the sale of a primary residence are exempt. Corporate tax rates vary between 25 and 33 percent. Other domestic tax revenue sources include the value-added tax (VAT, currently set at a rate of 17.5 percent), and excise taxes on alcohol, tobacco, retail motor fuels, and North Sea oil production.

Monetary Policy: The UK manages its monetary policy through open market operations by buying and selling in the markets for overnight funds and commercial paper. There are no explicit reserve requirements in the banking system.

2. Exchange Rate Policy

The UK withdrew from the ERM in January, 1993, and the pound sterling floats freely in the exchange market. The Prime Minister has publicly disavowed any return to the ERM in the foreseeable future. Sterling's trade-weighted exchange rate index initially fell from 92 in 1992 to 76 in early 1993 as the UK exited the EU Exchange Rate Mechanism (ERM). It has since recovered and stayed around 84 for most of 1995. The US dollar/British pound sterling exchange rate fluctuated in the 1.55 to 1.65 range for most of 1996.

3. Structural Policies

The UK economy is characterized by free markets and open competition, and the UK Government also promotes these policies within the EU and in international trade fora. Prices for most goods and services are established by market forces. Prices are set by the government in those few sectors where the government still provides services directly, such as passenger railway and urban transportation fares, and government regulatory bodies monitor the prices charged by 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 are not actually fixed for any of these items.

Over the past 17 years, conservative governments pursued growth and increased economic efficiency through structural reform, principally privatization and deregulation. The financial services and transportation industries were deregulated. The government sold its interests in the automotive, steel, coal mining, aircraft and air transportation sectors. Electric power distribution and water supply utilities were also privatized. Electric power generation, rail transportation and local bus transportation are in the process of privatization. Subsidies were cut substantially, and capital controls lifted. Employment legislation significantly increased labor market flexibility, democratized unions, and increased union accountability for the industrial acts of their members.

Although these structural policies have achieved substantial economic results, some segments of the economy have still not adjusted. The UK's low labor costs and labor market flexibility are often credited as major factors influencing the UK's success in attracting foreign investment. Social welfare programs and the business community are still adjusting to job losses and changes in the business climate resulting from deregulation and privatization.

4. Debt Management Policies

The UK has no meaningful external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to the developing countries. The British Government is an active but cautious participant in the development of a coordinated developing country debt strategy.

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 EU for details.)

6. Export Subsidies Policies

The Conservative Government opposes subsidies as a general principle, and UK trade-financing mechanisms do not significantly distort trade. The Export Credits

Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States, was partially privatized in 1991.

Although much of ECGD's business is conducted at market rates of interest, it does provide some concessional lending in cooperation with the Overseas Development Administration (ODA, the British equivalent of the U.S. Agency for International Development) for projects in developing countries. Occasionally the United States objects to financing offered for specific projects.

The UK's development assistance (aid) program also has certain "tied aid" characteristics. To minimize the distortive effects of such programs, particularly when used in conjunction with ECGD-type credits through the Aid and Trade Provision (ATP), the United States negotiated the 1987 "Arrangements on Officially Supported Export Credits" with the UK and other developed countries. It appears that Britain has adhered to the Arrangement.

7. Protection of U. S. Intellectual Property

UK intellectual property laws are strict, comprehensive and rigorously enforced. The UK is a signatory to all relevant international conventions, including the Convention Establishing the World Intellectual Property Organization (WIPO), the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention and the Universal Copyright Convention.

New copyright legislation simplified the British process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora are very similar to the U.S. positions.

8. Worker Rights

a. *The Right of Association:* Unionization of the work force in Britain is prohibited only in the armed forces, public sector security services, and police force.

b. *The Right to Organize and Bargain Collectively:* Nearly 9 million workers, about 32 percent of the work force, are organized. Employers are not legally required to bargain with union representatives. However, they are legally barred from discriminating based on union membership (except in the armed forces, police force, or security services where union membership is prohibited). Employers are allowed to pay workers who don't join a union, or leave a union, higher wages than union members doing the same work. The 1993 Trade Union Reform and Employment Rights Act limited that prohibition under certain special circumstances in matters short of dismissal.

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be lega'' 'ismissed, and voluntary work stoppage is considered a breach of contract.

During the 1980's, Parliament eliminated immunity from prosecution in secondary strikes and in actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is not the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets. Many unions claim that workers are not protected from employer secondary action such as work transfers within the corporate structure.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is unknown in the UK.

d. *Minimum Age for Employment of Children:* Children under the age of 16 may work in an industrial enterprise only as part of an educational course. Local education authorities can limit employment of children under 16 years old if working will interfere with a child's education.

e. *Acceptable Conditions of Work:* With the exception of wages in agriculture, the setting of minimum wages in the UK was abolished by the Trade Union Reform and Employment Rights Act of 1993. Daily and weekly working hours are not now limited by law, although the EU directive outlawing mandatory work weeks longer than 48 hours will be implemented by Act of Parliament now that HMG lost its case before the European Court of Justice.

Hazardous working conditions are banned by the Health and Safety at Work Act of 1974. A health and safety commission submits regulatory proposals, appoints investigatory committees, does research and trains workers. The Health and Safety Executive (HSE) enforces health and safety regulations and may initiate criminal proceedings. This system is efficient and fully involves workers' representatives.

f. *Rights in Sectors with U.S. Investment:* All U.S. corporations operating within the UK are obliged to obey legislation relating to worker rights.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		14,035
Total Manufacturing		27,865
Food & Kindred Products	3,301	
Chemicals and Allied Products	5,937	
Metals, Primary & Fabricated	1,799	
Machinery, except Electrical	5,691	
Electric & Electronic Equipment	3,243	
Transportation Equipment	1,658	
Other Manufacturing	6,236	
Wholesale Trade		6,630
Banking		5,192
Finance/Insurance/Real Estate		55,206
Services		5,764
Other Industries		5,245
TOTAL ALL INDUSTRIES		119,938

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

AMERICAS

ARGENTINA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
GDP (at current prices)[2]	281	276	291
Real GDP Growth (pct)	7.4	−4.4	2
GDP by Sector (pct):			
Agriculture	8.7	8.3	8.5
Manufacturing	30.7	29.7	29.2
Mining	2.1	1.9	1.9
Services	50.4	N/A	N/A
Government	14.9	15.5	15.8
Per Capita GDP (USD)	8,200	8,100	8,300
Labor Force (millions)	13.1	13.9	14.0
Unemployment Rate (pct)	12.2	16.4	17
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	10.1	−10.0	4.0
Consumer Price Inflation[3]	3.9	1.6	0.5
Exchange Rate (peso/USD)	1.001	1.0	1.0
Balance of Payments and Trade:			
Total Exports (FOB)	15.8	20.8	23.7
Exports to United States[4]	1.7	1.8	2.3
Total Imports (CIF)	21.6	19.8	23.7
Imports from United States[4]	4.5	4.2	4.5
Trade Balance	−5.8	1.0	0.6
Balance with United States[4]	−2.8	−2.4	−2.2
External Public Debt	70.1	80.1	87.0
Fiscal Deficit/GDP (pct)	−1.7	−3.0	−1.8
Current Account Deficit/GDP (pct)	−3.7	−1.3	−1.6
Debt Service Payments/GDP (pct)	3.3	5.5	6.5
Gold and Foreign Exchange Reserves	15.7	15.9	16.0

[1] Figures for 1996 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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. From 1991 to 1994, real GDP growth averaged nearly 8 percent annually. However, due principally to the Mexican peso crisis, real GDP fell 4.4 percent in 1995. In 1996, GDP is expected to grow 2 percent. In late 1996 the annual rate of increase for consumer prices was about 0.5 percent—a major accomplishment given Argentina's bouts with hyperinflation within 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 1996 Argentina's trade deficit with the United States is projected to be about $2 billion. Argentina is expected to register a very small overall trade deficit in 1996, reflecting increased imports stemming from the economic recovery.

Argentina's financial system was adversely affected by aftershocks of the crisis in Mexico. The number of financial institutions in Argentina has dropped from over 200 in December 1994 to about 120 in September 1996. The government reacted to the 1995 crisis decisively, with considerable support from international financial institutions.

The public sector budget is expected to run a deficit in 1996 of about four billion dollars—less than 2 percent of GDP. Continued heavy expenditures threaten to generate another deficit in 1997. Tax enforcement has improved, but evasion is still a major problem for the government. The burden on consumers and businesses grew in 1996 as a result of increases in excise taxes on fuels and lack of affordable credit.

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.

2. Exchange Rate Policy

Argentina has no exchange controls. Customers may freely buy and sell currency from banks and brokers at market prices. The Bank buys and sells dollars at a rate of one peso per dollar.

3. Structural Policies

The Menem administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and exposed to international competition. The government's role in the economy has diminished markedly through the privatization of most state firms, including the large oil firm YPF in 1993. Meanwhile, the authorities have eliminated price controls on virtually all goods and services. Nevertheless, recurrent trade deficits from 1992 to 1994 led the government to take some ad hoc protectionist measures. For example, in 1993 the authorities imposed increased "specific" duties on almost all textile imports, followed in 1995 by increased duties on imports of apparel and footwear products. In many instances, the newly imposed duties violated Argentina's commitments under the World Trade Organization (WTO). Subsequently, the government put in place burdensome certificate of origin and labeling requirements on imports of these and other unrelated products, Argentina maintains that these new measures are necessary to counter under-invoicing and dumping from the Far East. In September 1996, the government issued a schedule for phasing down the increased tariffs on footwear over a 26 month period. In October 1996, the United States requested consultations with Argentina on its footwear and textile regime in the WTO.

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. 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 entered into a similar pact to take effect 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 1996 and approached $90 billion by mid-1996 due to new borrowing in capital markets and IFI lending. Debt service payments (principal and interest) will total about $16 billion in 1997. Subsequently, Argentina is expected to make total debt service payments of about $14 billion per year through 1999.

The IMF, World Bank, and Inter-American Development Bank have been major sources of funds to Argentina. In April 1996, the IMF Board of Directors approved a standby credit for Argentina authorizing up to $1.041 billion in drawing rights through December 1997. The government and the IMF are expected to conclude an Extended Fund Facility in late 1996 or 1997.

5. Significant Barriers to U.S. Exports

One of the key market reforms of the Menem administration has been to open the Argentine economy to foreign producers and suppliers. 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 12 percent. In addition, to help raise revenue in the midst of the Mexican crisis, the government raised the tariff on capital goods—which account for over 40 percent of U.S. exports to Argentina—from zero to 10 percent in March 1995.

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 apparel and athletic footwear in September 1995. Restrictions apply to imports of a broad range of used and manufactured equipment as well. In May 1996 the government issued a resolution requiring local generation of a majority of cable 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 into Argentina and possibly force operators to reduce their current foreign offerings.

Argentina also protects the automobile assembly industry through a combination of quotas and heavy tariffs. Nevertheless, the number of foreign manufactured vehicles on the roads is increasing through heavy demand that easily outstrips local production. The government plans to dismantle the present 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 "enquiry point" to address standards-related inquiries. While this enquiry point exists formally at the Direccion General de Industria, it is not fully functional at present.

Service Barriers: The government has progressively eliminated restrictions on foreign owned banks. In January 1994 the authorities formally abolished the distinction between foreign and domestic banks. The government allowed foreign banks to open branches and began issuing new licenses. Government bodies and state agencies must still direct their business to public banks, but the importance of this stipulation is declining given the ongoing privatization program. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty insurance. The privatization of pension funds has also attracted some American 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, making it the only one in force with a Latin American country. Under the treaty U. S. investors enjoy national treatment in all sectors except shipbuilding, fishing, insurance and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. 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.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement, although "Buy Argentina" practices have been virtually abolished. Argentine sources will normally be chosen only when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are 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, as evidenced by new requirements on products under antidumping or countervailing duty investigations or safeguard actions. In 1996, the government merged the customs and tax authorities to boost revenue collection and improve efficiency. It is also considering hiring private firms to verify imports at their point of origin. Argentina is also looking at initiating a preshipment inspection system in mid–1997 to counter chronic under-invoicing problems.

6. Export 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.

7. Protection of U.S. Intellectual Property

Argentina adheres to most treaties and international agreements on intellectual property, including the Paris Convention on industrial property (Lisbon revision and nonsubstantive portions of the Stockholm revision), the Brussels and Paris revisions of the Berne Convention, the Universal Copyright Convention, the Geneva Phonogram Convention, the Treaty of Rome and the Treaty on the International Registration of Audiovisual Works. In addition, Argentina is a member of the World Intellectual Property Organization (WIPO). However, reform of Argentina's patent system has in recent years been a contentious bilateral issue. Argentina is on the Priority Watch List for its treatment of pharmaceutical products.

Patents: After a 3-year conflict between the Argentine executive and Congress over the issue of patent protection for pharmaceutical products, the executive issued a March 1996 decree which says Argentina will approve patents for pharmaceutical products starting in November 2000. The decree does not provide patent protection for products currently 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 which have been licitly placed in commerce in a third country. Compulsory licenses can be awarded in cases of anticompetitive practices or for failure to work a patent.

The March 1996 decree is an improvement over earlier legislation passed by congress, but provides less protection than that sought earlier by the executive. The decree also does not meet the concerns of the U.S. pharmaceutical industry. Still, the executive does not plan to seek further changes in Argentina's patent law. The executive introduced a bill in Congress in early 1996 that would protect against unauthorized use data submitted by companies seeking approval to market a product from local health authorities. Action on the bill is expected later in the year.

Copyrights: Argentina's copyright law, enacted in 1993, is adequate by international standards. Recent decrees provided protection to computer software and extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, 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. However, a recent lower court decision, currently on appeal to the Supreme Court, put in question the application of criminal sanctions in cases involving unauthorized use of computer software.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has striven to improve.

Trade Secrets: Argentina has no trade secret law as such, but the concept is recognized and encompassed by laws on contract, labor and property. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. This technology conceivably could be covered by existing legislation on patents or copyrights, but this has not been verified in practice. Nevertheless, Argentina has signed the WIPO Treaty on Integrated Circuits.

8. Worker Rights

a. *The Right of Association:* All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30–40 percent of the workforce. Unions are independent of the government 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 anti-union practices. The trend continued toward 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 1995.

d. *Minimum Age for the Employment of Children:* The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than 6 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 8 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		933
Total Manufacturing		3,576
Food & Kindred Products	1,336	
Chemicals and Allied Products	1,421	
Metals, Primary & Fabricated	149	
Machinery, except Electrical	44	
Electric & Electronic Equipment	48	
Transportation Equipment	56	
Other Manufacturing	521	
Wholesale Trade		1,057
Banking		839
Finance/Insurance/Real Estate		801
Services		107
Other Industries		648
TOTAL ALL INDUSTRIES		7,962

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

THE BAHAMAS

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
GDP (at current prices)	3,674	3,823	N/A
Real GDP Growth	1.5	2.0	N/A
GDP by Sector (pct of total):			
Tourism	50	50	50
Finance	12	12	12
Manufacturing	4	4	4
Agriculture/Fisheries	4	4	4
Government	12	12	12
Other	18	18	18

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Per Capita GDP (USD)	11,610	N/A	N/A
Labor Force (000s)	138.7	143.0	N/A
Unemployment Rate (pct)	13.3	11.1	N/A
Money and Prices (annual percentage change):			
Money Supply Growth (M2)	8.2	7.2	N/A
Retail Price Inflation	1.3	2.14	1.75
Exchange Rate (B$/USD)	1.00	1.00	1.00
Balance of Payments and Trade:			
Total Exports (FOB)	167	176	N/A
Exports to United States[2]	203	157	161
Total Imports (CIF)	972	1,087	N/A
Non-oil (estimated)	685	661	728
Imports from United States[2]	704	685	N/A
Trade Balance	−805	−911	N/A
Balance with United States	−474	−528	−567
Current Account Deficit/GDP (pct)	6.1	5.6	N/A
External Public Debt	100	93	N/A
Debt Service Payments/GDP (pct)	2.1	1.8	N/A
Fiscal Deficit/GDP	1.0	N/A	N/A
Gold and Foreign Exchange Reserves	174	171	234
Aid from United States	0	0	0
Aid from Other Countries	0	0	0

Source: Central Bank of The Bahamas and the Department of Statistics.
[1] Statistics cover mid-year 1996 except as noted.
[2] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 50 percent and 12 percent of GDP respectively. The agricultural and industrial sectors, while small, continue to be the focus of government efforts to produce new jobs and diversify the economy.

The United States remains The Bahamas' major trading partner. U.S. exports to The Bahamas decreased further from $685.4 million in 1994 to $660.5 in 1995 but still account for approximately 55 percent of all imports. The Bahamian Government actively encourages foreign investment and promotes the free trade zone on Grand Bahama. Capital and profits are freely repatriated, and investors are offered relief from personal and corporate income taxes. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty free.

The Bahamian Government enacted a policy in the 1995–1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 1996–1997 budget totaling $698.4 million provides for recurring expenditures of $589.4 million, an increase of $135.6 million including $26 million from the 1995/96 budget. A total of $85.8 million has been allocated for repayment of government debt. Overall, the budget concentrates on reducing the import duty on a variety of capital and consumer goods, strengthening the role of the private sector in the economy, and maintaining the fixed exchange rate with the United States. No new taxes were added to this year's budget.

Recurrent revenue for 1996–1997 is projected at $725 million, representing an increase of $70 million over expected revenues of $655 million for the 1995–1996 fiscal year. This figure is based in part on revisions to last year's underestimation and on expectations of higher revenue returns from greater diligence in revenue collections.

Although the budget held no new taxes and did not raise existing taxes, the government expects to preserve import duties as the major source of revenues. The government is aware 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 effective July 1. 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 expects total lost revenues of approximately $7 million as a result of the reductions, but anticipates that this will be offset by 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

Prime 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 1.7 percent.

The Bahamas is recognized internationally as a tax haven. The government does not impose income, inheritance or sales taxes. In last year's 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 the price competitiveness of goods in the Bahamian market. The rate of stamp duty on cigarettes was also lowered.

In 1993 the Bahamian 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 2-year real property tax exemption for foreign persons acquiring undeveloped land in The Bahamas for development purposes, provided that substantial development occurs during those 2 years. Following protests by foreign property owners, the Bahamian Government has revised plans for the proposed 7 percent increase on the assessed value of undeveloped property owned by non-Bahamians. The property tax structure 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.

The Bahamian Government hopes this new legislation will stimulate the second home/vacation home market and revive the once vibrant real estate sector.

In addition, the government lowered the rate of stamp duty on real estate transactions in the 1995–1996 budget to further boost real estate development by creating jobs and attracting foreign investment. The stamp duty reduction ranges from 2 percent on transactions under $20,000 to 8 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.

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.
—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

The Bahamas' national debt increased to $1.5 billion in 1995 from $1.46 billion the previous year. Debt repayment amounted to $26.7 million with $9.3 million used for reducing foreign liabilities and $17.4 million for Bahamian dollar obligations.

5. Significant Barriers to U.S. Exports

The Bahamas is a $700 million market for U.S. companies. There are no barriers to the import of U.S. goods, although a substantial duty applies to most imports. Deviations from the average duty rate often reflect policies aimed at import substitution. Tariffs on items produced locally are at a rate designed to provide protection to local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient supply of locally grown items exits. The government's quality standards for imported goods are similar to those of the United States.

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 from Florida, instated 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 industry. 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 is a member of the World Intellectual Property Organization (WIPO) and a party to the Paris Convention on industrial property and the Berne Convention on copyright (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention. Although local intellectual property laws exist, enforcement is generally weak.

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, the government passed a bill to amend the Copyright Act to provide for payment of equitable royalties to copyright owners (particularly Bahamian musicians) for the diffusion of broadcast signals.

8. Workers Rights

a. *Right of Association:* The Constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *Right to Organize and Bargain Collectively:* Workers are free to organize, and collective bargaining is extensive for the 34,225 workers (25 percent of the work force) who are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. *Minimum Age for Employment of Children:* While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 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, the government recently instituted a minimum wage for public service employees who are paid hourly wages.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make onsite 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		45
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		139
Banking		470
Finance/Insurance/Real Estate		879
Services		−97
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,566

(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]

	1994	1995	1996
Income, Production and Employment: [1]			
Nominal GDP [2]	6,166	6,817	7,362
Real GDP Growth (pct)	4.2	3.5	3.9
GDP by Sector:			
Agriculture	15.2	14.9	14.9 [2]
Manufacturing	16.7	16.8	16.9 [2]
Services	27.5	27.6	30.3 [2]
Government	9.40	9.16	9.06 [2]
Per Capita GDP (USD) [2]	847	915	959
Labor Force (millions)	1.2	1.3	N/A
Unemployment Rate (pct) [3]	3.1	3.6	N/A
Money and Prices (annual percentage growth): [4]			
Money Supply Growth (M2) [5]	24.9	17.0	-7.1
Consumer Price Inflation	8.5	12.6	10.0
Exchange Rate (BS/USD—annual average)			
Official	4.62	4.80	5.08
Balance of Payments and Trade:			
Total Exports (FOB) [1]	1,124	1,187	1,266 [6]
Exports to United States [7]	260	262	275
Total Imports (CIF) [1]	1,196	1,424	1,523 [6]
Imports from United States [7]	185	214	229
Trade Balance	-72	-237	-258
Balance with United States	75	48	46
Current Account Deficit/GDP (pct) [2]	1.7	3.5	3.5
External Public Debt [4]	4,216	4,287	4,433 [8]
Debt Service Payments/GDP (pct) [9]	2.0	2.0	4.2
Fiscal Deficit/GDP (pct) [10]	3.2	2.3	2.6
Gold and Foreign Exchange Reserves [8]	659	783	909
Aid from United States [11]	118	88	83
Aid from All Other Sources [4]	147	183	188

[1] Source: National Institute of Statistics (INE). 1996 figures are projections.
[2] Embassy estimates based on INE figures and projections. (GDP appears to grow more in dollars than in real terms due to distorting effect of the exchange rate conversions.)
[3] Based only on surveys of urban areas. Data does not consider underemployment.
[4] Source: Central Bank of Bolivia. 1996 figures are projections.
[5] Figure measures only national currency (Bolivianos) and is misleading due to dominant use of U.S. dollars (approximately 90 percent of all deposits in the banking system).
[6] Embassy estimate based on INE January-June 1996 figures.
[7] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[8] Through September 1996 (Central Bank of Bolivia).
[9] Embassy estimate based on Central Bank figures.
[10] Source: Ministry of Finance.
[11] Independent embassy estimate.

1. General Policy Framework

Following a prolonged period of economic instability the Government of Bolivia initiated a series of economic reforms in 1985 intended to arrest hyperinflation and open the economy. The currency was allowed to float, commercial banks were allowed to set their own interest rates, import and investment permit requirements were eliminated, economic activities which had been reserved for government corporations were opened to private investment, and the government entered into an IMF standby program. The Paz Zamora Administration (1989–93) institutionalized these market-oriented economic reforms. The Sanchez de Lozada Administration, which took office in August 1993, is implementing further economic reforms, of which the "capitalization" (privatization) of six large state-owned corporations is the most important. In addition, the Sanchez de Lozada Administration has implemented important reforms in the areas of education, popular participation (devolution of budgetary authority to municipalities), and in the administration of the executive branch. Legislation under consideration would transform the judicial system and the pension system.

The economic reforms have caused a dramatic drop in inflation (to less than 15 percent each year since 1986), steady economic growth (between 2.5 and 4.2 percent annually starting in 1987) and growing private investment and savings. The government expects that the economy will grow by about 3.95 percent in 1996 and 5.0 percent in 1997 with inflation around 10 percent in 1996 and 7 percent in 1997.

Commercial bank deposits have more than doubled since 1992 to over $2.75 billion. Trade surpluses and large inflows of foreign aid have resulted in growing official foreign exchange reserves. There has been a rapid increase of net reserves in the Central Bank, reaching a record figure of just over $900 million in October 1995, or over 7 months worth of imports. Net reserves of the non-government financial system have risen sharply to $138 million. In compliance with IMF programs, the government reduced the budget deficit of the non-financial public sector (which includes central, regional and municipal governments and the parastatal corporations). The fiscal deficit for 1995 was 2.3 percent of GDP compared to 6.5 percent in 1993. In 1996, the deficit is projected to be 2.6 percent. Central government tax revenues were about 11.5 percent of GDP in 1995 compared to 11.3 percent in 1994. Tax revenues continue to increase due to better administration and higher tax rates. The government also receives direct transfers from public enterprises and from foreign grants. Budget deficits have been covered by foreign loans and the sale of certificates of deposit by the Central Bank.

The money supply, both M1 and M2, has grown slowly since 1985 with M1 averaging around 5 percent of GDP. However, the published figure for money in circulation (nearly $650 million worth of Bolivianos) is misleading since there are also millions of U.S. dollars in circulation and dollars are a legal means of exchange. Banks are allowed to keep dollar accounts and make dollar loans. Nearly 90 percent of the $2.75 billion of deposits in Bolivia's 14 commercial banks are denominated in dollars.

The investment law allows contracts to be written in dollars. Interest rates have remained relatively stable over the last 3 years. In September 1996, the average rate paid on dollar deposits was 10.0 percent and the average rate on dollar loans was 17.5. percent. These rates increased slightly from 1995 due to increased bank competition for deposits.

2. Exchange Rate Policy

Since 1985, the official exchange rate has been set daily by the government's exchange house, the BOLSIN, which is under the supervision of the Bolivian Central Bank. The BOLSIN holds daily auctions of dollars. The average amount of dollars offered each day is now around ten million. Sealed bids are solicited with dollars going to those bidding at or above the minimum rate. With this mechanism the Central Bank has slowly allowed the Boliviano to depreciate in line with domestic inflation and inflation of Bolivia's major trading partners. The rates set by the BOLSIN cannot ignore market forces because currency exchanges in banks, hotels, exchange houses and on the street corners are legal and active. Parallel market exchange rates are always less than 1 percent different from the official rates.

3. Structural Policies

In 1990, the government reduced tariffs from 16 to 10 percent for all imports except for capital goods for which the tariff is 5 percent. In addition, the government charges a 13 percent value-added tax and a 3-percent transaction tax on all goods, whether imported or produced domestically. There are excise taxes on some consumer products including cars. No import permits are required. The central government currently sets the prices of finished fuels while the municipal governments try to control the price of a bread roll commonly consumed by the poorer members of society. In December 1996, the government capitalized YPFB, the government-owned oil company, for US$834 million. Deregulation of fuel prices is expected to take effect thereafter.

The 1990 investment law establishes many guarantees, such as remission of profits, freedom to set prices, and convertibility of currency, that had been previously authorized by Presidential decree. It essentially guarantees national treatment for foreign investors and authorizes international arbitration except for non-technical disputes in the oil industry. There are no limitations on foreign equity participation. The 1996 hydrocarbons law authorized YPFB to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. The mining law created a tax on profits, which is creditable in the United States, and opened up border areas to foreign investors as long as their Bolivian partners hold the mining concession.

In 1993, the Congress passed a new banking law that establishes clear rules for the commercial banks and authorizes them to maintain foreign currency accounts. A new central bank law passed in October 1995 increased the autonomy of the Central bank and established stricter reserve and lending requirements for the banking system. Between 1985 and 1995, all government purchases over 100,000 Bolivianos (about $23,000) were handled by private purchasing agents. However, government agencies and parastatal companies now have the authority to make their own purchases through a competitive bidding process.

The cornerstone of President Sanchez de Lozada's economic program is the capitalization (privatization) program of the six largest state-owned companies (YPFB—oil, ENDE—electricity, ENTEL—telecommunications, LAB—airline, ENFE—railroad, and ENAF—tin/antimony smelter). The capitalization program was approved by Congress in April 1994. Capitalization involves giving a "strategic" partner 50 percent ownership and management control in return for direct investment in the company. The other 50 percent will be turned over to all adult Bolivians in the form of stock to be placed in individual pension accounts. The government hopes capitalization will boost investment, increase output and efficiency, reduce corruption, increase fiscal revenues, and create as many as 500,000 new jobs. The results of the first three capitalizations (ENDE for $142 million, ENTEL for $610 million, LAB for $47 million, and ENFE for $39 million) have exceeded the government's expectations. Despite almost a year of postponements, the government hopes to capitalize its largest company, YPFB, by the end of 1996, with ENAF following in early 1997. The complementary program of privatizing small and medium- sized companies has raised $77 million for the Treasury. In November, 1996, the government granted a 25-year concession to a U.S. company for the operation of the La Paz, Santa Cruz and Cochabamba international airports.

4. Debt Management Policies

The Bolivian Government owes $4.44 billion to foreign creditors. 60.7 percent of that is owed to international financial institutions, mainly the Inter-American Development Bank, the World Bank and the Andean Development Corporation; 39.2 percent to foreign governments, and only 0.1 percent to private banks and suppliers. By the end of 1996, around 93 percent of the debt will be owed by the non-financial public sector. After capitalization of YPFB and ENAF, the external public debt of state-owned corporations will drop from 19.5 percent of the total foreign debt to zero.

Bilateral debt payments have been rescheduled six times by the Paris Club, most recently in December 1995. Several foreign governments have forgiven substantial amounts of the bilateral debt. In September 1990, the U.S. Government forgave $72 million owed by the Bolivian Government, and in 1996 forgave an additional $4 million.

The Bolivian Government has reduced its commercial debt from over $700 million in 1985 to $31 million at the end of 1994. The government bought back many of the debt claims at 11 cents on the dollar and has exchanged other debt claims for investment bonds which will mature with the full face value of the debt claim in 25 years.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia and the minor barriers to U.S. direct investment apply to all foreign investors, not just U.S. investors. The requirement to obtain import licenses, previously required for sugar, wheat and cement, was eliminated in September 1990 with the passage of the Investment Law. Article 8 of that law states, "Freedom to import and export goods and services is guaranteed, with the exception of those products that affect public health and/or the security of the state." The Export Law of April 1993 prohibited the import of products which affect the preservation of flora and fauna, particularly nuclear waste. Again, none of these restrictions discriminate against foreign exporters.

Bolivia became a member of the World Trade Organization in September 1995. There are no limitations on foreign equity participation and dozens of Bolivian companies are wholly owned by U.S. investors. The Investment Law essentially guarantees national treatment for foreign investors. The only restriction on foreign investment is that foreigners may not obtain mining or oil concessions within 50 kilometers of the borders. However, Bolivians with mining concessions near the borders may have foreign partners as long as they are not from the country adjacent to that portion of the border. In the case of the oil industry, an operational contract with YPFB, the state-owned oil company, avoids this restriction.

6. Export Subsidies Policies

The government does not directly subsidize exports. An export law approved by Congress in April 1993, replaced a former drawback program with one in which the government grants rebates of all the domestic taxes paid on the production of items later exported. However, delays of more than a year for payment of this rebate are common.

7. Protection of U.S. Intellectual Property

In 1995, the Bolivian Government established an inter-agency intellectual property rights task force that has undertaken the role of promoting protection of IPR and drafting new legislation, and the Bolivian Congress ratified accession to the WTO, which gives Bolivia 5 years to comply with the Trade Related Aspects of Intellectual Property Rights (TRIPS). The task force is currently working on anti-piracy legislation that would impose strict penalties for IPR infringement.

In September 1996, the U.S. Trade Representative, as part of the special 301 process, placed Bolivia on the Watch List for failure to properly protect IPR. The International Intellectual Property Alliance, which represents U.S. copyright industries, estimates that U.S. companies lost $42.1 million in 1995 in Bolivia due to piracy of motion pictures, sound recordings, computer programs and books.

Although it is difficult to substantiate the numbers, weak enforcement of existing laws (that themselves offer lax penalties) does little to discourage piracy in Bolivia. However, the high profile status that IPR protection has gained in the past year has given impetus to new activities to address the problems. These activities include the creation of a new copyright office, stronger regulation of TV and radio broadcasting, a legislative proposal to protect computer software, and formation of a special anti-piracy police unit.

8. Worker Rights

a. *The Right of Association:* Workers may form and join organizations of their choosing. The labor code requires prior governmental authorization to establish a union, permits only one per enterprise, and allows the government to dissolve unions, but the government has not enforced these provisions in recent years. While the code denies civil servants the right to organize and bans strikes in public services, including banks and public markets, nearly all civilian government workers are unionized. Workers are not penalized for union activities. In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; approximately one-half of the workers in the formal economy belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the government does not prosecute those responsible nor impose penalties.

Significant strikes centered around annual negotiations over salaries and benefits for public employees. However, their principal real targets were the economic and social reform programs being pressed by the government. Most strikes were conducted and led by the militant Trotskyite element of the urban teachers union. Several thousand peasant farmers, instigated by their union and syndicate leaders, marched on La Paz in August and September to protest a law to correct shortcomings in the 1953 land reform program. They remained in the capital for several weeks, disrupting activities and occasionally clashing with police.

Unions are not free from influence by political parties. Most parties have labor committees that try to influence union activity, causing fierce political battles within unions. Most also admittedly have party activists in the unions. The law allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions (WFTU) in 1988.

b. *The Right to Organize and Bargain Collectively:* Workers may organize and bargain collectively. In practice, collective bargaining, defined as voluntary direct negotiations between unions and employers without participation of the government, is limited. The COB contends that it represents all Bolivian workers. Consultations between government representatives and public sector labor leaders are common but have little effect on wages or working conditions. The COB issues a list of demands and the government concedes some points, but, mindful of IMF guidelines, rarely grants wage increases exceeding inflation. Capitalization of the major state enterprises has further eroded COB's legitimacy as the sole labor representative. Private employers, now including management of some of the capitalized enterprises, may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. However, these adjustments usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the nominal primacy of the COB.

The COB is primarily a Marxist-dominated political movement. As its significance as a credible labor representative waned, it became even more ideologically militant, in August electing as Executive Secretary a radical Marxist who promised to lead a new worker's revolution. He has shown no evidence yet of being able to re-awaken Marxist revolutionary consciousness among workers, however.

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 Criadito system and the agricultural servitude by indigenous workers, and some individual cases of household workers effectively imprisoned by their employers.

d. *Minimum Age for Employment of Children:* The law prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. The labor code is ambiguous on conditions of employment for minors aged 14 to 17; it permits apprenticeship for those 12 to 14. This practice has been criticized by the International Labor Organization; the government is preparing legislation reforming this and other provisions of the labor code. The Ministry of Labor estimates that the new law will be ready for passage about November 1996. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but the provisions generally are not enforced. Urban children hawk goods, shine shoes, and assist transport operators. Rural children often work with parents from an early age. Children are not generally employed in factories or formal businesses but, when employed, often work the same hours as adults.

e. *Acceptable Conditions of Work:* The law establishes a minimum wage (about $42 per month), bonuses, and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers earn more. Although the minimum wage falls below prevailing wages in most jobs, certain fringe benefits are pegged to it. The minimum wage does not cover about 20 percent of urban workers—vendors and shoe polishers, for example—nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a workweek of 5 or 5½ days, because the maximum workweek of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced. Work conditions in the mining sector are particularly bad. Although the State Mining Corporation has an office charged with safety, many mines, often old and using antiquated equipment, are dangerous and unhealthy. In some cooperative mines, miners earn less than three dollars per 12-hour day. They work without helmets, boots, or respirators in mines where toxic gases abound; they buy their own supplies, including dynamite, have no scheduled rest periods, and must survive underground from 24 to 72 hours continuously with little water and food.

f. *Rights in Sectors with U.S. Investment:* The majority of U.S. investment is in mining, power generation and the petroleum industry. Rights in these are legally the same as in other sectors. However, conditions and salaries for workers in the petroleum industry are generally better than in other industries because of strong labor unions in that industry.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		157
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		1

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Banking	3
Finance/Insurance/Real Estate	0
Services	0
Other Industries	221
TOTAL ALL INDUSTRIES	382

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

BRAZIL

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	528	563	600
Real GDP Growth (pct) [3]	5.8	4.2	2.8
GDP by Sector (pct):			
Agriculture	13.2	12.5	N/A
Industry	34.3	32.8	N/A
Services	52.5	55.7	N/A
Per Capita GDP (USD) [4]	3,651	4,608	4,800
Labor Force (millions)	72.6	74.1	75.6
Unemployment Rate (pct)	3.4	4.4	5.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	20.8	56.6	40.0
Consumer Price Index	916.4	22.4	10.0
Exchange Rate (R/USD—annual average)			
Commercial	0.6	0.9	1.0
Balance of Payments and Trade:			
Total Exports (FOB) [5]	43.5	46.5	49.0
Exports to United States [6]	8.7	8.8	8.7
Total Imports (FOB) [5]	33.1	49.7	52.5
Imports from United States [6]	8.1	11.4	12.6
Trade Balance [5]	10.5	−3.2	−3.5
Balance with United States [6]	0.6	−2.6	−3.9
Fiscal Deficit/GDP (pct)			
Nominal	44.4	7.3	6.5
Operational (inflation adjustment)	1.3	5.0	4.0
Current Account Deficit/GDP (pct)	2.6	2.6	3.0
External Public Debt [7]	87.3	87.5	89.0
Debt Service/GDP (pct)	1.5	1.9	2.0
Gold and For. Exch. Reserves (int'l liquidity)	38.8	51.8	58.0
Aid from United States (USD millions) [8]	14.7	15.0	13.9
Aid from Other Countries	N/A	N/A	N/A

[1] 1996 figures estimated based on January–September data.
[2] GDP at market prices.
[3] Percentage changes calculated in local currency.
[4] At current prices; 1996 figures estimated based on January–September data.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Nonfinancial public sector (excludes Petrobras and CVRD).
[8] USAID only.

1. General Policy Framework

Brazil is in the midst of an ambitious economic restructuring program designed to bring inflation down, dismantle state control of the economy, reduce market barriers, and encourage greater private sector (including foreign) investment in order to achieve sustainable long term noninflationary growth. Since the introduction of a new currency, the Real, in July 1994, Brazil has brought inflation down from a monthly rate of 50 percent in June 1994 to an average monthly rate below 1 percent. The keys to this achievement have been a strongly valued currency and high real interest rates to attract foreign capital. However, long term economic stabilization with real growth will require more privatization and fiscal reforms to achieve balanced budgets at the Federal, state and municipal levels of government.

With the drop in inflation, the public sector has had a harder time balancing budgets. Brazil ran an operational deficit in 1995 equal to 5 percent of GDP after 4 years of nearly balanced budgets. The public sector is expected to register another deficit close to 4 percent of GDP in 1996. To bring more order to public accounts, the government has proposed constitutional reforms of the bureaucracy and social security, in addition to tax reforms. These have proved to be very controversial within the Congress and little progress has been made.

The Federal Government tries to contain spending by limiting budget disbursements to cash-on-hand. Constitutionally mandated earmarks and transfers, a large public payroll, and Federal and state internal debt service obligations approaching $200 billion (with real annual interest rates of 15 percent)leave the government less than 10 percent of revenues for discretionary spending. As a result, investment in and maintenance of infrastructure projects has virtually ceased. The states and municipalities also run budget deficits primarily because 80 percent or more of revenues go to the public payroll. The states have increasingly resorted to borrowing to pay their public employees, thus incurring the additional cost of high domestic interest rates. Brazil's state-owned enterprises also run smaller deficits, due to payroll costs and the freezing of public tariffs since July 1994.

The stabilization plan was premised on three anchors--exchange rate (strong currency), tight monetary policy, and fiscal restraint. With fiscal reforms lagging, the exchange and monetary anchors have had to bear more of the burden. Stabilization has freed pent-up consumer demand and caused a consumption boom in the last quarter of 1994 and the first quarter of 1995 (when growth reached 10.5 percent). Lower trade barriers and a strongly valued currency prompted a surge in imports, which were up 90 percent from 1994 levels while exports increased only 6 percent. To dampen consumption and stave off a larger than expected current account deficit, the government tightened monetary policy by imposing high bank reserve requirements and credit restrictions. High domestic real interest rates also inhibit business investment, particularly by small and medium sized businesses that cannot borrow overseas. As a result, growth slowed during the last three quarters of 1995 into 1996, with signs of some recovery the last two quarters of 1996.

In response to the import surge and resulting large monthly trade deficits in late 1994 and early 1995, in March 1995 the government significantly raised import tariffs on a range of consumer durable goods, including automobiles, toys, and shoes. The new tariff levels are as high as 70 percent on some products. The tariff increases did not affect capital goods, which constitute a significant portion of U.S. exports to Brazil. In June 1995 the government imposed quotas on the importation of automobiles and announced investment incentives for domestic auto production. The quota regime was eliminated in October after the WTO Balance of Payments Committee rejected Brazil's justification of the quotas on balance of payments grounds. However, 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 70 percent duty, but links this benefit to export performance and local content requirements which appear inconsistent with Brazil's WTO obligations.

The process of trade liberalization initiated in 1990 has produced significant changes in Brazil's trade regime, resulting in a more open and competitive economy. Imports have increased as a result of generally lower tariffs and reduced nontariff barriers, as well as as from the strength of the Real relative to the dollar. Affected imports comprise a wide range of industrial, agricultural and consumer goods. Despite the restrictive measures adopted during 1995 to slow mounting trade deficits—measures which the Brazilian Government 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 Southern Common Market (Mercosul) partners, Argentina, Paraguay and Uruguay, implemented the Mercosul 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 20 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 20 percent; the most commonly applied tariff is 14 percent. Mercosul is now negotiating free trade agreements with its South American neighbors. An association agreement with Chile went into effect on October 1, 1996, an agreement with Bolivia was signed the same month, and negotiations with the Andean Pact began in November.

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 the Central Bank. The tourist rate is used for individual transactions, such as travel, education, and other unilateral transfers. The parallel rate is similar to the tourist rate, but is not recorded with the Central Bank. The spread between the three rates has narrowed with stabilization. Central Bank officials state the intention to eventually unify the commercial and tourist rates.

When introduced in July 1994, the new currency, the Real, was pegged at parity with the U.S. dollar. The Central Bank established a new system of trading bands in March 1995. The Central Bank has subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. In November 1996, the trading band was 0.97–1.06 Reals for one U.S. dollar, with the miniband between 1.0275 and 1.0325.

3. Structural Policies

Although some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is far from transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. In addition, as part of its efforts to keep inflation down, the government has in the past regularly frozen public utility rates. In 1995, the government stated its intention to phase in "full cost recovery" pricing for utility rates over the next 2 years.

Brazil's privatization program, initiated in 1990 to reduce the size of the government and improve government fiscal balances, has shifted to a new phase. The steel companies and most of the petrochemical companies owned by the government have been privatized; the large mining conglomerate, Companhia Vale do Rio Doce, is scheduled for privatization in early 1997. The government also plans in 1997 to privatize public utilities, beginning with energy companies and some telecommunication services. Progress with the utility privatizations has been slowed by the lack of adequate regulatory regimes.

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 2-year period beginning in 1997 to finance the health system.

4. Debt Management Policies

Brazil's total external debt by the end of 1995 was $159 billion, of which 55 percent was owed by the public sector and 45 percent by the private sector. Debt service represented 1.9 percent of Brazil's gross domestic product and 17.4 percent of export earnings. Brazil concluded a commercial debt rescheduling agreement (without an IMF stand-by program) in April 1994 after twelve years of negotiations and has fully complied with the commitments made in this agreement. It is unlikely to reschedule its external debts in the near future. Brazil's growing internal debt (see above) remains a concern.

The Government of Brazil raised close to $2 billion in 1995 through bond issues in Germany and Japan, and a global bond issue in October 1996 raised $750 million. In November 1995 the Brazilian Senate authorized the government to borrow

$5 billion overseas, so there may be future bond issues designed to demonstrate Brazil's renewed financial credibility.

5. Significant Barriers to U.S. Exports

Import Licenses: Although Brazil requires import licenses for virtually all products, import licensing generally does not pose a barrier to U.S. exports. Import licenses are now used primarily for statistical purposes and generally are issued automatically within 5 days. However, obtaining an import license can occasionally still be difficult.

The Secretariat of Foreign Trade's computerized trade documentation system is scheduled to be fully operational for imports and exports in January 1997, and should streamline import documentation.

Agricultural Barriers: While progress has been made in the area of fruit and vegetable regulations between the United States and Brazil, sanitary and phytosanitary measures remain significant barriers in many cases.

Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. The United States objects to the use of the concept of reciprocity when legitimate health concerns based on scientific evidence should be the central issue. Brazil had previously granted conditional approval for U.S. 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 disease of sheep).

Brazil officially adopted the harmonized phytosanitary standards of the Southern Cone Phytosanitary Committee (COSAVE—Argentina, Chile, Paraguay and Uruguay are also parties) On July 18, 1996, the U.S. Department of Agriculture and the Brazilian Ministry of Agriculture reached a bilateral agreement which enables most U.S. fruit, grain, and seed exports to meet the new phytosanitry requirements. However, U.S. horticultural products still frequently face difficulties at Brazilian ports.

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 oilfield and mining industries, have been restricted by limitations on foreign capital under the 1988 Constitution. Foreign financial institutions are restricted from entering Brazil or expanding pre-1988 operations. 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.

Foreign participation in the insurance industry is impeded by limitations on foreign investment, market reserves for Brazilian firms in areas such as import insurance, and the requirement that parastatals purchase insurance only from Brazilian-owned firms. In June 1996, the Brazilian Government ended the state's monopoly on reinsurance.

Investment Barriers: In addition to the restrictions mentioned above, 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. 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 35 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 most of these incentives, it must commit to invest in local research and development and meet export and local training requirements. The Software Law of 1987 (Law 7646) requires that all software be "catalogued" by the Informatics Secretariat of the Ministry of Science and Technology prior to its commercialization in Brazil, and that software to be run on Brazilian-origin hardware be distributed by a Brazilian firm. A draft law has been introduced into Brazil's Congress to eliminate the cataloguing and distribution requirements.

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 procurements 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.

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 Brazilian 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. Under the program, the government provides interest rate guarantees to commercial banks which finance export sales, thus ensuring Brazilian exporters access to financing at rates equivalent to those available internationally. Capital goods, automobiles and auto parts, and consumer goods are eligible for financing under PROEX.

7. Protection of U.S. Intellectual Property

In May 1996 Brazil passed a new industrial property law that will take effect in May 1997. Although implementing regulations still have not been published, in most respects the new law will bring most aspects of Brazil's patent and trademark regime up to international standards specified in the Uruguay Round TRIPs agreement. The new law, however, includes compulsory licensing and local working requirements which appear to be TRIPs-inconsistent. It would permit the granting of a compulsory license if a patent owner has failed to "work" the patented invention in Brazil (manufacture locally) within 3 years of issuance. A product would be recognized as "worked" in cases in which local production was found to be "economically unviable."

Brazil is a signatory to the GATT Uruguay Round accords, including the TRIPs agreement, ratified by the Brazilian Congress in December 1994. Brazil is a member of the World Intellectual Property Organization and a signatory to the Berne and Universal copyright conventions, the Washington Patent Cooperation Treaty, and the Paris Convention on industrial property.

Patents: The new law will provide patent protection for chemical and pharmaceutical substances, chemical compounds and processed food products, which were not patentable under Brazil's 1971 law. The law also provides for the patentability of genetically altered microorganisms. In addition, it will extend the term for product patents from 15 to 20 years. Effective immediately, the law provides "pipeline" protection for pharmaceutical products which have been patented in other countries but not yet placed on the market.

Trade Secrets: The new Industrial Property Law specifically allows criminal prosecution for revealing trade secrets of patented items, with a penalty of imprisonment for 3 months to a year or a fine. The regulations as written are somewhat narrower than TRIPs. However, the Brazilian Government argues that since it incorporated TRIPs Article 39 into law when the Uruguay Round agreements were ratified, in effect a TRIPs-consistent level of protection is available.

Trademarks: The new Industrial Property Law provides for significant improvements in Brazil's trademark regime, including 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: While Brazil's copyright law generally conforms to international standards, the 25 year term of protection for computer software falls considerably short of the Berne Convention standard of the life of the author plus 50 years. A bill designed to improve protection for computer software programs was submitted to Congress in early 1995. The bill would extend the term of protection to 50 years, protect software programs as literary works, and recognize exclusive rental rights. The U.S. private sector estimates that piracy of video cassettes, sound recordings and musical compositions, books and computer software continues at substantial levels. In the last 2 years, enforcement of Brazilian laws against video and software piracy has improved. The government has also initiated action to reduce the importation of pirated sound recordings and videocassettes.

Semiconductor Chip Layout Design: A bill to protect layout designs of integrated circuits was introduced in April 1996.

Impact on U.S. Trade: The U.S. pharmaceutical industry estimates losses of approximately $600 million due to past inadequate intellectual property protection. The U.S. software industry claims losses of $268 million, and estimates that less than 50 percent of the software in use in Brazil was legally obtained. The Motion Picture Association of America estimates its 1995 annual losses due to media piracy in Brazil at about $60 million.

8. Worker Rights

a. *The Right of Association:* Brazil's Labor Code provides for union representation of all Brazilian workers (excepting military, military police and firemen), but imposes a hierarchical, unitary system, funded by a mandatory "union tax" on workers and employers. Under a restriction known as "Unicidade", the code prohibits multiple unions of the same professional category in a given geographical area.

In practice, "Unicidade" has proven less restrictive in recent years as more liberal interpretations of its restrictions have permitted new unions to form. The primary source of continuing restriction is the system of labor courts, which retain the right to review the registration of new unions, and adjudicate conflicts over their formation. Otherwise, unions are independent of the government and of political parties. Approximately 20 to 30 percent of the Brazilian workforce is organized, with well over half of this number affiliated with an independent labor central. Intimidation of rural labor organizers by landowners and their agents continues to be a problem.

The Constitution provides for the right to strike except in the case of military, police and firemen. Essential services must remain in operation during a strike, and workers must notify employers at least 48 hours before beginning a walkout. The Constitution prohibits government interference in labor unions but provides that "abuse" of the right to strike (such as not maintaining essential services, or failure to end a strike after a labor court decision) is punishable by law.

b. *The Right to Organize and Bargain Collectively:* The Constitution provides for the right to organize. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. The scope of issues legally susceptible to collective bargaining is narrow and the labor court system exercises normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation. The Cardoso administration has made expansion of collective bargaining one of its major objectives in the labor sector. On June 30, 1995, the government ended the indexing of wages to inflation, reduced the role of labor courts in wage negotiations, allowed for mediation, and provided greater latitude for collective bargaining. In many cases, wages are set through free negotiations; labor court decisions set them in others.

The Constitution prohibits the dismissal of employees who are candidates for or holders of union leadership positions. Nonetheless, dismissals take place, with those dismissed required to resort to a lengthy court process for relief. In general, the authorities do not effectively enforce laws protecting union members from discrimination.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced labor. Nevertheless, forced labor is common on farms producing charcoal for use in the sugar and steel industries. Local police admit that overseers or owners of many farms withhold pay from migrant laborers and use force to retain and intimidate them, but the jurisdiction for such violations falls to the Ministry of Labor, which has only 2,300 inspectors for all of Brazil. Labor organizations allege that in mining and the rural economy, thousands of workers, including minors, are subjected to debt bondage, with violence used to retain or punish workers who attempt to escape. The Federal Government has taken a number of steps to clamp down on forced labor but admits that existing enforcement resources are inadequate.

d. *Minimum Age of Employment of Children:* The minimum working age under the Constitution is 14 years, except for apprentices; however, judges can authorize employment for children under 14 years of age when they deem it appropriate. The law requires permission of the parents or guardians for minors to work, and they must attend school through the primary grades. The law bars minors from night work, work that constitutes a physical strain, and employment in unhealthful, dangerous, or morally harmful conditions. Legal restrictions intended to protect working minors under age 18 are rarely enforced, however. Official figures state that nearly 3 million 10- to 14-year old children (or 4.6 percent of the work force) are employed. Many children work alongside their parents in cane fields, cutting hemp, or feeding wood into charcoal ovens. Frequent accidents, unhealthy working conditions, and squalor are common in these cases.

e. *Acceptable Conditions of Work:* Unsafe working conditions are prevalent throughout Brazil. The Ministry of Labor sets occupational health and safety standards, but has insufficient resources for adequate inspection and enforcement of these standards. The law requires employers to establish internal committees for accident prevention in workplaces, and protects employee members of these commissions from being fired from their committee activities. Such firings do occur, however, and legal recourse usually requires years for resolution.

f. *Rights in Sectors with U.S. Investment:* U.S. investment is concentrated heavily in the transportation equipment, food, chemicals, petroleum distribution and electric/electronic equipment industries. Labor conditions in industries owned by foreign investors generally meet or exceed the minimum legal standards established under Brazil's Labor Code.

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

[Millions of U.S. dollars]

Category	Amount	
Petroleum		827
Total Manufacturing		17,651
Food & Kindred Products	2,379	
Chemicals and Allied Products	3,148	
Metals, Primary & Fabricated	952	
Machinery, except Electrical	2,780	
Electric & Electronic Equipment	758	
Transportation Equipment	2,967	
Other Manufacturing	4,666	
Wholesale Trade		746
Banking		1,490
Finance/Insurance/Real Estate		2,412
Services		162
Other Industries		302
TOTAL ALL INDUSTRIES		23,590

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

CANADA

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	547.1	565.5	580.3 [1]
Real Growth Rate (pct) [2]	4.1	2.3	1.5 [3]
GDP by Sector (pct):			
Goods	31	31	30 [1]
Services	59	59	59 [1]
Agriculture	2	2	2 [1]
Government	25	25	24 [1]
Per Capita GDP	18,794	19,227	19,465 [1]
Total Labor Force (000s)	14,832	14,928	15,125 [4]
Unemployment Rate (pct)	10.4	9.5	9.6 [3]
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	3.2	4.0	1.2 [5]
Consumer Price Inflation	0.2	2.1	1.4 [4]
Exchange Rate (C$/USD)	1.3659	1.3727	1.3605
Balance of Payments and Trade:			
Merchandise Exports	159.6	184.9	195.8 [1]
Exports to United States	128.4	145.3	157.1
Merchandise Imports	148.6	164.2	170.9 [1]
Imports from United States	114.4	127.2	134.6
Merchandise Trade Balance	10.9	20.7	24.9 [1]
Balance with United States	14.0	18.1	22.5
Current Account/GDP (pct)	−3.0	−1.4	−0.4 [4]
Net Public Debt	423.9	439.3	455.7 [7]
Debt Service Payments/GDP (pct)	5.9	5.8	5.6
Fiscal Deficit/GDP (pct)	−5.9	−5.0	−3.8 [4]
Gold and Foreign Exchange Reserves	12.7	15.4	20.2 [5]
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Second quarter data annualized.
[2] Percent changes are calculated using C$ GDP data.
[3] Conference Board of Canada projection.
[4] Embassy projection.
[5] As of October 31, 1996.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Canadian Government data.

1. General Policy Framework

Canada is the world's seventh-largest market economy. Production and services are predominantly privately owned and operated. However, the Federal and provincial governments provide a broad regulatory framework and redistribute incomes among individuals and provinces. Federal Government economic policies since the mid-1980's have emphasized the reduction of public sector interference in the economy and the promotion of private sector initiative and competition. Nevertheless, Federal Government regulatory regimes affect foreign investment, most notably U.S. firms operating in telecommunications, broadcasting, publishing and financial services.

Canadian Federal and provincial governments have made great strides in reducing their respective budget deficits in a non-inflationary environment. The FY95–96 Federal deficit dropped to 3.7 percent of GDP from 5 percent the previous fiscal year. Canada's credit rating remains firm, and foreign investors share a renewed confidence in the Canadian economy as evidenced by the stronger Canadian dollar.

The U.S.-Canada trading relationship is the largest in the world, with well over US$300 billion in two-way trade taking place each year. Over 80 percent of Canada's merchandise exports are destined for the United States. Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, U.S. exports to Canada have increased by over 30 percent. Motor vehicles and parts account for approximately 20 percent of U.S. merchandise exports to Canada, followed by exports of machinery and equipment and industrial equipment. The stock of total foreign direct investment in Canada in 1995 was US$122.4 billion, of which US$82.4 billion or 67 percent was U.S.-owned. Roughly 40 percent of the assets of Canadian manufacturing companies are foreign-owned; of this total, about 75 percent belong to U.S. firms.

The Bank of Canada is the country's central bank. The Governor of the Bank is responsible for conducting monetary policy and uses such tools as management of cash balances with the chartered banks, open market operations, and adjustment of the overnight money lending rate, which is analogous to the U.S. Federal funds rate.

2. Exchange Rate Policy

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis to try to maintain orderly trading conditions and smooth rate movements.

3. Structural Policies

Prices for most goods and services are established by the market. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply managed agricultural products (eggs, poultry and dairy products).

The principal sources of Federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage 7 percent value-added tax on consumption. The personal and corporate income tax burden, combining Federal and provincial taxes and surcharges, is significantly higher than in the U.S.

Federal Government regulatory regimes affect foreign investment (see section 5 below). Although foreign-owned bank subsidiaries are subject to Federal restraints on their operations and growth, U.S. banks have been exempted from most of these restrictions under the U.S.-Canada Free Trade Agreement (US–CFTA). This continues under NAFTA. However, some restrictions, including prohibition of foreign bank branching, still apply. In mid-1992, Canada implemented financial sector reforms that largely eliminated the barriers among banks, trust companies and insurance companies.

Aviation is not included in the NAFTA. On February 24, 1995, the United States and Canada signed a new Air Transport Agreement which immediately eliminated most restrictions on air service between the two countries and will virtually deregulate the transborder market over 3 years.

4. Debt Management Policies

Canada's net public and private external indebtedness rose from US$89 billion (26 percent of GDP) in 1984 to US$422 billion (75 percent of GDP) in 1995. This is a relatively high figure for an industrialized country. Foreigners have been receptive to holding Canadian securities and such purchases contribute to the strength of the Canadian dollar, but the sharp rise in external indebtedness has made the Canadian dollar and economy more vulnerable to shifts in international investor confidence. The government has recently launched initiatives to place more of the debt with Canadians and reduce international obligations.

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 suspended 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. Canada is a member of the World Trade Organization and has passed legislation to implement the Uruguay Round agreement.

Nevertheless, a number of Canadian practices constitute barriers to U.S. exports to Canada.

Canada applies various restrictions to imports of supply managed products (dairy, eggs and poultry), fresh fruit and vegetables, potatoes, processed horticultural products and live swine. Regarding the supply managed commodities, the U.S. Government requested a Chapter 20 (dispute settlement) panel to resolve contradictions between Canada's Uruguay Round implementation and its obligations under NAFTA. The final panel report released in November 1996 ruled in favor of allowing Canada to maintain its current tariff rate structure. The United States continues to pursue these issues bilaterally.

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.

Under Canada's Special Import Measures Act (SIMA), Canadian companies have brought antidumping and countervailing duty actions against U.S. companies. Dumping margins in successful cases constitute a significant barrier to U.S. exports. The Canadian Parliament is currently reviewing the SIMA and this process may result in modifications to the Act.

Various restrictions limit U.S. access to the Canadian market for publications. The United States has asked a WTO dispute settlement panel to find that Canada's import ban and special excise tax on foreign "split-run" magazines (using the same editorial content as an issue published in another country, but with advertising material targeted at Canada) and Canada's postal rates discriminating against foreign magazines are inconsistent with Canada's WTO obligations.

Under the Investment Canada Act, the Broadcast Act, the Telecommunications Act, and policies affecting energy, publishing, telecommunications, transportation, broadcasting and cable television firms, Canada maintains laws and policies with respect to foreign ownership which interfere with new or expanded foreign investment. In addition, foreign investment in the banking and financial services sectors is restricted under the Bank Act and related statutes.

The Investment Canada Act (as amended by the US–CFTA) requires the Federal Government to review and approve foreign investment to ensure "net benefit to Canada." The Act exempts from prior government approval foreign investments in all new ("greenfield") businesses, and acquisitions worth less than C$5 million (C$150 million for U.S. investors—1992 dollars). The exemption excludes "culturally sensitive sectors" such as book publishing and distribution, film and video, audio music recordings and music in print or machine readable form. Also excluded as "culturally sensitive" are foreign investments to establish new businesses or acquire existing ones for the publication of magazines (including "split-run" editions), periodicals or newspapers. All foreign acquisitions in these sectors are potentially subject to review.

In most cases, Canada prohibits the majority acquisition of Canadian book publishing and distributing companies, and requires that foreign-owned subsidiaries in Canada be divested to Canadians within 2 years if the ownership of the parent changes hands. The Investment Canada Act also has specific policies restricting foreign investment in the film distribution sector.

Canada's Telecommunications Act allows the Federal regulator, the Canadian Radiotelevision and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. The Act and its regulations restrict foreign ownership of telecommunications firms (minority ownership/control).

In the banking sector, the Bank Act of 1980 made chartering of foreign-owned banking subsidiaries possible for the first time. However, foreign banks are still not permitted to enter Canada as direct branches. The US–CFTA eliminated other discriminatory restrictions on U.S. bank subsidiaries in Canada.

6. Export Subsidies Policies

In 1995, the Canadian Government ended subsidies under the Western Grains Transportation Act (WGTA) for the rail transportation of western grown wheat, barley, oats and many other agricultural commodities intended for export. By doing so, Canada exceeded its WTO commitments to reduce export subsidies for these products. To compensate farmers for the cut, the Federal Government has paid out C$1.6 billion directly to farmers and has created a C$300 million adjustment assistance fund. While the government also established C$1 billion in new export credit guarantees for agricultural products, including C$700 million for western wheat and barley, this instrument had not been utilized as of October 1996.

In 1995 and 1996, Canada eliminated export subsidies for dairy products, implementing instead a program that enables dairies to acquire milk at a discount if they export the resulting products. The prices farmers receive for milk delivered under this program are lower than those received for milk manufactured into dairy products for domestic sales.

7. Protection of U.S. Intellectual Property

The Canadian Government has longstanding legislation to protect intellectual property rights, and these laws are effectively enforced.

In 1993 the Canadian Government amended the Patent Act to eliminate compulsory licensing for pharmaceuticals, thereby extending patent protection to the standard 20 years.

In 1993 Canada proclaimed the Integrated Circuit Topography Act, a law protecting semiconductor chip design.

1989 amendments to the Canadian Copyright Act granted explicit copyright protection for computer programs, and provided a right of payment for retransmission of broadcast programming as required by the US–CFTA. In January 1994, the Copyright Act was amended to reflect the changes required by NAFTA, e.g., rental rights for computer programs and sound recordings; protection for data bases and other compilations; and increased measures against all categories of pirated works.

Hearings were held in October–November 1996 on Bill C–32, proposed legislation revising the Canadian Copyright Act. The bill would extend music broadcast royalty rights to producers and performers ("neighboring rights"), impose a levy on blank audio cassettes to compensate artists, and make it an offense for booksellers to obtain books from any source other than the exclusive agent for the Canadian market. The neighboring rights amendment would benefit only Rome Convention signatories. U.S. producers and performers could benefit under NAFTA only if the United States passed a similar law. It is likely Bill C–32 will come to a final vote in Parliament in early 1997.

8. Worker Rights

a. *The Right of Association:* Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the Federal labor code and provincial labor legislation, are freely exercised.

b. *The Right to Organize and Bargain Collectively:* Workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights which vary from province to province. 33.9 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 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		8,219
Total Manufacturing		41,248
Food & Kindred Products	3,878	
Chemicals and Allied Products	6,549	
Metals, Primary & Fabricated	3,816	
Machinery, except Electrical	2,420	
Electric & Electronic Equipment	1,467	
Transportation Equipment	11,823	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Other Manufacturing	11,294	
Wholesale Trade		7,658
Banking		825
Finance/Insurance/Real Estate		13,340
Services		4,014
Other Industries		6,082
TOTAL ALL INDUSTRIES		81,387

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

CHILE

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	52.2	67.3	74.0
Real GDP Growth (pct)	4.2	8.5	6.7
GDP by Sector: [3]			
Agriculture/Fishing	4.3	5.4	14.1
Mining	4.2	5.3	5.9
Manufacturing	8.9	11.3	12.4
Construction	4.9	6.2	6.8
Services	23.1	29.9	32.8
Government	1.4	1.7	1.9
Per Capita GDP (USD)	3,700	4,700	5,100
Labor Force (000s)	5,213	5,497	5,522
Unemployment Rate (pct)	5.9	5.5	5.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	11.3	29.5	6.3
Consumer Price Inflation (pct)	8.9	8.2	6.5
Exchange Rate (peso/USD)			
Mid-point of crawling peg	455	413	458
Balance of Payments and Trade:			
Total Exports (FOB) [4]	11.5	16.0	16.2
Exports to United States [5]	1.8	1.9	2.2
Total Imports (CIF) [4]	10.9	14.7	16.6
Imports from United States [5]	2.8	3.6	4.0
Trade Balance [4]	0.7	1.4	−0.8
Balance with United States [5]	−1.0	−1.7	−1.8
Current Account Deficit/GDP (pct)	1.2	−0.23	0.47 [6]
External Public Debt	9.1	7.5	5.2
Debt Service Payments/Exports (pct)	19.3	26.4	25.5 [7]
Fiscal Deficit/GDP (pct)	N/A	N/A	N/A [8]
Gold and For. Exch. Reserves (end of period)	13.5	14.8	15.2
Aid from United States (USD millions)	4.4	3.6	0.3
Aid from All Other Sources	N/A	N/A	50

Sources: Central Bank.
[1] 1996 Estimates based on monthly data available in November 1996
[2] GDP at market 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; 1996 figures are estimates based on data available through November 1996.

[6] 1995 figure reflects pre-payment to eliminate IMF debt and reduce World Bank debt.
[7] Using current account deficit as of Q2 1996
[8] The Government of Chile has run a fiscal surplus for several years

1. General Policy Framework

Chile's economy has grown rapidly for more than a decade. This growth has been fueled by steadily rising domestic savings and foreign investment. Copper remains the country's most important product, accounting for about 40 percent of export earnings in the first 7 months of 1996. However, exports of fish, forestry products, fresh fruit, and manufactured products are also important. Chile's credit rating is the highest in Latin America, and Chilean firms finance investment by borrowing, issuing bonds, and selling stock abroad as well as in Chile. Many Chilean firms are also expanding abroad.

The governments of Patricio Aylwin (1990–1994) and Eduardo Frei (1994–present) have emphasized the need to maintain macroeconomic stability and the economy's export orientation. The government has generated fiscal surpluses in each of the years 1988–1996, and it is projected to do so in 1997. The pace of privatization has slowed in the last few years. The independent central bank has gradually loosened foreign exchange restrictions on capital outflows. The government remains concerned about the potential effects on the exchange rate of rapid foreign currency inflows. As of late 1996, several pending legislative proposals would allow banks to do business abroad, and would privatize Chile's water and sewage companies.

The Central Bank's monetary policy adjusts interest rates to affect domestic spending. In this way, it aims to gradually reduce inflation while keeping the economy on a path of steady growth. It has sought to stabilize the exchange rate by buying or selling dollars to keep the exchange rate by within a preannounced range.

Indicators for 1996 suggest that real GDP growth will be between 6.5 and 7.0 percent and inflation will be near the Central Bank's target of 6.5 percent. Unemployment will average between 5 and 6 percent. Because of the decline in world copper prices, the marked increase in gross output has not increased the contribution of copper to export earnings. This factor, plus a collapse in wood pulp prices, means that Chile's traditional trade surplus will turn into a deficit of some $800 million in 1996. The current account will be even more negative due to the country's normal services deficit. For 1997, preliminary Central Bank projections envision growth of 5.5–6 percent, inflation of 5.5–6 percent, a slightly positive trade balance, and a current account deficit of 1.5 percent of GDP. Net foreign investment flows are expected to surpass $3 billion in both 1996 and 1997.

2. Exchange Rate Policies

The Central Bank allows the peso-dollar exchange rate to fluctuate within a 10 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 and the difference between Chilean and foreign inflation, together with an adjustment allowing a 2 percent annual appreciation of the real exchange rate. The Central Bank buys or sells dollars in the official inter-bank market when the peso threatens to move more than 10 percent above or below the reference exchange rate. The Central Bank does this only to reduce what it believes are short-term fluctuations. It does not attempt to block long-term trends in the exchange rate, and it has shifted the reference exchange rate twice since 1992 to reflect long-term strengthening of the peso.

Over the last several years, the Central Bank has 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. Over the last decade, the peso has 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.

3. Structural Policies

Pricing policies: The government rarely sets specific prices. Exceptions are urban public transport and some public utility prices and port charges. State enterprises 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. Import decisions are typically related to price competitiveness and product availability. (Certain agricultural products are an exception. See section 5.)

Tax policies: An 18 percent value-added tax (VAT) applies to all sales transactions and accounts for over 40 percent of total tax revenue. There is an 11 percent tariff on most imports. There are duty-free zones in Iquique and Punta Arenas and a limited duty-free zone in Arica; less than 3 percent of Chilean imports pass through these zones. Personal income taxes are levied only on income over about $6,000 per year. The top marginal rate is 45 percent on annual income over about $75,000. Profits are taxed at flat rates of 15 percent for retained earnings and 35 percent for distributed profits, with incentives for business donations to educational institutions. Tax evasion is not a serious problem.

Regulatory policies: Regulation of the Chilean economy is limited. The most heavily regulated areas are utilities, the banking sector, the securities markets, and pension funds. There are no government regulations that explicitly limit the market for U.S. exports to Chile (although other government programs, like the price band system for some agricultural commodities described below, displace U.S. exports). In recent years, the government has 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 pending to permit private concessions.

4. Debt Management Policies

Chile's vigorous economic growth and careful debt management over the last decade have meant that foreign debt is no longer a major problem. As of late 1996, Chile's public and private foreign debt was about $20 billion, or around 27 percent of GDP. (In 1985, the debt-to-GDP ratio was 125 percent.) Since the mid-1980's, 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) and the World Bank, reducing public sector foreign debt to about $7 billion. In October 1996, Chile not only chaired the IMF and World Bank Annual Meetings, but it was also the first time it attended as a creditor nation. As the public sector foreign debt has fallen, private sector debt has risen as firms have borrowed abroad to finance investment.

5. Significant Barriers to U.S. Exports

Chile has few barriers to U.S. exports 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. This is being phased in for a few agricultural products; their maximum rate is now 29 percent. The uniform Chilean tariff rate is currently 11 percent on all goods except for used goods, which are subject to a 16.5 percent tariff. Chile has free trade agreements providing for duty-free trade in most products by the late 1990's with Mexico, Venezuela, Colombia, and Ecuador. In 1996, Chile signed a trade-liberalizing agreements with the Mercosur nations (Argentina, Brazil, Paraguay, and Uruguay) and with Canada and was negotiating a similar agreement with Peru. Tariffs also are lower than 11 percent for certain products from member countries of the Latin American Integration Association (ALADI) and products imported by diplomats and the Chilean military.

The 18 percent VAT is applied to the CIF value of imported products plus the 11 percent import duty. Duties may be deferred for a period of 7 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 1996). 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 the 70 percent tax on whiskey, which is produced in only small volumes domestically and which competes with other domestically produced liquors taxed at lower rates. The government plans to introduce a new proposal into the legislature that would change the liquor tax system, although whiskey likely will still face higher tax rates than domestically produced liquors with a lower alcohol content.

Import licenses: According to legislation governing the central bank since 1990, there are no legal restrictions on licensing. Import licenses are granted as a routine procedure. Imports of used automobiles and most used car parts are prohibited.

Investment barriers: Chile's foreign investment statute, Decree Law 600, sets a standard of treatment of foreign investors in the same manner as Chilean investors. Foreign investors using D.L. 600 sign a contract with the government's foreign investment committee guaranteeing the terms and tax treatment of their investments. These terms include the rights to repatriate profits immediately and capital after 1 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 10 years of an investment at 42 percent. Approval by the foreign investment committee is generally routine but the committee has recently begun to reject "speculative" investments.

Investments not entering Chile through PL 600 can enter under Chapter 14 of the Central Bank Regulations. Under Chapter 14, investors must deposit 30 percent of the capital obtained from foreign loans in a non-interest bearing Central Bank account (known as the "encaje") for 1 year. In 1996, the Central Bank applied the encaje to inflows of foreign capital into stocks, bonds, bank deposits, and real estate as well which do not increase productive capacity or improve technology. There is no tax treaty between Chile and the United States, so profits of U.S. companies operating in Chile are taxed by both governments. However, U.S. firms generally can claim credits on their U.S. taxes for taxes paid in Chile.

Firms may invest without using D.L. 600 or registering with the foreign investment committee by bringing capital in through foreign exchange dealers or private banks under Chapter 14. Few firms use this means of investment, as it subjects funds to the encaje and it lacks the guarantees provided by the contract with the foreign investment committee.

There are some deviations, both positive and negative, from the nondiscrimination standard. Foreign investors receive better than national treatment on taxation, as they have the option of fixing the tax rate they will pay at 42 percent for 10 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 the restrictions on foreign investment in some sectors. With few exceptions, fishing in the country's 200-mile exclusive economic zone is reserved for Chilean-flag vessels with majority Chilean ownership. Such vessels also are the only ones allowed to transport by river or sea between two points in Chile ("cabotage") cargo shipments of less than 900 tons or passengers. The automobile and light truck industry is the subject of trade-related investment measures, although U.S. firms are among those helped as well as those harmed. Manufacturers from the United States 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 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 1980's on the issuance of new bank licenses means that would-be bankers (domestic as well as foreign) must acquire existing banks. The Government of Chile hopes to pass banking reform legislation by the end of this year. If so, this would permit them to reconsider the freeze on foreign banks.

Principal nontariff barriers: The main trade remedies available to the Chilean Government are surcharges, minimum customs values, countervailing duties, anti-dumping duties, and import price bands. Chile's most significant nontariff barrier is the import price band system for certain agricultural commodities, which currently applies to wheat, wheat flour, vegetable oils, and sugar. When import prices are below a set threshold, surtaxes are levied on top of the across-the-board 11 percent tariff in order to bring import prices up to an average of international prices over previous years.

The Chilean Government may apply country-specific duties on products that it determines to have received subsidies from exporting countries and on products that it determines to have been dumped at below-market prices. For example, in October 1996 the government ruled in the case of some U.S. manufactured gas masks that, while they had been dumped on the Chilean market, this had caused no market distortion and therefore anti-dumping duties were not applied. However, some industry sources have claimed that surtaxes have occasionally 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. But as of late 1996, none are in effect.

Animal health and phytosanitary requirements: Chile occasionally uses animal health and phytosanitary requirements in a nontransparent manner that has the effect of impeding imports. No public comment process or announcement of proposed rule changes precedes the promulgation of these requirements. Quarantine authorities enforce a zero tolerance for salmonella, an omnipresent bacteria, as a means for barring poultry imports. Not only is this a dubious quarantine practice, but it is discriminatory as well since local poultry is not tested for salmonella. In addition, Chilean phytosanitary requirements have effectively kept out almost all U.S. fruits and vegetables for years. However, in late 1996 the Ministry of Agriculture did approve import protocols for West Coast apples and pears.

Government procurement practices: The government has a "Buy Chile" policy only when conditions of sale of locally produced goods (price, delivery times, etc.) are equal to or better than those of equivalent imports. In practice, given that many categories of products are not manufactured in Chile, purchasing decisions by most state-owned companies are made among competing imports. Requests for public and private bids are published in the local newspapers. Government officials have on occasion urged some government agencies to buy Chilean coal on a preferential basis.

6. Export Subsidies Policies

With minor exceptions, the Chilean Government does not provide exporters with direct or indirect support such as preferential financing or export promotion funds. It does, however, offer a few nonmarket incentives to exporters. For example, paperwork requirements are simplified for nontraditional exporters. The government also provides exporters with quicker returns of VAT paid on inputs than other producers receive.

The most widely used indirect subsidy for exports is the simplified duty drawback system for nontraditional exports. This system refunds to exporters of certain products a percentage of the value of their exports, rather than refunding the actual duty paid on imported inputs to production (as is the case in Chile's standard drawback program). All Chilean exporters may also defer tariff payments on capital imports for a period of 7 years. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

Chile's forestry subsidy indirectly promotes exports, because most of Chile's forestry products are exported. The government subsidizes about 75 percent of planting costs and certain management costs for the first generation of trees in a plantation. The value of the subsidy is adjusted for inflation and treated as taxable income when the trees are harvested several years later. Forestry industry representatives say the subsidy, when allocated over the life of plantations, amounts to an interest-free loan for about 5 percent of total costs. Both foreign investors and Chileans are eligible for the subsidy. The law which established the subsidy in 1974 (D.L. 701) expired in March, 1996, and discussions are ongoing about its possible renewal or revision.

7. Protection of U.S. Intellectual Property

Chile's intellectual property regime is basically compatible with international norms, and industry representatives have welcomed government enforcement efforts. Continuing deficiencies in patent protection, however, have kept Chile on the USTR Special 301 watch list since 1989. Efforts to enforce intellectual property rights in Chilean courts have been successful. Chile does not have an explicit statute for protecting the design of semiconductors nor does it have comprehensive trade secret protection. Chile belongs to the World Intellectual Property Organization. Contracts may set fees and royalties only as a percentage of sales, and payments for the use of trade secrets and proprietary processes are usually limited to 3 percent.

Patents: The industrial property law promulgated in September 1991 substantially improved Chile's protection of industrial patents, but it falls short of international standards. The law provides a patent term of 15 years from the date of grant. (The Uruguay Round agreements will require Chile to adopt a 20-year standard by 2003.) The law also does not consider plant and animal varieties or surgical methods to be patentable. Most importantly, the law does not provide pipeline protection for pharmaceutical patents filed abroad before the law's promulgation. Because of the lack of pipeline protection and the long lead times involved in the marketing of new pharmaceutical products, the law will not prevent local companies from pirating foreign pharmaceutical patents of products introduced into the market for several more years. In addition, the registration procedures required by the Health Ministry to market new drugs are more onerous for first-to-file firms, which tend to be foreign firms. Finally, payments for the 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. Chilean authorities have taken aggressive enforcement measures against video, video game, audio, and computer software pirates in recent years, and piracy has declined in each of these areas. In the mid-1980's, the software piracy rate was believed to be around 90 percent; it is currently estimated at around 68 percent, believed to be the lowest rate in Latin America. The decline is in part the result of a campaign by the U.S. and international industry, with the cooperation of the courts and the 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 say that penalties remain low relative to the potential earnings from piracy and that stiffer penalties would help to deter potential pirates. Copyright protection is 50 years. U.S. recording industry officials have said that Chile's copyright law grants producers less favorable treatment vis-a-vis authors than is the international norm.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of the mark is not required for registration. Payments for use of trademarks may not exceed 1 percent of sales.

Impact of Chile's intellectual property practices on U.S. trade: Although it is difficult to accurately estimate damages, most observers believe that the U.S. pharmaceutical industry has suffered most from the infringement of its intellectual property (in this case, patent) rights in Chile. Chile's software developer's association has estimated that some $74 million worth of software was pirated in Chile in 1995.

8. Worker Rights

a. *The Right of Association:* Most workers have a right to join unions or to form unions without prior authorization, and around 12 percent of the work force belongs to unions. Government employee associations operate like unions in some ways, but they do not have the same legal protection as unions. Legislation has been introduced to give them the same rights as unions. 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, and the number of contract negotiations has grown steadily, but only 17 percent of eligible workers had collective bargaining agreements as of the end of 1992. The process for negotiating a formal labor contract is heavily regulated, a vestige of the statist labor policies of the 1960's. However, the law permits (and the Aylwin and Frei Governments have encouraged) informal union-management discussions to reach collective agreements outside the regulated bargaining process. These agreements have the same force as formal contracts.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in the constitution and the labor code, and there is no evidence that it is currently practiced.

d. *Minimum Age for Employment of Children:* Child labor is regulated by law. Children as young as 14 may legally be employed with permission of parents or guardians and in restricted types of labor. Some children are employed in the informal economy, which is more difficult to regulate. A UNICEF study estimated that in the early 1990's, about 100,000 minors (7 percent of their age group) held jobs. Most of these children worked in the countryside, and many of them worked with their parents.

e. *Acceptable Conditions of Work:* 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 $160 per month, is set by government, management, and union representatives, or by the government if the three groups cannot reach agreement. Lower-paid workers also receive a family subsidy. The minimum wage and wages as a whole have risen steadily over the last several years. As a result, poverty rates have declined dramatically in recent years, from 45 percent of the population in 1987 to 28 percent in 1994.

f. *Rights in Sectors with U.S. Investment:* Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy and are subject to the same laws that apply to their counterparts from Chile and other countries. There are no special districts where different labor laws apply.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Total Manufacturing		570
Food & Kindred Products	(1)	
Chemicals and Allied Products	190	
Metals, Primary & Fabricated	−81	
Machinery, except Electrical	4	
Electric & Electronic Equipment	7	
Transportation Equipment	(1)	
Other Manufacturing	240	
Wholesale Trade		324
Banking		434
Finance/Insurance/Real Estate		1,679
Services		(1)
Other Industries		2,146
TOTAL ALL INDUSTRIES		5,510

(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]

	1994	1995	1996[3]
Income, Production and Employment:			
Nominal GDP	66.4	73.2	75.3
Real GDP Growth (pct)	5.7	5.3	2.5
GDP by Sector:			
Agriculture	9.0	9.5	9.8
Manufacturing	20.4	24.5	25.1
Services	36.8	39.5	40.4
Government[4]	18.5	19.7	22.9
Per Capita GDP (USD)	1,629	1,728	1,841
Labor Force (000s)[5]	8,900	9,100	9,300
Unemployment Rate (pct)	7.9	9.5	12.1
Money and Prices (annual percentage growth):[6]			
Money Supply Growth (M2)	28.4	38	16.5
Consumer Price Inflation	22.6	19.5	21.5
Exchange Rate (peso/USD—annual average)			
Official[7]	826.50	925.70	1,046
Balance of Payments and Trade:			
Total Exports (FOB)[8]	8.5	9.8	10.3
Exports to United States[9]	3.2	3.8	4.2
Total Imports (CIF)[8]	11.9	13.9	12.4
Imports from United States[9]	4.1	4.6	4.7
Trade Balance[8]	−3.5	−4.1	−2.1
Balance with United States[9]	−0.9	−0.8	−0.5
Current Account Deficit/GDP (pct)	−4.4	−5.4	−5.9[10]
External Public Debt[9]	14.4	15.1	16.5
Debt Service Payments/GDP (pct)[10]	3.8	2.5	2.6
Fiscal Deficit/GDP (pct)	−1.6	−2.5	−3.2[11]
Gold and Foreign Exchange Reserves[10]	8.3	8.5	8.0
Aid from United States (USD millions)[12]	0.2	0	0.1

Key Economic Indicators—Continued

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

	1994	1995	1996[2]
Aid from All Other Sources	N/A	N/A	N/A

[1] Percentage changes calculated in local currency.
[2] 1996 figures are estimates based on available monthly data in October 1996.
[3] Source for all figures in section except government spending: National Department of Statistics (DANE). For government spending: National Planning Department (DNP).
[4] Approved national budget. Source: DNP.
[5] Working age population in seven major metropolitan areas.
[6] Sources for money supply and inflation: DNP. Exchange rate: Banco de la Republica (BDR).
[7] Colombia has no meaningful official rate. Figures shown are annual average interbank market rates. Source: BDR.
[8] Merchandise trade. Source: Ministry of Foreign Trade.
[9] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[10] Source: BDR.
[11] Central government deficit only. When state-owned entities are included, fiscal surpluses/deficits are +0.21 percent, +0.01 percent and −1.23 percent for 1994, 1995 and 1996 respectively. Source: DNP.
[12] Aid reflects USAID program only. Source: USAID.

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 34 percent of Colombia's exports and providing 39 percent of Colombia's imports in 1995. The U.S. is also the dominant source of foreign investment in Colombia, holding by far the largest share of foreign direct investment: $3.3 billion, or 51 percent of the estimated total direct foreign investment of $6.4 billion.

Colombia's "apertura" (economic liberalization) program, initiated during the 1990–1994 administration of Cesar Gaviria, opened the Colombian economy to international trade and capital inflows by slashing tariff duties and eliminating non-tariff barriers, by actively negotiating free trade agreements, and by reforming foreign exchange and tax legislation, labor regulations and the foreign investment regime. Apertura also led to the privatization of state enterprises, ports, railroads and banks. The privatization process practically stopped during the first 2 years of the Samper Administration, although in 1996 the Administration announced plans to privatize seven state-owned electricity generation plants, the state coal company, Carbocol, and the nation's seventh-largest bank, Banco Popular. Each privatization project must receive prior approval from Congress, which can lead to delays.

The Samper Administration has not rejected apertura, but it has attempted to reduce some of the economic dislocation caused by rapid economic change. 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 involve increased spending for infrastructure projects in the areas of health, education and housing, which aim at job creation as well as increasing public services over the period 1994–1998. The "salto social" has been undermined, however, by the failure of GDP to achieve the 6 percent growth for 1996 targeted in the plan. In October 1996, GDP growth projections for 1996 were 3 percent or less, and the resulting tax revenue shortfall, combined with a drying-up of revenues from privatization, have put a serious dent in the plan's funding.

Agriculture, which has been particularly hard hit by apertura policies, benefits, inter alia, 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 domestic crops were purchased at support prices established in absorption agreements, the Colombian Government then grants them reductions in import duties paid on equivalent imported commodities.

Monetary policy is aimed at the gradual reduction of inflation while remedying the steady peso revaluation of recent years. The policy came under sharp criticism from public and private sectors alike in 1996, when the government's projected inflation rate of 17 percent for the year was surpassed by 19.4 percent inflation at the end of October 1996, with projections of 22 percent or more for the entire year. Similarly, peso devaluation of around 2 percent by the end of October 1996 fell far short of the government's 13.5 percent projection for the year. The strong peso, resulting from large inflows of foreign capital from direct investment, public and private borrowing, the sale of Colombia's petroleum products and the laundered proceeds of illicit drug sales, adversely affected the price competitiveness of Colombia's exports in 1996.

The Colombian Government has been operating with budget deficits over the last 2 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. This policy of deficit spending kept interest rates high, contributing to the slowdown in economic growth in 1996.

Colombian law 170 of December 1994 adopted the World Trade Organization Treaty, which Colombia formally ratified on March 30, 1995.

2. Exchange Rate Policy

Colombia has a floating exchange rate system operating on a free-market basis and administered by the central bank. The central bank has determined a "price band" within which the daily quotation of the peso's dollar price must move; the bank may intervene in the market, buying or selling pesos, to keep the currency value within the band. Each day the Banking Superintendency reports an interbank market rate (TRM) based on commercial bank and financial corporation transactions.

The strength of the peso in recent years has improved the price competitiveness of U.S. exports to Colombia and has resulted in a significant shift in the balance of bilateral trade: according to Ministry of Foreign Trade statistics, Colombia's trade deficit with the U.S. grew from $0.9 billion in 1991 to $2.1 billion in 1995.

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 like 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: In December 1995, the Colombian Congress passed the Samper Administration's controversial tax reform bill. Of a variety of changes in the tax regime, the most important was the increase of the value-added tax from 14 to 16 percent. Revenues derived from this income are used chiefly to finance the 4-year national economic development plan or "Salto Social." As the so-called "war tax" on producers of minerals and petroleum products is phased out, the Administration has proposed the issuance of "war bonds" to finance the counter-guerilla efforts of the Colombian military. To be purchased obligatorily by Colombian persons and entities with assets over a certain level, the sale of the bonds would raise approximately $500 million for the counter-insurgency effort. The proposal was under debate by the Congress in late 1996 and met with strong resistance from the private sector, which claimed that the transfer of such a sum from the private to the public sector for non-productive purposes would have a detrimental effect on employment and on GDP growth.

Regulatory policies: All foreign investment in petroleum exploration and development in Colombia must be carried under a stringent profit-sharing association contract between the investor and the state petroleum company, Ecopetrol. U.S. oil companies have expressed interest in increasing exploration and development activities in Colombia if contract and tax requirements are made more flexible.

Under a recent Andean Pact automotive policy, Colombia and Venezuela have decided to impose strict regional content requirements in the automotive assembly industry and 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 is aimed at accessing new sources of credit in the external and domestic capital markets and on improving the debt profile of the country generally, with the objective of providing priority financing for social programs and infrastructure improvements that are key elements of the national development plan.

The Colombian Government has in recent years made approximately $1.8 billion in advance debt repayments. The government estimates that by the end of 1996 total external indebtedness (public and private) will be $27 billion: a 10.9 percent increase over 1995, and approximately 31 percent of GDP.

5. Significant Barriers to U.S. Exports

Import licenses: Prior import licenses are required for some commodities, drug precursor chemicals, armaments and munitions, donations, and some imports by government entities. Although the government abolished import licensing requirements in 1991, it has continued to use prior import licensing to restrict the importation of certain agricultural products, such as powdered 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, chicken meat (whole bird), malting barley, corn, rice, sorghum, and wheat flour.

Services barriers: Legal services: 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.

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, labelling, 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.

Prior registration with the National Planning Department for FDI is required in three instances: FDI in a public service, such as energy, water, communications, etc; FDI covered by international insurance or risk protection; and FDI in excess of $100 million in mining, smelting, refining, transportation, or distribution of minerals or hydrocarbons. The appropriate ministry must approve FDI in its sector, and all FDI must be registered with the central bank in order to repatriate earnings. All FDI must obtain an operating license from the superintendency of companies, and must register with the local chamber of commerce.

The Colombian investment climate would be enhanced for U.S. investors by a bilateral investment treaty. The last round of U.S.-Colombia negotiations for such a treaty took place in July 1994.

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 routinely provides such certification. Several road construction and airport contracts for U.S. companies have been approved with little ado; on the other hand, a U.S. company is currently in litigation over the procurement process by which it lost the equipment contract for a thermoelectric power plant in Barranquilla. Colombia is not a party to the WTO Agreement on Government Procurement.

Customs Procedures: Imported merchandise inspection can be pre-arranged through pre-shipment inspection entry, and duties can be pre-paid through commercial banks. For certain items, pre-shipment 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 Colombian 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 significant improvements in its intellectual property rights protection, but does not yet appear to provide adequate and effective protection. The country has been placed on the "watch list" under the Special 301 provision of the 1988 Omnibus Trade Act for the last 5 years. Colombia, which is a WTO member, has ratified its Uruguay Round implementing legislation. Colombia 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.

Patents 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 registrations have a ten-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, although contraband and counterfeiting are widespread.

Copyrights: Colombia's 1993 copyright law significantly increased penalties for copyright piracy, and record levels of seizures of pirated material took place in 1994 and 1995. Enforcement problems 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. Colombian copyright law is unclear as to whether it must honor foreign satellite signals. Semiconductor design layouts are not protected under Colombian law.

Satellite signal and cable television losses to U.S. industry due to piracy were estimated at $42 million in 1994, and losses due to video piracy were estimated at $19 million in 1994.

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 most successful in organizing, but these unionized workers represent only a small portion of the economically active population. According to Labor Ministry figures, approximately 7 percent of Colombia's workers are organized into 2,235 unions. High unemployment (approximately 12 percent in October 1996), traditional antiunion attitudes, and weak union organization and leadership limit 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 larger enterprises and in major cities. Nevertheless, Colombia's extensive informal economy remains effectively outside government control. Some 800,000 children between the ages of 12 and 17 work, according to Labor Ministry studies. 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.

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 1996 was approximately $140 per month. Because the minimum wage is based on the government's target inflation rate, which has been exceeded during the year for 1995 and 1996, the minimum wage has not kept up with inflation in recent years. The government's target inflation rate for 1996 was 17 percent.

In late 1996, however, inflation was running at a 19 percent annual rate. By government estimates, the price of the family shopping basket ("canasta familiar") is 2.4 times the minimum wage. Moreover, the earnings of 60 percent of all Colombian workers are equal to or less than twice 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,294
Total Manufacturing		1,118
Food & Kindred Products	305	
Chemicals and Allied Products	385	
Metals, Primary & Fabricated	41	
Machinery, except Electrical	−1	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	254	
Wholesale Trade		137
Banking		(1)
Finance/Insurance/Real Estate		309
Services		18
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,414

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

COSTA RICA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	8.4	9.4	9.4
Real GDP Growth (pct)[3]	4.4	2.5	0.5
GDP Growth by Sector:			
Agriculture	16.7	17.6	17.0
Manufacturing	21.4	21.0	20.5
Services	27.5	27.5	29.5
Government	14.2	13.9	13.5
Per Capita GDP (USD)	2,559	2,799	2,750
Labor Force (000s)	1,187	1,232	1,278
Unemployment Rate (pct)	4.2	5.2	6.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.0	9.9	11.0
Consumer Price Inflation	19.9	22.6	14.0
Exchange Rate (colones/USD—annual average)			
Official	168.0	190.0	218.0

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Balance of Payments and Trade:			
Total Exports (FOB)[4]	2.2	2.8	3.0
Exports to United States (FOB)[5]	1.6	1.8	2.0
Total Imports (CIF)[4]	3.0	3.3	3.3
Imports from United States[5]	1.9	1.7	1.8
Trade Balance[4]	−0.8	−0.5	−0.6
Balance with United States[5]	−0.2	0.1	0.1
Current Account Deficit/GDP (pct)	5.4	2.9	3.5
External Public Debt	3.3	3.2	3.2
Debt Service Payments/GDP (pct)	5.4	5.7	6.3
Fiscal Deficit/GDP (pct)	7.6	4.1	4.0
Gold and Foreign Exchange Reserves[6]	0.8	1.0	0.9
Aid from United States (USD millions)	3.3	0	0
Aid from All Other Sources	N/A	N/A	N/A

Source: Min. of Planning, Central Bank, Foreign Trade Min., Gen. Directorate of Statistics and Census.
[1] 1996 figures are all estimates based on available data in October 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in 1996 colones.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[6] Methodology change in 1995.

1. General Policy Framework

Costa Rica has, for the most part, an open market economy with relatively few restrictions on foreign trade and investment. Foreign exchange is freely convertible through commercial banks, and the exchange rate is gradually devalued so as to have a neutral effect on foreign trade. A few state monopolies remain, e.g., telecommunications, insurance, petroleum, and electric energy. A government commission is studying the possibility of privatizing state assets.

Foreign investment in professional services is generally restricted to long-time Costa Rican residents.

The most important fiscal policy tools are taxation, borrowing from the private and public sectors (e.g., autonomous state institutions), and control of spending of government and state institutions. The large deficits of the central government are financed primarily by issuance of government bonds. In the past, deficits were covered by external borrowing and foreign assistance, mainly from the United States. However, in 1995 and 1996 the level of external debt decreased. In August 1996 the bilateral USAID Mission in Costa Rica was closed.

The principal reasons for the fiscal deficits are spending on social programs, the build-up of internal debt, high domestic interest rates on the debt, and reduced revenue due to the 1996 economic recession. The largest government expenditures are for the old age and government workers' pension schemes, the public education system, and the four public universities. Interest payments on the internal debt made up 28 percent of the 1995 government budget. The public sector consolidated fiscal deficit has been reduced somewhat by the surpluses generated by the state institutions.

There are no significant government incentive or disincentive programs or regulations for domestic private investment, other than a 10-year income tax holiday for tourism installations such as hotels and restaurants and the system of import tax rebates for certain investments designed to boost nontraditional exports. Such incentive programs are available to qualified U.S. investors.

The Central Bank uses mainly open market operations to control the money supply. It is gradually reducing commercial bank reserve requirements from a high of about 34 percent to a maximum of 15 percent, except for temporary emergency periods. Such a reduction will reduce the costs of financial intermediation and should help stimulate economic growth and the demand for imports.

2. Exchange Rate Policy

There are essentially no controls on foreign exchange other than the required licensing and supervision of banks and foreign exchange firms. The Central Bank uses a crawling peg system to devalue local currency by about nine to thirteen centavos per day in order to maintain a neutral effect on imports and exports. The exchange rate is essentially a market determined rate, as there is no parallel rate. The free access to foreign exchange has facilitated U.S. exports and investments.

3. Structural Policies

Several important structural changes involving taxation, regulatory policies, pricing and consumer protection have occurred in the past 2 years which may have an impact on the demand for U.S. exports. The most important tax policy changes influencing the growth of the economy and demand for exports were made in 1995: A) the sales tax was raised from 10 percent to 15 percent for eighteen months, after which it is scheduled to drop to 13 percent; B) a one-percent tax was introduced on most fixed company assets; and C) tax evasion was made a felony.

The most important recent regulatory reform was passage of the 1995 financial reform law, which A) eliminated the state-owned banks' monopoly on checking and savings accounts, allowing the country's private banks to offer such services; B) enhanced supervision of banks and other financial institutions; and C) restructured the Central Bank. The law should strengthen the financial sector and increase competition, thus enhancing services and boosting economic growth and demand for U.S. exports. In addition, a new public utilities regulatory law was passed in 1996, strengthening the regulatory agency and introducing a requirement for public hearings on proposed rate increases. The law may result in less arbitrary rate increases and boost economic growth and demand for U.S. exports.

In 1995, Law No. 7472, for the Protection of the Consumer, removed most price and profit margin controls, while imposing antitrust rules and protecting consumers against product misrepresentation and price fixing. Previously, consumer protection laws in Costa Rica regulated prices and profit margins and prohibited price speculation, although most price controls and all margin controls had been suspended by executive decree.

4. Debt Management Policies

Costa Rica has gradually reduced the level of its external debt in the past few years and is current on debt servicing. External debt management is no longer a serious problem despite the relatively high levels of debt and debt servicing compared to the size of the economy and exports. Costa Rica's foreign debt totaled $3,217 million at the end of 1995 (equivalent to 34.4 percent of GDP), a decrease of $38 million from 1994. Debt service for 1995 amounted to $532 million, equivalent to 5.7 percent of GDP and 19.3 percent of exports. However, the main economic problem is the growing internal debt, which is equivalent to about $2.4 billion and whose servicing made up 28 percent of the government's 1996 budget.

Service exports, particularly tourism—the country's most important foreign exchange earner—and capital inflows compensate for most of the trade deficit. The 1995 trade deficit was about $520 million, a decrease of almost 36 percent from that of 1994. Exports in 1995 rose about 24 percent to about $2.75 billion, while imports climbed 8.2 percent to about $3.27 billion. The current account deficit in 1995 dropped by about 10 percent from the 1994 figure to $487 million.

Costa Rica has had a series of adjustment programs with the IMF, World Bank, Inter-American Development Bank (IDB) and USAID during the past decade, as well as five Paris Club reschedulings and a Brady debt buy-back scheme in 1989, which reduced by $1.1 billion Costa Rica's official debt with the U.S. Government. Costa Rica's current IMF standby program is scheduled to expire in February 1997. Costa Rica is implementing an IDB Structural Adjustment Program III designed to reform the financial and investment sectors. These programs have helped reduce the debt servicing burden, diversify and expand the country's exports, and boost demand for U.S. exports.

5. Significant Barriers to U.S. Exports

There are relatively few remaining serious barriers to U.S. exports, since Costa Rica's entry into the GATT in 1990 and the WTO in 1995 and implementation of its initial commitments under the GATT Uruguay Round. The most important remaining barriers to U.S. exports involve mainly agricultural products. Costa Rica does not belong to the WTO multilateral agreements on government procurement, civil aircraft or subsidies. All import licenses, i.e., on "sensitive" agricultural products, were eliminated, while raising import duties on such products in conformity with the Uruguay Round agreements. However, high tariffs on many agricultural products limit or act as a de facto ban on U.S. exports of such items.

Standards, testing, labeling and certification are important considerations for U.S. exports to Costa Rica. For example, phytosanitary and sanitary requirements can be restrictive on the import of some types of fresh produce and animal products. Pharmaceuticals, veterinary drugs and chemicals, including chemicals that are component parts, must be registered and approved by the Ministry of Health before the chemicals or finished products can be imported. Chemicals and pesticides exported to Costa Rica must be legally available in the exporting country. Other laws and regulations affecting U.S. exports to Costa Rica include the exclusive use of metric units, detailed labeling requirements, including the required use of Spanish, and strength requirements for car bumpers.

The main services barriers involve the constitutional state monopolies on insurance, production and distribution of electricity, telecommunications, hydrocarbons and radioactive minerals extraction and refining, and the operation of ports and airports. The law on co-generation of electric energy permits privately-owned plants (maximum size of 20 megawatts per project) up to 15 percent of the country's installed generation capacity. The law also allows private sector build-operate-transfer (BOT) or build-lease transfer plants (BLT) (maximum size of 50 megawatts) up to an additional 15 percent of installed capacity. The state monopoly on checking and savings accounts was eliminated in 1996, although to enjoy such a right, private banks are required to fulfill certain conditions not required of state-owned banks, i.e., providing some loans to small farmers and businesses.

In addition, there are restrictions on providing certain professional services. For example, in order to work legally, medical practitioners, lawyers, certified public accounts, engineers, architects, most teachers and other professionals must be members of local guilds which stipulate residency, examination and apprenticeship requirements that in most cases can only be met by long-time residents of Costa Rica.

There are few investment barriers except in the sectors reserved for the state, as noted above. Foreign investments generally enjoy national treatment and there are no export performance requirements or local content requirements, forced disinvestment, or restrictions on repatriation of profits or capital. There are also no requirements for government approval of investments or restrictions on downstream services such as distribution and limitations of foreign equity participation except for sectors reserved to the state.

The law encourages the development of nontraditional exports and tourism and provides incentives for such investments including for U.S. investors. The share of foreign workers in an enterprise is limited by law, but the Ministry of Labor generally grants permission for foreigners to work. Permits for foreign participation in management have always been granted.

Costa Rica's government procurement system is transparent and generally nondiscriminatory and has an extensive mechanism for appeals. Although very complicated and bureaucratic, the procurement system is not a serious barrier to U.S. exports. Purchasing decisions by state institutions are made following very detailed laws and regulations on public bidding that generally force the institution to purchase the least costly alternative meeting the bid terms. Local suppliers are not subsidized and do not enjoy any special advantages over foreign suppliers. Customarily, U.S. companies have a wide market in pharmaceuticals, machinery and electrical and transportation equipment. Simplified government laws and regulations became effective on May 1, 1996, which should improve the ability of U.S. companies to compete. The new regulations increased the maximum amount that public institutions can purchase directly and shortened the appeal process.

Customs procedures are costly and complex. Most large enterprises have customs specialists on the payroll, who must be bonded with Costa Rican companies. All importers and exporters suffer from the cumbersome customs procedures, poor administration, theft, graft and inadequate facilities. The government is implementing a profound reform to automate the system to lessen the possibility of corruption and to improve efficiency. The government has established a one-stop window to speed up the pre-import permit process.

The government has expropriated large amounts of land for national parks and biological and indigenous reserves and, in some cases, has yet to provide adequate compensation. Some unpaid U.S. expropriation claims date back over 25 years. It is possible to obtain compensation through the court system, although the time and cost of litigating against the government greatly diminish the value of such efforts. The government has made significant progress in resolving a number of expropriation cases, however. Claimants have recourse to international arbitration through the International Center for the Settlement of Investment Disputes (ICSID). Local arbitration is also available. Absentee landowners also run the risk of losing their property to squatters, who are often organized and increasingly violent. Costa Rican land tenure laws favor squatters, and police protection of landowners in rural areas is far from adequate.

6. Export Subsidies Policies

The Government of Costa Rica has attempted to diversify its export production and markets. Until mid-1992, all goods other than coffee, bananas, beef, sugar, and cacao exported outside of Central America and Panama qualified for export subsidies through the issuance of negotiable tax rebate certificates (CATS). However, previously qualifying certificate holders can renew their CATS through 1999. After 1999, the program will be completely phased out. For agricultural products, the government will reduce CATS by 24 percent and eliminate the export tax rebate program by the year 2004. Costa Rica is not a member of the GATT subsidies code. There are no discriminatory import policies, although high tariffs and phytosanitary and sanitary regulations are often serious barriers as noted above. Under the terms of the Central American Common Market Treaty of 1960, industrial products produced in any of the five countries enter duty-free into the other member countries.

Export companies located in Free Trade Zones can benefit from exemptions on the following: import duties on raw materials and products, all export, sales and consumer taxes, taxes on remittances abroad, and taxes on profits for a period of 6 years from beginning of operations, and a 50 percent exemption for the following 4 years.

7. The Protection of U.S. Intellectual Property

Costa Rica is a signatory to most major intellectual property rights conventions and agreements, and is a member of the World Intellectual Property Organization. However, significant weaknesses exist in the country's legal system, particularly in the area of patent protection for pharmaceuticals and chemicals, and in its enforcement of copyright protection, especially for video cassettes. Costa Rica was placed on the 1996 Special 301 watch list because of inadequate patent protection for pharmaceuticals.

Costa Rica is a signatory to the following intellectual property rights conventions: Mexico City Convention on Literary and Artistic Copyrights (1902); Rio de Janeiro Convention on Patents, Industrial Designs, Trademarks and Literary and Artistic Copyrights (1910), and as revised at Havana (1928); Universal Copyright Convention (Paris 1971); Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961); Berne Convention for the Protection of Literary and Artistic Works (Paris Act 1971); Convention for the Protection of Producers of Phonograms (Geneva 1971); the Central American Convention (1982); Convention of Paris (1883); and Central American Treaty on Industrial Property (1970).

Costa Rica's copyright laws are generally adequate. The major problem for copyright holders is with enforcement. In 1994, the copyright law was modified to extend protection to all forms of intellectual creations, including musical scores, paintings, and software programs. The cable television industry now operates almost entirely under agreements with foreign producers. However, a number of hotels continue to pirate satellite transmission signals. Pirated videocassettes are widely available. An authorized distributor of videocassettes has begun enforcement efforts to regulate the videocassette market and has reported reduced video piracy by about 10 percent.

Costa Rican patent laws are deficient in several key areas. The patent protection term is far too short. Most patents are granted for nonextendable 12-year terms. In the case of products deemed "in the public interest," patents are granted for only 1 year. This applies to all pharmaceuticals, items with therapeutic applications, chemical and agricultural fertilizers, agrochemicals and all beverage and food products. However, the Government of Costa Rica is working on draft patent legislation to meet Costa Rica's patent obligations under the GATT Uruguay Round.

No patent protection is available for plant or animal varieties, biological or microbiological processes or products, although the government is working on a legislative proposal that would protect such products. Costa Rica also has broad compulsory licensing requirements that force patent owners to license inventions that are not produced locally. The limited patent protection available cannot be enforced until local production has begun. Costa Rican law also provides for compulsory dependent patent licensing and for expropriation of patents.

Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is for renewable ten-year periods from the date of registration. Counterfeit goods are widely available in Costa Rica and compete with goods manufactured under trademark authorization. Another problem is registration of famous marks by speculators, who demand to be bought out if and when the legitimate rights holders come to Costa Rica. Litigation to remove such speculative registrations can be long and expensive.

Trade secrets are protected by existing laws, and Article 24 of the Constitution protects the confidentiality of communications. The penal code stipulates prison sentences or fines for divulging trade, employment or other secrets, and doubles the punishment for public officials. Some existing laws also stipulate criminal and civil penalties for divulging trade secrets. The burden of enforcement is on the affected party.

The impact of Costa Rica's intellectual property practices is very difficult, if not impossible, to quantify. The most important effects have probably been in the area of pharmaceuticals, given the limited patent protection and the U.S. pharmaceutical industry's petitions in the context of Special 301 watch list. The most important other effect is on U.S. exports of videocassettes, given the high degree of video piracy.

8. Worker Rights

a. *The Right of Association:* The law specifies the right of workers to join unions of their choosing without prior authorization, although barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Some trade union leaders contend that formation of solidarity employee associations hinders the right of association. After the International Labor Organization (ILO) ruled that involvement of Solidarity associations in trade union activities violated freedom of association, the government amended the Labor Code in 1993 to prohibit these associations from participating in collective bargaining or direct agreements on labor conditions. In 1994, the ILO ruled that these and other planned changes fostered greater freedom of association.

Costa Rica has no restrictions on the right of private sector workers to strike, but very few workers in this sector belong to unions. The Constitution and Labor Code restrict the right of public sector workers to strike. In 1993, however, the government repealed Labor Code penalties against public sector workers who engage in strikes. In 1995, the ILO encouraged the government to repeal Labor Code provisions restricting the right to strike in certain nonessential sectors and to approve legislation to allow unions to administer compensation funds for dismissed workers.

b. *The Right to Organize and Bargain Collectively:* The Constitution protects the right to organize. 1993 Labor Code reforms provide protection from dismissal for union organizers and members during union formation and require employers found guilty of discrimination to reinstate workers fired for union activities. Private sector unions have the right to engage in collective bargaining. Public sector workers, however, cannot engage in collective bargaining, because the 1978 Public Administration Act makes labor law inapplicable in relations between the government and its employees.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor. The country had no known instance of such practices during 1996.

d. *Minimum Age for Employment of Children:* The Constitution provides special employment protection for women and children and establishes the minimum working age at 12 years, with special regulations in force for workers under 15. Children between 15 and 18 can work a maximum of 7 hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of 5 hours daily and 30 hours weekly. Authorities prohibit employment of youths under 18 in the banana industry. The National Institute for Children, in cooperation with the Labor Ministry, effectively enforces these regulations in the formal sector, but child labor remains an integral part of the large informal economy.

e. *Acceptable Conditions of Work:* The Constitution provides for a minimum wage, and a National Wage Council sets minimum wages, adjusted in July 1996 for the private sector, range from $122 for domestic servants to $590 for certain professionals. Public sector negotiations normally follow the settlement of private sector negotiations. The Constitution also sets workday hours, overtime remuneration, days of rest, and annual vacation rights. Workers may work a maximum of 8 hours during the day and 6 at night, up to weekly totals of 48 and 36 hours, respectively. Nonagricultural workers receive an overtime premium of 50 percent of regular wages for work in excess of the daily shift. Agricultural workers do not receive overtime if they voluntarily work beyond normal hours.

A 1967 law on health and safety in the workplace requires industrial, agricultural, and commercial firms with 10 or more workers to establish a management-labor committee and allows the government to inspect workplaces and to fine employers for violations. The Ministry of Labor effectively enforces working conditions in the San Jose area, but less effectively in rural areas. The ILO has asked the government to enact provisions on accident prevention for seafarers.

f. *Rights in Sectors with U.S. investment:* All labor regulations apply throughout Costa Rica, including in the country's export processing zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. management and ownership. Abuses occur more frequently at plants operated by non-U.S. foreign investors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		246
Food & Kindred Products	47	
Chemicals and Allied Products	102	
Metals, Primary & Fabricated	22	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		(2)
Services		(1)
Other Industries		9
TOTAL ALL INDUSTRIES		790

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

DOMINICAN REPUBLIC

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	9.2	12.1	12.4
Real GDP Growth (pct) [3]	4.3	4.8	6.9
GDP by Sector:			
Agriculture	1.1	1.5	1.6
Manufacturing	1.7	2.1	2.1
Services	2.7	3.6	3.7
Government	0.8	1.0	1.0
Per Capita GDP (USD)	1,158	1,500	1,572
Labor Force (000s) [4]	3,434	3,499	3,522
Unemployment Rate (pct) [5]	30	30	30
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8	17	18
Consumer Price Inflation	8.9	7.2	4.0
Exchange Rate (DR peso/USD—annual average)			
Official	12.87	12.87	12.87
Parallel	14.00	13.85	13.80
Balance of Payments and Trade:			
Total Exports (FOB) (USD millions) [6]	0.5	0.6	0.7
Exports to United States [7]	3.1	3.4	3.6
Total Imports (CIF) (USD millions) [6]	1.9	2.0	2.4
Imports from United States [7]	2.8	3.0	3.2
Trade Balance (USD millions) [6]	-1.4	-1.4	-1.7
Trade Balance with United States [7]	0.3	0.4	0.4

Key Economic Indicators—Continued

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

	1994	1995	1996 [1]
External Public Debt	3.9	3.9	3.8
Fiscal Surplus/GDP (pct)	−0.5	1.1	N/A
Current Account Deficit/GDP (pct) [8]	−1.4	1.4	0.8
Debt Service Payments/GDP (pct)	5.1	4.8	N/A
Gold and Foreign Exchange Reserves [9]	0.3	0.5	N/A
Aid from United States (USD millions) [10]	15.5	13.3	13.3
Aid from All Other Sources	N/A	N/A	N/A

Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated.
[1] 1996 figures are all estimates based on available monthly data through September 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Source: Dominican National Planning Office.
[5] Source: U.S. Embassy estimate.
[6] Central Bank figures. These statistics do not include significant trade through free trade zones.
[7] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[8] IMF calculations.
[9] U.S. Embassy calculations of gross reserves including certain illiquid assets.
[10] Calculation based on U.S. fiscal year.

1. General Policy Framework

During 1996, the economy of the Dominican Republic continued to grow with the Central Bank pointing to a possible GDP growth rate of over 6 percent for the year. Official inflation fell to about 4 percent at an annual rate. The peso/dollar exchange rate showed little variation through the June elections and the first months of the new government of President Leonel Fernandez.

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.

The money supply is growing faster than in 1995. 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. Reserve ratios for banks are rarely used to regulate money supply or credit. Banks resort to the discount window of the Central Bank only rarely. The Bank Superintendent's Office has continued to work for improved banking regulation, phasing in more rigorous prudential norms applied with greater consistency. Early in 1996, longstanding problems at the country's third largest bank, Bancomerico, led to a Central Bank takeover of that institution. It has since been sold to another Dominican-owned bank, Baninter.

Gross foreign exchange reserves rose to about $515 million. The reserve figures include some Central Bank assets which are not actually available for use in payments. The Central Bank has not released a net liquid reserve figure in 1996. The GODR continued timely payments of foreign private bank debt and most payments on renegotiated Paris Club debt. The arrearage to the U.S. Dept. of Agriculture Commodity Credit Corp (CCC), however, grew to well over $100 million. Some payments of interest have been made in 1996, but the total has grown as new arrearages have accumulated. The GODR has not fully compensated the Central Bank for foreign debt payments carried out on its behalf. 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.

Government cash-flows are currently in surplus according to the Central Bank, fulfilling the new Fernandez Government commitment to maintain macroeconomic stability. On an accrual basis, however, there is probably a significant deficit. The government has accumulated large arrears to domestic suppliers and contractors. The central government has also repeatedly provided 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. This domestic debt is owed to foreign firms now or previously operating in the Dominican Republic, as well as to purely local firms. It is not clear that it could be paid quickly without sacrificing inflationary goals. Current government financial flows leave substantial doubt about the ability of the Dominican Government to pay this debt.

The Dominican Republic has ratified the GATT 94 and participated in WTO meetings. The Dominican Government has not yet fully implemented the Uruguay Round Agreements. Recently, the Secretary of Agriculture asserted that he planned to continue to allow agricultural imports based on a discretionary licensing system.

2. Exchange Rate Policy

The official exchange rate continues to be set by the Central Bank. A market-based exchange rate which has averaged 13.80 pesos = 1 U.S. dollar so far in 1996 is used by the commercial banking system and the foreign exchange houses. This rate discounts the official rate. 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, thus prejudicing their profitability, 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. The new 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. As noted above, the maximum tariff is 35 percent. Few imports actually enter at this high 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 Dominican Government has also implemented changes in its tax system aimed at increasing revenues. The concept of taxable income has been enlarged, marginal tax rates on individuals and companies reduced and capital gains are no longer considered exempted income. In May, 1992 a new labor code was promulgated with provisions which increased a variety of employee benefits. In January 1995 the minimum wage was increased by 20 percent, substantially more than the rate of inflation or devaluation, for the second year in a row. These factors have raised labor costs in the Dominican Republic.

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 have slowed the use of modern medicines. The failure to protect the tenure of landowners has impeded investment in modern agricultural techniques.

4. Debt Management Policies

The total external debt of the Dominican Government is now approximately $3.9 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 Dominican Government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and U.S. Treasury-backed rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then with the exception of the CCC credits mentioned above.

Government payments to foreign non-financial institutions are notoriously slow. Some debts are 10 years old. The Fernandez Government has announced the formation of a government committee to evaluate the public debt contracted by previous administrations. Foreign debt service (official and private) for 1995 (the last year for which figures were released) was $531 million.

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 of the Dominican Republic imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles.

The Dominican Republic continues to require a consular invoice and "legalization" of documents, which must be performed by a Dominican consulate in the United States. Fees for this service vary by consulate but can be quite substantial. 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 many complaints and businesspersons here generally 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. U.S. firms must comply with the provisions of the U.S. Foreign Corrupt Practices Act. Customs officials routinely reject invoice prices as a basis for computing duties and customs fees and use higher figures. 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.

Prohibitions on land ownership: Ownership by foreigners of more than approximately one-half acre (2,000 square meters) needs Presidential approval.

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 largest source of investment disputes). Seizures of foreign investors' property, refusal to honor customs exoneration commitments, and the previous government's refusal to consider claims for payment reduced the attractiveness of the investment climate, notwithstanding passage of the new law. The new government appears likely to approach its commitments with a new attitude.

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 continues to be a weak connection in the Dominican economy. Businesses operating in the DR cannot depend on the electric utility to be a reliable source of electricity. The government has submitted legislation proposing the privatization of the government-owned electricity company as well as of other state enterprises.

Foreign employees may not exceed 20 percent of a firm's work force. This is not applicable when foreign employees only perform managerial or administration functions.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards; several investors have outstanding disputes concerning expropriated property. The Dominican Republic 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. Restrictions on profit remittances did not apply to free trade zone businesses even before passage of the new Foreign Investment Law.

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

Although the Dominican Republic is a signatory to the Paris Convention and the Universal Copyright Convention, and in 1991 became a member of the World Intellectual Property Organization, the lack of a strong regulatory environment results in inadequate protection of intellectual property rights.

Patents (product and process): patents are difficult to get and almost impossible to enforce against a determined intellectual property thief. In a local pharmaceutical market of approximately $110 million per year, 70 percent of the total is locally produced or packaged. A significant percent of that total is believed to be counterfeit. A resolution issued by the government at the end of 1996 will unfortunately further encourage the violation of pharmaceutical patents in the Dominican Republic.

Trademarks and copyrights: in general, copyright laws are adequate, but, as noted above, enforcement is weak, resulting in widespread piracy. The Embassy believes that video, audio recordings, and software are being counterfeited. Apparel trademarks are also counterfeited and sold in the local market.

Some cable operators seem to be re-broadcasting satellite signals without compensating either the original broadcaster or the originator of the recording. The U.S. Motion Picture Association had estimated that losses to its members due to theft of satellite-carried programming were more than one million dollars per year, although industry had hoped this problem had been settled in 1992 with payments to the Association and agreements regarding future payments.

Impact of IPR policies on U.S. trade: non-protection of intellectual property rights is so widespread that it is virtually impossible to quantify its impact on U.S.-Dominican trade.

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 32 established free trade zones (FTZ's) which include 288 U.S.-owned or associated companies and employ approximately 170,000 workers, mostly women. Some FTZ companies have a history of discharging workers who attempt to organize unions.

c. *Prohibition of Forced or Compulsory Labor:* There were numerous reports of forced overtime in factories. Employers, particularly in the FTZ's, 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 6 hours of daily work, no employment in dangerous occupations or establishments serving alcohol and limitations on nighttime work. Dominican law requires 6 years of formal education.

The high level of unemployment and lack of 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 or 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 8 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 and 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 FTZ's 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 FTZ's represent one of the principal sources of U.S. investment in the Dominican Republic. Some companies in the FTZ's 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		242
Food & Kindred Products	5	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	209	
Wholesale Trade		(2)
Banking		(1)
Finance/Insurance/Real Estate		3
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,274

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

ECUADOR

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	16.6	17.9	18.7
Real GDP Growth (pct)	4.3	2.3	1.8
GDP by Sector:			
Agriculture/Fishing	2.0	2.1	2.2
Petroleum/Mining	1.7	1.9	2.0
Manufacturing	3.6	3.8	3.9
Commerce/Hotels	3.4	3.6	3.7
Finance/Business Services	0.8	1.0	1.0
Government/Other Services	1.8	2.1	2.3
Per Capita GDP (USD)	1,480	1,563	1,601
Labor Force (estimate—000s)	3,590	3,670	3,740
Urban Unemployment (pct)	7.1	6.9	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	56.8	41.8	37.0
Consumer Price Inflation	25.4	22.8	26.0
Exchange Rate (sucres/USD—annual average)			
Central Bank	2,084	2,527	3,130
Market	2,197	2,565	3,170
Balance of Payments and Trade:			
Total Exports (FOB)[2]	3.8	4.4	4.7
Exports to United States[3]	1.7	1.9	1.9
Total Imports (CIF)[2]	3.6	4.2	3.6
Imports from United States[3]	1.2	1.5	1.2
Trade Balance (FOB)[2]	0.6	0.3	1.4
Balance with United States[3]	0.5	0.4	0.7
External Public Debt	13.8	12.4	12.5
Debt Service Payments/GDP (pct)	14.5	21.9	N/A
Current Account Deficit/GDP (pct)	4.1	4.6	N/A
Fiscal Balance/GDP (pct)	0.4	−2.0	−4.0
Gold and Foreign Exchange Reserves	1.7	1.6	1.7
Aid from United States (FY—USD millions)	17.0	16.5	16.2
Aid from Other Sources (USD millions)	145	231	N/A

Source: Ecuadorian Government data.
[1] 1996 figures are all estimates based on data available in November 1996.
[2] Merchandise trade.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production, along with exports of bananas, shrimp and other primary agricultural products. Industry is largely oriented to servicing the domestic market but is becoming more export-oriented. During the oil boom of the 1970's, the Ecuadorian Government borrowed heavily from abroad, subsidized consumers and producers, and expanded the state's role in economic production. These policies led to chronic macroeconomic instability in the 1980's.

The 1992–1996 Government of Sixto Duran-Ballen sought to stabilize the economy, modernize the state, and expand the role of the free market. However, implementation of privatization and other structural reforms required to improve the investment climate and prospects for long-term growth was slow. On the other hand, 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, contradictory treatment of foreign investors, and delays in the announcement of the new government's economic program helped prevent an economic recovery. Economic growth for 1996 is projected at only 1.8 percent and imports are running 18 percent below the previous year.

The consolidated public sector deficit for 1996 exceeds 4 percent of GDP. Significant revenue measures will be required to achieve the goal of a balanced budget for 1997. Public sector expenditures (including state enterprises but excluding the military's capital budget, which is funded by a direct allocation of oil revenues) accounted for 27.5 percent of GDP in 1995. Debt service is the largest area of government spending, followed by education, defense and agriculture. The government remains highly dependent on revenue from oil exports and domestic fuel sales.

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. Following a rapid increase in the money supply, annual M2 growth in 1995 and 1996 ran at about at 37–38 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. Inflation ran at about 25 percent for 1996. The shocks of 1995, combined with the previous government's willingness to tighten liquidity in order to protect both the exchange rate and foreign reserves, kept average real interest rates on 90-day deposits above 20 percent for most of 1995 and 1996. Due to greater liquidity and a deepening recession, real interest rates on deposits dropped to below 6 percent by October 1996.

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 was adjusted twice in 1995 and was substantially broadened in August 1996. The annual devaluation rate is currently projected at 18.5 percent. President Bucaram has expressed his intention to introduce an Argentine-style convertibility system that would tie money growth to foreign exchange reserves.

Foreign currency is readily available on the free market, trading at 3,380 sucres to the dollar in mid-November 1996. Although some government officials have criticized currency speculators, there are no restrictions on the movement of foreign currencies into or out of Ecuador. The state oil company and other public entities must exchange dollars with the Central Bank at a rate that is about 2 percent below the free market rate. By the end of September 1996, foreign exchange reserves amounted to $1.7 billion, enough to cover imports for nearly 6 months.

3. Structural Policies

The previous administration enjoyed only partial success with a structural reform program designed to promote investment and economic growth. Progress was made on budget reform, reduction of public employment levels, and elimination of unnecessary and market-distorting regulations. With a few exceptions for pharmaceuticals, some foodstuffs and fuels, all prices are now set by the free market. New laws have 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 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. The armed forces have expressed interest in selling some shares in military-owned companies to private sector partners. The Bucaram administration is implementing the 1995 telephone privatization law and expects to sell 35 percent of the shares in state telephone company EMETEL in 1997. Congress completed action on a similar electricity sector privatization law in September 1996, but the implementation schedule is still unclear. The new government wants a private consortium to construct and manage a second oil pipeline across the Andes and has suggested the possibility of greater privatization of other parts of the petroleum sector. Steps have been taken toward granting private concessions for public works, the civil registry, airports, ports, and postal and railroad services. However, disputes between the new government and private customs verification companies may set back the customs reform effort. The Bucaram administration has not yet addressed 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 has been ratified by both countries and is awaiting implementation. Income tax rates on foreign and domestic companies have been equalized at 25 percent. 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. Although the 1993 hydrocarbons law is relatively investor-friendly, the Bucaram administration has failed to respect some existing contracts with foreign investors in the oil sector.

4. Debt Management Policies

As of mid-1996, Ecuador's external public debt was $12.4 billion, down $191 million from a year before. Interest on public and private foreign debts in 1995 amounted to less than 16 percent of goods and services exports, although total public and private debt service owed amounted to 74 percent of goods and services exports and 22 percent of GDP. While expressing a desire to reduce the debt burden, President Bucaram 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 1995–1996 and is seeking another Paris Club rescheduling. During 1996 Ecuador failed to meet the targets of the IMF monitoring program that replaced the 1994 standby arrangement. The government may seek to negotiate another IMF program in 1997.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990's, resulting in a reduction of tariffs and tariff dispersion, elimination of most nontariff surcharges, and enactment of an in-bond processing industry (maquila) law. The Duran-Ballen administration continued the move toward open trade by concluding bilateral free trade agreements with its Andean Pact partners, Colombia, Bolivia and Venezuela. After 2 years of negotiations with its major trading partners, Ecuador joined the World Trade Organization (WTO) in January 1996. However, the government has failed to meet deadlines for fulfilling all of its WTO obligations to eliminate remaining nontariff barriers.

Duties and fees for most imports into Ecuador fall in the 5 to 20 percent range. Ecuador joined with Colombia and Venezuela to establish an Andean common external tariff in February 1995. Special exemptions allow Ecuador to continue to charge lower 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 new government has appeared to backtrack on the customs reform program that was designed to reduce corruption and improve efficiency in the customs service and thereby eliminate a major constraint on trade. 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. Import bans on used clothing, used cars and used tires have yet to be eliminated. 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 prevents U.S. and other foreign suppliers, but not domestic suppliers, from terminating existing exclusive distributorship arrangements without paying compensation. Foreigners may invest in most sectors, other than public services, without prior government approval. There are no controls or limits on transfers of profits or capital, and foreign exchange is readily available.

Government procurement practices 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. The government has terminated a temporary program to compensate banana and shrimp exporters for increases in fuel costs.

7. Protection of U.S. Intellectual Property

Ecuador's protection of patent and trademark rights was based on regional Andean laws that provide 20-year patent terms (except for some pharmaceuticals), protection for plant varieties, and control of parallel imports. A recent Andean Pact court decision overturned Ecuadorian regulations that provided transitional or pipeline protection for previously unpatentable products, and the government repealed its implementing regulations covering the Andean patent and trademark regime and pipeline provisions.

Ecuador and the United States signed a bilateral intellectual property rights agreement (IPRA) in October 1993 that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs and trade secrets. However, the Ecuadorian Congress has not yet ratified the IPRA or enacted legislation to harmonize local law with the agreement's provisions. Although Ecuador is required to implement the WTO TRIPs Agreement in 1996, the government recently announced that implementation would be delayed for up to 4 years, in violation of WTO requirements.

Enforcement of intellectual property rights remains a problem for Ecuador. Copyright infringement occurs, and there is widespread local trade in pirated audio and video recordings, as well as computer software. Local registration of unauthorized copies of well-known trademarks is a problem, since the government lacks the resources to monitor and control such registrations. However, a recent court decision should allow foreign trademark owners to terminate license arrangements with Ecuadorian companies. 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. Less than 14 percent of the labor force, mostly skilled workers in parastatal or medium-to-large sized industries, is organized. Except for some public servants and workers in some parastatals, workers by law have the right to strike. 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 of Employment of Children:* Persons less than 14 years old are prohibited by law from working, except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their 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, 2 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 6 months and can be adjusted by Congress. Mandated bonuses bring total monthly compensation to about $156. 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		646
Total Manufacturing		127
Food & Kindred Products	35	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	22	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	41	
Wholesale Trade		48
Banking		(1)
Finance/Insurance/Real Estate		(2)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		830

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

EL SALVADOR

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	8.1	9.6	10.9
Real GDP Growth (pct)	6.0	6.1	4.0
GDP by Sector:			
Agriculture	1.1	1.4	1.6
Manufacturing	1.8	2.1	2.4
Services	2.7	3.9	5.3
Government	0.5	0.5	0.6
Per Capita GDP (USD) [3]	1,521	1,778	1,974
Labor Force (000s) [4]	2,113	2,176	2,219
Unemployment Rate (pct) [5]	7.7	7.7	7.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	22.0	19.0	N/A
Consumer Price Inflation	8.9	11.4	9.0

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Exchange Rate (colon/USD)	8.75	8.75	8.75
Balance of Payments and Trade:			
Total Exports (FOB)[6]	1.2	1.7	1.8
Exports to United States (USD millions)[7]	609	812	1,078
Total Imports (CIF)[6]	2.6	3.3	3.3
Imports from United States (USD millions)[7]	931	1,111	1,071
Trade Balance	−1.3	−1.7	−1.5
Balance with United States (USD millions)[7]	−322	−299	7
External Public Debt	2.2	2.2	N/A
Debt Service Payments/GDP (pct)	3.3	3.2	3.0
Current Account Deficit/GDP (pct)	0.2	2.8	3.0
Fiscal Deficit/GDP (pct)	2.1	1.4	1.8
Gold and Foreign Exchange Reserves	0.7	0.9	1.1
Aid from United States (USD millions)	215	70	60
Aid from Other Sources (USD millions)	113	78	90

[1] 1996 figures are Central Bank estimates based on August data.
[2] GDP at market prices.
[3] Per capita growth based on 1992 census data.
[4] Economically active population, i.e. all those over age 15.
[5] Figures do not include underemployment.
[6] Including gross maquila.
[7] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[8] Grants only; figures do not reflect NGO assistance and bilateral loan programs.

1. General Policy Framework

The post-war boom in the Salvadoran economy began to fade in July 1995 after an abrupt shift in monetary policy was followed by a June increase in the value-added tax (VAT) and price hikes in basic public services. The slowdown lingered into the new year and the volume index of economic activity (IVAE) declined throughout the first half of 1996, led by a dismal performance in the retail sector. Inflation remained stubbornly higher than expected, reaching a 10 percent cumulative rate in July 1996. The slump contributed to a larger-than-expected government deficit as tax revenues were down from early projections and expenditures were up, thanks to an increase in teachers salaries and government downsizing at the end of 1995 that required payment of a special severance package. Virtually every sector came in with a proposal for a sectoral stimulus package, including tariff protection, tax cuts and special credit lines. The government took considerable criticism for its perceived neglect but steadfastly refused to intervene and spend the economy back to health.

The outlook improved toward the end of 1996. Key indicators like industrial electricity consumption, cement consumption and air cargo traffic were all up. The IVAE index began to move up, but more importantly, the retail sector showed improved performance in the third and fourth quarters. Prices of basic foodstuffs fell in September and October. Inflation for the year was projected at 9.0 percent and real GDP growth was estimated at 4.0 percent.

El Salvador's balance of payments continued to show a net surplus. Exports in 1996 grew 11 percent while imports declined, narrowing El Salvador's almost 2 to 1 trade deficit. As in the previous year, the large trade deficit (1.5 billion dollars) was offset by foreign aid and family remittances. Private foreign capital continued to flow in, though mostly as short-term import financing and not at the record levels of previous years. Remittances remain the second most important source of foreign exchange after exports and a major factor in El Salvador's macroeconomic stability. The Central American Common Market continued its dynamic reactivation process, now with most regional commerce duty-free. In September 1996, El Salvador, Honduras, and Guatemala opened free trade talks with Mexico. Although tariff cuts that were expected in July 1996 were delayed until 1997, the Government of El Salvador is committed to a free and open economy. President Calderon Sol has indicated that he expects to implement a tariff regime between zero and 6 percent for all traded goods by 1999.

In mid-1995, the Government of El Salvador flirted briefly with the idea of switching to a dollar economy, going a step further than the fixed exchange rate proposed by the President in February. At the same time, the government was taking a number of administrative steps that substantially increased the liquidity in the economy and helped fuel 1995's boom. Following intense pressure from the World Bank, the government made the political decision to abandon the "dollarization" idea in early 1996. Subsequent tightening of the monetary policy by the Central Bank contributed to the onset of an economic slowdown.

Fiscal policy has been the biggest challenge for the Salvadoran Government. The peace accords signed between the government and the Farabundo Marti Liberation Movement (FMLN) in January 1992 committed the government to heavy expenditures for transition programs and social services. Although international aid has made up some of the difference, the government has focussed on improving the collection of its current revenues. A 10-percent value-added tax (VAT), implemented in September 1992, was raised to 13 percent in July 1995. The VAT is estimated to have contributed 54 percent of total tax revenues in 1996; collections in the first 9 months of the year were up 21 percent over 1995, in part due to the increase but also to improved collection techniques. In 1997, VAT is projected to bring in 56 percent of total tax revenue.

2. Exchange Rate Policy

A multiple exchange rate regime that had been used to conserve foreign exchange was phased out during 1990 and replaced by a free-floating rate. The colon depreciated from five to the dollar in 1989 to eight in 1991. Since 1993 the Central Bank has maintained a "dirty" float, with the colon informally pegged at 8.75 colones to the dollar. Large inflows of dollars in the form of family remittances from Salvadorans working in the U.S. offset a substantial trade deficit and support the exchange rate. The monthly average of remittances reported by the Central Bank is around $85 million, with the total estimated at more than $1 billion for 1996.

3. Structural Policies

U.S. exports to El Salvador have increased over 60 percent since 1991, accounting for almost 51 percent of El Salvador's total imports in 1996. The key policy change driving this trend was the government's decision to radically lower tariff barriers. El Salvador's open trade policies are not likely to be reversed. Although the country has run up huge trade deficits in recent years, they have been more than offset by remittances, short-term capital inflows, official transfers and loans. In fact, El Salvador's net international reserves were estimated at $1.03 billion in mid-1996, up 20 percent over 1995. Also contributing to the surge in imports was the robust rate of economic growth and a post-war construction boom. Over 75 percent of imports in 1995 were in the categories of capital and intermediate goods. The Government of El Salvador has an open procurement policy in practice and U.S. companies compete actively for contracts.

On September 12, 1996, the legislative assembly of El Salvador passed a law to create one of the most liberal telecommunications regimes in the hemisphere. The law encourages maximum competition in all aspects of telecommunications. The only functions reserved to the government are resolution of interconnection charge disputes and spectrum allocation, and in those cases, the discretionary power of the government is limited. This law is the first step in t' e privatization of the state-owned telephone company (ANTEL).

On October 10, 1996, the legislative assembly passed the General Law of Electricity. With the passage of this law, the framework for privatization has been established, although actual sale of the electric company (CEL) will require separate legislation. Like the telecommunications law, this measure encourages maximum competition in all aspects of energy production and distribution. The distribution networks have already been privatized. Privatizat on of state-owned power generation plants is scheduled to take place within the next 2 years.

Prices, with the exception of bus fares, are set by the market. Companion legislation to the telecom and electric privatization bills sets up a commission to monitor and regulate the telecommunications and electrical sectors, and utility rates are now set by the market. The 13 percent value-added tax is applied equally to all goods and services, imported and domestic, with a few limited exemptions for basics like dairy products, fresh fruits and vegetables, and medicines. The VAT has not proven to be an impediment to import sales. At the end of 1994, the government replaced a price band mechanism, introduced in 1990 to regulate the tariffs on basic grains, with a fixed tariff of 20 percent ad valorem rate.

4. Debt Management Policies

El Salvador's external debt decreased sharply in 1993, chiefly as a result of an agreement under which the United States forgave about $461 million of official debt. As a result, total debt service decreased by 16 percent over 1992. External debt went down from $2.245 billion in 1994 to $2.2 billion in 1995 and did not rise significantly in 1996. Debt service fell correspondingly from 3.3 percent of GDP in 1994 to 3.0 percent in 1996. El Salvador has eliminated all payment arrears, and its debt burden is considered moderate.

The Government of El Salvador has been successful in obtaining significant new credits from the international financial institutions. Among the most significant loans are a second structural adjustment loan from the World Bank, for $52.5 million, another World Bank loan of $40 million for agricultural reform, a $20 million loan from the Central American Bank for Economic Integration to be used to repair roads, and a $60 million Inter-American Development Bank loan for poverty alleviation projects. Although official figures (as stated in the table) show relatively small and diminishing aid flows, the total is probably larger. Significant amounts come in through non-governmental organizations and are channeled to groups not generally included in official statistics, such as unions, political parties and churches. Total non-USG aid could be as high as $800 million in 1995 and 1996.

5. Significant Barriers to U.S. Exports

There are no legal barriers to U.S. exports of manufactured goods or bulk, non-agricultural commodities to El Salvador. Most U.S. goods face tariffs from 1 to 20 percent, and rates are expected to fall further by 1999. While higher duties are applied to automobiles, alcoholic beverages, textiles and some luxury items, the Salvadoran Government plans to roll these excepted products into its general tariff schedule as it implements the 1996–99 reductions.

Generally, standards have not been a barrier to the importation of U.S. consumer-ready food products. Poultry is the notable exception: since 1992, the Government of El Salvador 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 Health requires a Certificate of Free Sale showing that the product has been approved by U.S. health authorities for public sale. Importers also may be required to deliver samples for laboratory testing, but this requirement has not been enforced. All fresh foods, agricultural commodities and live animals must be accompanied by a sanitary certificate. Basic grains and dairy products also must have import licenses. Authorities have not enforced the Spanish labeling requirement.

Restrictions on foreign banks entering El Salvador have been removed. Foreign banks now face the same requirements as Salvadoran banks and can offer a full range of services. El Salvador officially promotes foreign investment in virtually all sectors of the economy. The foreign investment law allows unlimited remittance of net profits for most types of business and manufacturing, and up to 50 percent for commercial or service companies.

El Salvador is a member of the World Trade Organization and expects to implement the full range of its Uruguay Round commitments on or ahead of schedule. The government is an active participate in the Summit of the Americas/Free Trade Area of the Americas (FTAA) process. El Salvador chairs the FTAA Market Access Working Group.

6. Export Subsidies Policies

El Salvador does not employ direct export subsidies. It offers a 6-percent rebate to exporters of non-traditional goods based on the FOB value of the export, but exporters have found it very difficult to collect. Free zone operations are not eligible for the rebate but enjoy a 10-year exemption from income tax as well as duty-free import privileges. Interest rates are set by the market.

7. Protection of U.S. Intellectual Property

El Salvador was removed from the Special 301 Watch List in July 1996 after a newly created enforcement unit began a series of raids on copyright and trademark violators. Initial busts focussed primarily on cassette and video vendors, but also included books and trademark clothing items. Government officials have begun working with local representatives of pharmaceutical manufacturers to identify and seize pirated medicines. In addition, they have identified the area of software as a priority.

El Salvador's current law protecting intellectual property rights took effect in October 1994. The 1994 law, together with El Salvador's acceptance of TRIPs disciplines, addresses several key areas of weakness. Patent terms were lengthened to 20 years and the definition of patentability is broad. Compulsory licensing applies only in cases of national emergency. Computer software is also protected, as are trade secrets. Trademarks, however, are still regulated by the Central American Convention for the Protection of Industrial Property. It is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. In November 1994, El Salvador signed an amended version of the convention that, 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. El Salvador also is participating in negotiations for a Central American Patent Convention.

The Salvadoran Government suffers from antiquated and disorganized bureaucratic procedures for registering patents and trademarks that have caused delays of up to 5 years in filing registrations and adjudicating challenges. The National Registry office was reorganized in late 1995 in an effort to address some of these problems but still is struggling to clear away the backlog.

The government is currently engaged in negotiations with the United States on a bilateral IPR agreement. El Salvador is a signatory to the Geneva phonogram, Paris industrial property, and Berne copyright conventions. It does not belong to the International Convention for the Protection of New Varieties of Plants (UPOV) or the Washington Satellite Convention.

8. Worker Rights

a. *The Right of Association:* The law prohibits anti-union actions against workers trying to organize, and the 1994 Labor Code reform streamlined union registration. Unions and strikes are legal only in the private sector. Public sector employees may form associations but not strike. (In practice, the government accepts public sector strikes 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:* Although the law provides collective bargaining rights only to private sector and autonomous public agency workers, in practice public sector employee associations also use collective bargaining extensively. The law prohibits discrimination against union members and provides job protection to union leaders. These provisions are generally respected, but there are some reports of illegal dismissal of union organizers and leaders.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor except in cases clearly specified by law. This provision is respected in practice.

d. *Minimum Age for Employment of Children:* The law prohibits hiring minors under the age of 14 except where such employment is absolutely necessary for the sustenance of the family and does not interfere with mandatory schooling. Child labor is common in the agricultural sector, particularly during planting and harvesting seasons, and in the informal market. Child labor laws are enforced in the industrial sector.

e. *Acceptable Conditions of Work:* The daily minimum wage is 38.50 colones ($4.40) for the industrial and service sectors, and 28.60 colones ($3.30), plus a food allowance, for the agro-industrial sector. The legal workday is 8 hours and the legal workweek is 44 hours, with required premium pay for overtime. Health and safety regulations are outdated and enforcement is inadequate.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in El Salvador is distributed fairly evenly inside and outside the free zones ("maquilas"). Labor laws apply throughout the entire private sector, including free zones. There are serious allegations that some free zone businesses resort to illegal methods to prevent union formation. The Ministry of Labor lacks the resources and support from the judicial system to adequately monitor free zone company activities, although the Ministry is working on improving the size and training of its inspection corps. A new law that allows the government to suspend or withdraw import/export privileges of companies that flagrantly abuse worker rights will grant additional authority to Ministry of Labor efforts to enforce the labor code.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		73
Total Manufacturing		24
Food & Kindred Products	5	
Chemicals and Allied Products	5	
Metals, Primary & Fabricated	5	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(2)	
Transportation Equipment	0	
Other Manufacturing	9	
Wholesale Trade		3
Banking		(1)
Finance/Insurance/Real Estate		4
Services		3
Other Industries		(1)
TOTAL ALL INDUSTRIES		144

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

GUATEMALA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	11.8	13.6	16.3
Real GDP Growth (pct)	4.0	4.9	3.6
GDP by Sector (pct):			
Agriculture	25	24	N/A
Manufacturing	21	15	N/A
Services	46	47	N/A
Government	8	10	N/A
Per Capita GDP (USD)	1,252	1,389	1,494
Labor Force (000s)	2,994	3,081	3,200
Unemployment Rate (pct)[2]	5.2	5.0	5.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	19.1	14.6	13.0
Consumer Price Inflation	12.5	8.6	11.0
Exchange Rate (Quetzal/USD—annual average)			
Financial Market Rate	5.77	5.83	6.10
Balance of Payments and Trade:[5]			
Total Exports (FOB)[3]	1.5	1.6	1.8
Exports to United States[4]	1.3	1.5	1.7
Total Imports (CIF)[3]	2.8	3.2	3.1
Imports from United States[4]	1.4	1.6	1.6
Trade Balance[3]	-1.3	-1.6	-1.3
Balance with United States[4]	-0.1	-0.1	0.1
Current Account Deficit/GDP (pct)[5]	4.8	5.0	5.0
External Public Debt[5]	2.2	2.1	2.1
Debt Service Payments/GDP (pct)[5]	3.0	2.4	2.2
Fiscal Deficit/GDP (pct)[5]	1.4	0.6	0.5
Gold and Foreign Exchange Reserves (Net)	0.8	0.6	0.8
Aid from United States (USD millions)[5]	42	36	29
Aid from Other Countries	N/A	N/A	N/A

[1] Estimates based on Guatemalan data through October 1996.

[2]Does not reflect estimated 40 to 50 percent underemployment.
[3]Merchandise trade data from Guatemalan Customs.
[4]Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[5]Data from Government of Guatemala Budget.

1. General Policy Framework

Since assuming office in January 1996, President Alvaro Arzu of the National Advancement Party (PAN), which also has a majority in the Congress, has worked to implement a program of economic liberalization and to modernize the state. The signing of the final peace accord expected in December 1996 to end the country's 36-year civil war will remove a major obstacle to foreign investment. The government is also working to streamline government operations and eliminate fraud and corruption which will remain among the government's major challenges.

Guatemala's economy, the largest in Central America, is generally open. For the last 5 years real GDP growth has averaged about 4 percent and population growth about 2.9 percent annually. Infrastructure deficiencies, particularly in education, electricity service, telecommunications, and transportation, constrain more rapid development. The Guatemalan Government has liberalized and modernized the financial services industry, decontrolled petroleum prices, and revised the commercial code. Legislation was passed in 1996 to liberalize the telecommunications and electricity sectors and the government also plans to establish an autonomous civil aviation authority and privatize the state-owned railroad. In August 1995 Guatemala became a founding member of the WTO under provisions that extended the deadline for developing countries to complete accession procedures.

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 10 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 the production of traditional products: coffee, sugar, bananas, and cardamom. Non-traditional agricultural exports, e.g., specialty vegetables, berries, and ornamental plants and flowers, account for an increasing proportion 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 are a significant source of foreign exchange, accounting for perhaps as much as $500 million per year.

Government tax revenues have historically been less than 8 percent of GDP. Since 1994 the Central Bank (Bank of Guatemala) has been prohibited from financing the deficit, forcing the government to issue treasury bonds, most of which have been short-term. The 1996 budget deficit will be approximately 0.5 percent of GDP. In 1996 the government began to issue more securities for longer terms, e.g., two and 3 years. Though the central bank's restrictive monetary policies have helped keep inflation at about 10 percent, the result has been increasing operating losses for the central bank, commercial bank lending rates of 24 to 26 percent, and a shortage of financing available for real investment.

2. Exchange Rate Policy

Guatemala has an open, relatively undistorted exchange regime. The Bank of Guatemala intervenes only infrequently to dampen speculation. There are no legal or other constraints on remittances or other capital flows and there has been no parallel market in Guatemala for several years. A number of local banks offer dollar denominated accounts in which the funds are actually held offshore. The holding of dollar deposits within the country has been proposed but not yet enacted.

The quetzal-dollar exchange rate has remained relatively stable since 1994. High real interest rates stimulated capital inflows during 1996, resulting in an excess of foreign exchange relative to demand. Nominal devaluation of the Quetzal for 1996 will be about 2 percent, resulting in a real appreciation against the dollar of approximately six to 7 percent. The average exchange rate for 1996 was Q. 6.10 to the dollar.

3. Structural Policies

Government revenues are projected to be $1.7 million in 1996, a 19 percent increase over 1995 revenues. The increase was partly due to a 3-percentage point increase in the value-added tax that took effect on January 1 (to 10 percent) and the imposition of an "extraordinary income tax" that was, in effect, a 1-percent surcharge on personal and corporate incomes.

As part of the peace process, the government is committed to increasing spending on infrastructure expansion, and social and economic development programs. This additional spending will be financed in part by planned increases in domestic revenues equal to an additional 1 percent of GDP per year for the next 4 years through a combination of greater tax compliance and the introduction of new taxes and user fees. Some of the needed revenue will also come from foreign donations, loans, and the sale of state-owned assets. As the tax base broadens and compliance increases, the government hopes to rely more heavily on fiscal policy tools to achieve economic stability, opening the way for a relaxation of monetary stringency and a reduction in interest rates.

4. Debt Management Policies

The Guatemalan budget projects that the public debt at the end of 1996 will be $2.08 billion, or 13.3 percent of estimated GDP. Foreign debt is projected at $1.23 billion, or 7.9 percent of GDP. The Government of Guatemala has appropriated $425 million in the 1997 budget for debt service, or 2.3 percent of GDP, of which external debt service is budgeted at $123 million, or .7 percent of GDP. In addition, the Bank of Guatemala has accumulated over $700 million in operating losses, or "quasi-fiscal debt." The 1997 budget earmarks $200 million for amortization of this debt.

5. 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 1 to 20 percent for almost all agricultural and industrial goods. On December 1, 1995, the tariff on industrial raw materials and many capital goods was reduced to 1 percent. 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 has complied with virtually all of its WTO commitments, eliminating import licenses and creating tariff rate quotas (TRQs) for rice, corn, wheat and wheat flour, apples, and pears. The Ministry of Economy is implementing a new import policy for poultry that enlarges the TRQ to the level of Guatemala's WTO commitment and reduces the in-quota tariff. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings.

Processed foods are required to be labeled in Spanish. Enforcement of this regulation has been virtually non- existent, though compliance is increasing. Full enforcement could significantly impact imports from the United States.

Sanitary licenses are required for all imports of animal origin. Inspection of the processing plant in the country of origin, at the importer's expense, is technically required for the license. However, implementation has been uneven, limiting trade disruption.

Few restrictions remain on foreign investment and foreign investors generally receive national treatment. Subsurface minerals, petroleum, and other resources are property of the state. Concessions are typically granted in the form of production-sharing contracts. The solicitation and contracting process for energy concessions tends to be protracted and non-transparent. Restrictions on housing construction are so onerous they virtually exclude foreign participation.

By law, radio and television stations can be operated only by Guatemalan citizens or by corporations which are at least 75 percent Guatemalan-owned. Foreigners can own no more than 30 percent of "small mining" or forestry companies. Ground transportation is limited to companies with at least 60 percent Guatemalan ownership. Licensing requirements for fishing operations are enforced in such a way as to ensure at least minority Guatemalan participation. Only airlines with at least 51 percent Guatemalan ownership can provide domestic service.

Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the "Big Six" U.S. accounting firms are represented through one of these methods.

6. Export Subsidies Policy

There are no export subsidies.

7. Protection of U.S. Intellectual Property

Protection provided intellectual property is inadequate. Penalties are insufficient, enforcement is weak and a poorly trained judiciary is slow to provide injunctive relief. In October 1995, the Motion Picture Export Association of America (now the Motion Picture Association—MPA) unilaterally voided its agreements with local cable companies alleging they had failed to comply with their obligations. Nonetheless, local cable companies have reduced broadcasting of unauthorized programming considerably. Video piracy has diminished, but is still responsible for significant losses for the U.S. industry. Piracy and resale of computer software programs is also common. Legislation permitting the government to submit an instrument of accession to the Berne Convention was ratified, published, and signed in 1995. Legislation is pending which would allow accession to the Paris Convention.

The right to copy, publish and distribute is clearly protected and the criminal code was modified in August 1995 to include prison sentences of 4 to 6 years and fines ranging from 50,000 to 100,000 quetzales (8,400 to 16,800 dollars) for copyright violations. Control over leasing or rental of protected works is less clear. Despite membership in the Rome and Geneva Conventions, Guatemala generally does not enforce protection of sound recordings.

Guatemala's patent law is old and does not protect mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods, or chemical compounds or compositions. Protection is limited to 15 years (10 years for the production of food, beverages, medicines and agrochemicals), and subject to compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experimentation, or investigation. Patent rights do not preclude the importation of counterfeit goods unless the product is being produced in Guatemala. Protection lapses 6 years from the date of the patent if the product is not being produced locally. Legislation is pending before the Congress to address these issues and bring Guatemalan law into line with international standards.

The Central American Convention for the Protection of Industrial Property (CACPIP) is the legal basis for protection of trademarks in Guatemala. It is currently under revision to bring it more into line with emerging international standards and to simplify the registration process. Guatemalan law does not provide sufficient protection against counterfeiting or misuse of trademarks, and the right to exclusive use is granted to the first to file. There is no requirement for use, nor any cancellation process for non-use. A firm wishing to market in Guatemala whose trademark has been registered by another party must either buy-out that party or pay a royalty. Legislation to improve trademark protection is pending.

8. Worker Rights

a. *The Right of Association:* The right of association is guaranteed by the Constitution. Less than 8 percent of the labor force is unionized; there are more than 1000 unions, the majority of which are public 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.

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. Anti-union practices, including discharging workers for attempting to organize a union, are legally forbidden. However, despite a major increase in 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 2 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. However, tens of thousands of children under 14 work in both the formal sector, including agriculture, and the informal sector. The Ministry of Labor has initiated a program to educate minors about their rights as workers.

e. *Acceptable Conditions of Work:* The Constitution provides for a 44-hour normal work week. The average number of hours worked in 1995 was 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 and 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 workers' rights. Though there have been some complaints about treatment of workers in garment assembly factories (maquilas), especially in some of those operated by Koreans, observation of and respect for workers' rights has improved in this sector recently, due both to increased publicity and also to cooperation between the Ministry of Labor and the Korean ambassador.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		53
Total Manufacturing		93
Food & Kindred Products	31	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	41	
Wholesale Trade		(1)
Banking		3
Finance/Insurance/Real Estate		9
Services		(2)
Other Industries		(1)
TOTAL ALL INDUSTRIES		155

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

HAITI

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	1,648	2,327	2,660
Real GDP Growth (pct)[3]	-10.6	4.5	2.0
GDP by Sector:			
Agriculture	745	1,019	N/A
Manufacturing	208	309	N/A
Services	364	549	N/A
Government	332	450	N/A
Per Capita GDP (USD)	242	322	363
Labor Force (000s)	3,800	4,000	4,000
Unemployment Rate (pct, estimated)	65	65	65
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.2	29.2	9.1
Consumer Price Inflation	37.4	30.2	20.5
Exchange Rate (gourde/USD—annual average)			
Market	14.5	14.4	15.6
Balance of Payments and Trade:			
Total Exports (FOB)[4]	57	84	86
Exports to United States[5]	59	130	141
Total Imports (FOB)[4]	141	436	400
Imports from United States[5]	205	550	479
Trade Balance[4]	-84	-352	-314
Balance with United States[5]	-146	-420	-338
Current Account Deficit/GDP (pct)	3.9	4.4	3.4
External Public Debt	866	802	997
Debt Service Payments/GDP (pct)	2.1	1.6	1.1
Fiscal Deficit/GDP (pct)	4.2	4.8	3.2
Gold and Foreign Exchange Reserves (Net)	-95	169	118

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Aid from United States[6]	20	128	133
Aid from All Other Sources	93	430	266

Source: IMF ESAF document, except where noted.
[1] 1996 figures are all estimates based on available monthly data in October 1996. Fiscal year is October–September. Fiscal year data used because calendar year data unavailable in many cases.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade; does not include U.S. goods imported for processing and re-exported under the Caribbean Basin Initiative.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996. Figures include substantial amounts of U.S. goods imported for processing and re-exported under Caribbean Basin Initiative.
[6] Includes support for peacekeeping and police.

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 Haitian Government slashed tariffs to a maximum of 15 percent and plans to cut tariffs in FY97 to a maximum of 10 percent.

Popular opposition to "structural adjustment" caused the Aristide Government to slip on its commitments to the international financial institutions. In October 1995, inadequate commitment on 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 (SAC) and the Enhanced Structural Adjustment Facility (ESAF), and prompted the resignation of Prime Minister Smarck Michel.

The new administration under 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 "capitalizations" (the forming of joint ventures with private investors through partial divestitures of state-owned enterprises).

The government's medium term macroeconomic goal calls for 4.5 percent real GDP growth in fiscal year 1996/97, a rate the government believes it can sustain for several years thereafter. fiscal year 1996's 12-month rate of inflation was 20.5 percent, but inflation is expected to decline to single digits in FYs 1997–1999. The unprecedented amount of aid ($2.4 billion over the next 3 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. Strong pressure for increased expenditures for wage increases, rehabilitation of political and economic infrastructures, and social programs will heighten the need to maximize revenue collection.

Reserve requirements (which currently stand at 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. In November 1996, the Central Bank successfully conducted its first-ever bond auction. Future bond auctions and open market operations will give the Central Bank another, more flexible means of controlling the money supply and affecting interest rates. The 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.

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; the budget deficit was thereby eliminated, and central bank credit to the government began to decline. Increased control on the expenditure side, coupled with a successful effort to improve tax collection 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.

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 1980's, 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 U.S. dollar and other currencies. The exchange rate has been fairly stable over the last year at approximately 15 gourdes to the U.S. dollar. Some critics of tight central bank monetary policy, particularly in the banking and export sectors, feel the gourde has become overvalued in the second half of fiscal year 1995–96.

3. Structural Policies

The government's role in Haiti's market-oriented economy has been sharply reduced since 1986/87. In the few cases where the government has attempted to control prices or supplies, its efforts were frequently undercut by contraband or overwhelmed by the sheer number of small retailers. Even when the government set prices for flour and cement coming from the two large parastatals, consumer prices were governed by supply and demand. Gasoline pump prices and utility rates, which are more effectively regulated, are probably the only exceptions to the rule. By law, gasoline pump prices are adjusted to reflect changes in world petroleum prices and exchange rate movements.

Haiti's tax system is inefficient. Direct taxes represent only about 13 percent of receipts. Moreover, tax evasion is widespread and few taxpayers are registered with the tax bureau (DGI, Direction Generale des Impots). Not surprisingly, the government has made improved revenue collection a top priority. The DGI has a large taxpayers' unit which focuses on identifying and collecting the tax liabilities of the 200 largest taxpayers in the Port au Prince area, which are estimated to represent over 80 percent of potential income tax revenue. Efforts are also being made to identify and register other taxpayers. In addition, the value added tax has been extended to include sectors previously exempt (banking services, agribusiness, and the supply of water and electricity). Collection remains weak and inefficient, and the revenue bureau is frequently forced to physically collect payments.

4. Debt Management Policies

Following the 1991 coup which ousted President Aristide, Haiti suspended all payments on its foreign debt. When President Aristide was returned in October 1994, Haiti's arrears with the international financial institutions (IFIs) totaled some $84 million. The international community made it an immediate priority to clear Haiti's arrears with the IFIs so that new lending could begin.

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 fiscal year 1995, 85 percent in fiscal year 1996) of Haiti's debt is in concessional loans from the IFIs. These loans typically have 10 year grace periods, 40 year payback periods, and negative real interest rates.

Haiti's external public debt will rise to about 40 percent of GDP in fiscal years 1998–1999 (from 34 percent at end of fiscal year 96). Haiti's external debt service, which fell from 56.2 percent of exports in fiscal year 1994 (during the embargo) to 26 percent in fiscal year 96, is expected to drop to around 18 percent of exports in fiscal year 99 as its export sectors continue to recover. With this relatively modest debt service burden, the country should be able to meet all its obligations in a timely manner. However, debt service capacity is sensitive to unexpected changes in the rate of growth of exports and changes in import prices.

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 no significant barriers to U.S. exports. The resumption of normal trade in October 1995 unleashed tremendous pent-up demand for U.S. goods. In addition, after the government completed all necessary procedures, Haiti formally acceded to the World Trade Organization in January 1996. The export of firearms and other weapons is controlled for foreign policy reasons. Haitian importers must obtain a license to purchase such goods from U.S. suppliers. Haiti, through the Presidential Commission for Growth and Modernization, is actively working to facilitate foreign trade and investment.

6. Export Subsidy Policies

Haiti has no export subsidy programs.

7. Protection of U.S. Intellectual Property

Infringement of intellectual property rights has not been a significant issue in Haiti. The economy produces a small variety of products, most of which are for export to the United States and other countries that do not tolerate open infringement. Most manufactured goods sold here are imported. The most obvious example of intellectual property rights infringement is the handful of video outlets where poor quality pirated videotapes compete with legitimate products. Pirated music cassettes are also widely available and the outside walls of many schools are brightly painted with (generally poor) representations of licensed animated characters.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and 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 on copyright.

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 social affairs ministry within 60 days of their formation.

Six principal labor federations represent about 5 percent of the total labor force, including about two to 3 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 generally free to pursue their goals, although government efforts to enforce the law are weak. 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.

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. 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 middle-class families in exchange for room and board. 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 to 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.

e. *Acceptable Conditions of Work:* The legal minimum daily wage is 36 gourdes (about $2.40). Annually, a minimum wage worker earns about $800, 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 of the population unemployed, 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 export-substitution industries. 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		5
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		−1
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		36

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

HONDURAS

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	2,985	3,451	3,572
Real GDP Growth (pct)[3]	−1.5	3.6	3.5
GDP by Sector:			
Agriculture	717	845	N/A
Manufacturing	508	577	N/A

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Services	1,198	1,406	N/A
Government	503	553	N/A
Per Capita GDP (USD)[4]	574	663	654
Labor Force (000s)	1,723	1,796	1,874
Unemployment Rate (pct)	15.8	15.8	15.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	27.6	22.3	18.6
Consumer Price Inflation	21.7	29.5	25.0
Exchange Rate (LP/USD—annual average)			
Official	8.41	9.48	11.46
Parallel	8.36	9.48	11.46
Balance of Payments and Trade:			
Total Exports (FOB)[5]	873	1,093	1,317
Exports to United States[6]	1,098	1,441	1,770
Total Imports (CIF)[5]	1,410	1,588	1,697
Imports from United States[6]	1,012	1,279	1,632
Trade Balance	−538	−495	−380
Trade Balance with United States[6]	86	162	138
Current Account Deficit/GDP (pct)	10.4	5.3	N/A
External Public Debt	3,862	4,058	N/A
Debt Service Payments/GDP (pct)	12.9	11.7	N/A
Fiscal Deficit/GDP (pct)	7.1	2.9	3.2
Gold and Foreign Exchange Reserves	205	296	238
Aid from United States	43	27	21
Aid from Other Countries	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Using GDP at factor cost will result in a lower measure of per capita GDP income.
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Despite abundant natural resources and substantial U.S. and multilateral economic assistance, Honduras remains one of the poorest countries in the hemisphere. In the 1980's, unfavorable terms of trade for primary exports such as bananas and coffee, high external debt levels, and flawed economic policies doomed Honduras to a decade of low growth rates and declining living standards.

From 1990 until 1993, the government of President Callejas embarked on an ambitious economic reform program, including dismantling price controls, lowering import tariff duties and removing many non-tariff barriers to trade. The Honduran Government adopted a free market exchange rate regime, licensed foreign exchange trading houses, removed interest rate ceilings, and adopted modern national investment legislation. Unfortunately, in 1992 and 1993, a sharp rise in public sector investment spending reversed the progress on the fiscal front and raised the deficit to 11.2 percent of GDP for 1993. External grant inflows financed part of the fiscal gap, but the monetized fiscal deficit resulted in a resurgence in domestic inflation.

Inaugurated in January 1994, President Carlos Roberto Reina inherited an economy in the grips of stagflationary conditions due to an unprecedented energy crisis, declining output of key agricultural products (basic grains and bananas), a depressed construction industry, and extravagant public investment policies of the former Callejas Administration. Reina has taken a series of measures to deal with the fiscal deficit. Reina ordered a 10 percent cut in current spending, laid off more than 4,000 public sector employees and negotiated with the IMF a series of economic measures which cut the fiscal deficit to 2.9 percent of GDP in 1995. The government also increased tariffs on electricity and telephones in 1996. On the structural side, the Reina Government's policy initiatives gathered steam allowing for the enactment of major reforms in the fourth quarter of 1995, including ratification of a modern financial sector reform law and legislation authorizing the government to privatize the national telephone company. A concessions law and a new tax code await congressional passage in the first quarter of 1997.

Under President Reina, the restrictive (anti-inflationary) monetary policies of the Central Bank have been further tightened. Absolute limits have been imposed on public sector borrowing. The reserve requirement (currently 35 percent) remains the favored policy tool to control money supply growth and inflation, although open market operations are 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.

2. Exchange Rate Policy

In an attempt to slow the devaluation of the lempira against the U.S. dollar in mid-1994 the Central Bank established an auction system to regulate the allocation of foreign exchange. The original auction system dollar purchases were transacted within a range 1 percent above or below the base price set by the Central Bank. However, on April 19, 1996, the Central Bank liberalized the exchange rate system. Under the new system, buyers are allowed to bid at prices up to 5 percent above or below the base rate. The Central Bank sets the monthly base rate at the beginning of each month by calculating the difference between the expected monthly rate of domestic inflation and estimated inflation among Honduras's 12 major trading partners. All individuals, foreign or national, may participate in the auction for dollars.

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 65 percent of them daily in the open market.

3. Structural Policies

Trade Policy: A critical component of the structural adjustment reforms was the abolition of decades-long import-substitution policies. These remedial policies were designed to open up the economy to global competition, force local entrepreneurs to reduce costs, increase productivity, and provide incentives for export-oriented business activity. An important byproduct of trade liberalization has been the promotion of technology transfer. Among other measures taken was the reduction of tariff barriers to trade by gradually cutting import duties to the current range of 5 to 20 percent. The government also removed many import licensing and prior import deposit requirements.

Pricing Policy: In an effort to boost production incentives, the government lifted price controls on several hundred consumer and industrial products in 1990 and suspended the operations of the State Marketing Board. In the period 1990-92, price hikes were adopted on gasoline, electricity, water and telephone services. In December 1992, the government moved to a flexible petroleum pricing system reflecting changes in world market prices. Nonetheless, foreign and domestic oil companies' operating margins are severely restricted. Presently, there are no price controls except on coffee,medicines and petroleum products. The price of gasoline, diesel and liquid propane gas is strictly controlled by the government, but President Reina recently stated that he wanted to liberalize those prices.

Tax Policies: Honduras has long maintained a high corporate tax rate. This rate has been generally considered a major disincentive to foreign direct investments not covered by the tax exemptions for export-oriented firms operating in free trade zones and industrial parks. The top marginal corporate tax rate is 40 percent. The most important sources of government revenue are the 7 percent sales tax, taxes on fuels and various consumption taxes.

4. Debt Management Policies

Since early 1990, the Honduran Government has been working to restore the country's creditworthiness, reschedule its external debt and regain support from the multilateral development banks. Honduras' large and growing external debt represents a major constraint on growth, despite favorable Paris Club debt rescheduling agreements in July 1995 and March 1996 and over $500 million in debt forgiveness by the U.S. and other countries in recent years.

In 1995, Honduras' total external debt grew $400 million to around $4.3 billion with debt service in excess of $400 million annually in principal and interest payments. The ratio of debt to GDP stood at 109 percent and the ratio of debt service-to-merchandise exports stood at 37 percent at the beginning of 1996. Of the $4.0 billion in official external debt, 59 percent is owed to multilateral creditors, 36 percent to bilateral creditors and 5 percent to private financial institutions. Overall, 35 percent of total public sector spending is earmarked to cover external debt obligations.

In June 1992, the IMF approved a three-year (1992-95) enhanced structural adjustment facility (ESAF), allowing Honduras to obtain a second favorable Paris Club agreement in October 1992. In 1993 the Callejas Government took on substantial new commercial debt obligations for public investment projects and failed to make scheduled debt service payments to the United States and other Paris Club creditors. The Paris Club agreement was technically suspended in August 1993, pending agreement with the IMF on an economic program and payment of all Paris Club arrears. In January 1995, the IMF Board approved the letter-of-intent for a second year of a 3-year ESAF. Under the negotiated terms Honduras received $28 million in World Bank IDA reflows and $30 million in IMF Balance of Payments support. In July 1995, Honduras also succeeded in obtaining favorable Paris Club rescheduling terms for its bilateral debt. In March 1996 Honduras again received favorable Paris Club rescheduling terms from its bilateral creditors. The rescheduling, however, is contingent upon Honduras reaching agreement with the IMF on a third year ESAF, which cannot be reached until 1997 at the earliest.

5. Significant Barriers to U.S. Exports

Import Policy: While reforms have gone far to open up Honduras to U.S. exports and investment, a number of protectionist policies remain in place. For example, although all import licensing requirements have been eliminated, Honduras has resorted to an onerous phytosanitary system that effectively denies market access to U.S. chicken parts and unmilled rice exports. In addition, a price band mechanism for corn, sorghum, rice, and cornmeal has been in place since August 1992. Imports entering with values within the defined band are assessed a 20 percent tariff. Imports entering with prices above the band are assessed lower duties, according to a predetermined schedule, and those imports priced below the band are assessed a higher tariff.

Services Barriers: Under Honduran law, special government authorization must be obtained to invest in the tourism, hotel and banking service sectors. Foreigners are not permitted majority ownership of foreign exchange trading companies. Foreigners cannot hold a seat in Honduras' two stock exchanges or provide direct brokerage services in these exchanges.

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 subsurface 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 $11,500).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 Economy to facilitate investment, the ministry has not provided complete information or assistance to the foreign investor.

Government Procurement Practices: The Government Procurement Law (Decree No. 148.5) governs the contractual and purchasing relations of Honduran state agencies. Under this law, foreign firms are given national treatment for public bids, although they are required to act through a local agent. In practice, U.S. firms frequently complain about the mismanagement and lack of transparency of Honduran Government bid processes. These deficiencies are particularly evident in telecommunications and energy public tenders.

Customs Procedures: Honduras' customs administrative procedures are burdensome. There are extensive documentary requirements and red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, and warehouse levies.

6. Export Subsidies Policies

With the exception of free trade zones and industrial parks, almost all export subsidies have been eliminated. The Temporary Import Law (RIT), passed in 1984, allows exporters to bring raw materials and capital equipment into Honduran territory exempt from customs duties if the product is to be exported outside Central America. This law also provides a 10-year tax holiday on profits from these exports under certain conditions.

The Export Processing Zones (ZIPs) exempt the payment of import duties 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 municipal taxes for 10 years.

7. Protection of U.S. Intellectual Property

Until recently, Honduran legislation on intellectual property rights (IPR) dated back to the early 1900's, and provided inadequate protection. In August 1992, a United States Government decision to review Honduras' status under the Generalized System of Preferences (GSP), as a result of widespread piracy of U.S. satellite signals by local cable TV companies, forced the Honduran Government to move seriously to modernize its IPR regime. In 1993, the Honduran Congress approved comprehensive, world-class copyright, trademark, and patent laws. Honduras is a signatory to the Berne Copyright Convention and, in May 1993, became a member of the Paris Industrial Property Convention. As part of its application for membership in the WTO, Honduras has accepted the TRIPS standard established under the Uruguay Round negotiations. Honduras' recent enactment of modern IPR legislation and its active support of international IPR conventions and agreements pave the way for substantive progress in this area. Substantial progress has also been made toward concluding a bilateral intellectual property rights agreement with the United States which would go beyond the protection levels afforded under TRIPs. In May 1996 Honduras was selected to chair the Free Trade Area of the Americas (FTAA) Intellectual Property Rights Working Group. Although progress on IPR has been good, Honduras will have to pass additional copyright legislation and strengthen enforcement if IPR protection is to be improved.

Patents: The Patent Law enacted in September 1993 provides full and effective patent protection for up to 20 years, although the patent term for pharmaceuticals must be extended by at least 3 years to meet international standards.

Trademarks: The illegitimate registration of trademarks is a persistent problem in Honduras, in spite of 1993 modifications to the trademark law.

Copyrights: The piracy of books, sound and video recordings, compact discs, computer software, and television programs is widespread in Honduras. In 1992, the U.S. Government accepted a petition filed by the Motion Picture Export Association of America (MPEAA) under the Generalized System of Preferences (GSP) which alleged widespread video/cable television piracy estimated at $2.5 million in lost revenue per year. Although Honduras enacted a reformed copyright law in August 1993 that addressed many of the substantive concerns raised in the GSP petition, the law is inadequate in establishing effective criminal penalties for copyright infringement and contained some technical problems related to cable television piracy. Since then, significant progress has been made toward curbing cable piracy and currently an estimated 85 percent of the cable market is legal. However, the payment of royalties by local cable companies to U.S. copyright holders has been late, or in some cases, local companies have not concluded royalty contracts. In October 1996, Honduran authorities confiscated tens of thousands of conterfeit music tapes. In May 1995 the Government of Honduras submitted to Congress major U.S.-backed reforms of their copyright laws designed to reduce the piracy of cable television signals. This legislation appears stalled.

8. 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. Although only about 14 percent of the work force is organized, trade unions exert some political and economic influence. In the past year, this influence has somewhat diminished. Unions frequently participate in public rallies against government policies and make extensive use of the media to advance their views. There are also three large peasant associations directly affiliated with the trade unions. 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, stipulates that public workers do not have the right to strike (this does not include those working in state-owned enterprises). There were legal and illegal strikes during the year by workers in foreign-owned maquiladora (in-bond processing) plants, or "maquilas," exporting textiles and garments to the United States. The trade union movement maintains close ties with various international trade union organizations.

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. Some employers threaten to close down unionized companies, harass their workers, and in some cases fire them for trying to form a trade union. Employers actually dismiss relatively few workers for union activity once a union is recognized; these cases, however, serve to discourage other workers from attempting to organize. Workers in both unionized and nonunionized companies are under the protection of the labor code, which gives them the right to seek redress from the Ministry of Labor. Labor or civil courts can require employers to rehire employees fired for union activity, but such rulings are uncommon. Generally, however, agreements between management and unions contain a clause prohibiting retaliation against any worker who participated in a strike or union activity.

c. *Prohibition of Forced or Compulsory Labor:* The constitution and the law prohibit forced or compulsory labor. Although there were no official reports of such practices, there were credible allegations of forced overtime in export processing zone (EPZ) plants, particularly for women.

d. *Minimum Age for Employment of Children:* The Constitution and the Labor Code prohibit the employment of persons under the age of 16. A person of 15 years is legally permitted to work with the permission of parents and the Ministry of Labor. Under the new Children's Code passed September 10 (Codigo De La Ninez y La Adolescencia), a person of 14 years of age is prohibited from working even with parental permission. The legal age of working without parental consent is 16. An employer who legally hires a 15 year old must certify that the young person has finished or is finishing his or her compulsory schooling. The new law also establishes prison sentences of 3 to 5 years for individuals who allow youngsters to work illegally. The Ministry of Labor grants a number of work permits to 15-year-olds each year. It is common for 12, 13 and 14 year olds to obtain these documents or to purchase forged permits which use the Labor Ministry's letterhead.

e. *Acceptable Conditions of Work:* The Constitution and the Labor Code require that all labor be fairly paid. Minimum wages, working hours, vacations, and occupational safety are all regulated, but the Ministry of Labor lacks adequate staff and other resources for effective enforcement.

The law prescribes an 8-hour day and a 44-hour workweek. There is a requirement for at least one 24-hour rest period every 8 days, a paid vacation of 10 workdays after 1 year and 20 workdays after 4 years. However, employers frequently ignore these regulations due to the high level of unemployment and underemployment, and lack of effective enforcement by the Ministry of Labor.

f. *Rights in Sectors with U.S. Investment:* The same labor regulations apply in Export Processing Zones (EPZs) as in the rest of private industry. U.S. firms employing garment workers are active in a number of EPZs. Working conditions and wages in the EPZs are generally considered superior to those prevailing in the rest of the country. Unions are active in the government-owned Puerto Cortes Free Trade Zone, but factory owners have resisted efforts to organize the new privately-owned industrial parks.

Labor in the maquila sector remains a U.S. Government concern. In November 1995, a USTR-led inter-agency delegation, which also included AFL–CIO representation, visited Honduras to review the status of worker rights in the maquila sector and in general. The delegation held discussions with senior government, private sector and labor union leaders on ways to more adequately enforce the Honduran Labor Code. The Ministry of Labor (MOL) has made significant progress toward enforcing the Labor Code. Within the past year, the MOL has increased the number of unannounced visits to the maquila plants from around 10 to more than 90 a month. It has resolved two high profile cases involving the organizing of labor unions in maquila plants and is mediating a third.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis – 1995

[Millions of U.S. dollars]

Category	Amount
Petroleum	(1)

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Histori‹al Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Total Manufacturing		223
Food & Kindred Products	(1)	
Chemicals and Allied Products	3	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		15
Banking		(1)
Finance/Insurance/Real Estate		24
Services		0
Other Industries		−51
TOTAL ALL INDUSTRIES		236

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

JAMAICA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	3.9	4.6	5.3
Real GDP Growth[2]	0.8	0.5	0.8
GDP by Sector:			
Agriculture[3]	0.4	0.4	N/A
Mining/Quarrying	0.3	0.3	N/A
Manufacturing	0.7	0.8	N/A
Construction/Installation	0.5	0.6	N/A
Retail Trade	0.9	1.1	N/A
Services	0.2	0.2	N/A
Government	0.4	0.4	N/A
Per Capita GDP (USD)	1,586	1,840	2,024
Labor Force (000s)	1,140	1,150	N/A
Unemployment Rate (pct)	15.4	16.2	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	36.5	38.5	6.0
Consumer Price Inflation	26.8	25.6	18.5
Exchange Rate (J$/USD)	33.4	35.5	36.5
Balance of Payments and Trade:			
Total Exports (FOB)	1.2	1.4	1.4
Exports to United States[4]	0.75	0.85	0.84
Total Imports (CIF)	2,177	2,773	2,967
Imports from United States[4]	1.07	1.42	1.50
Tr 'e Balance	−1.0	−1.3	1.5
Balance with United States[4]	−0.32	−0.57	−0.65
Current Account Balance/GDP (pct)	0	−6.2	−4.9
External Public Debt	3.7	3.5	3.3[5]
Debt Service Payments/GDP (pct)	14.5	13.0	12.2
Fiscal Deficit/GDP (pct)	−5.0	0.4	N/A

Key Economic Indicators—Continued

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

	1994	1995	1996 [1]
Net Official Reserves	0.4	0.4	0.6 [6]
Aid from United States (FY94–96—USD millions	25	26	21 [7]
Aid from Other Countries [8]	0.2	0.2	N/A

[1] 1996 figures are all estimates based on available monthly data in October 1995.
[2] Growth rate is calculated in Jamaican dollars.
[3] Includes forestry and fishing.
[4] SOURCE: U.S. DEPARTMENT OF COMMERCE AND U.S. CENSUS BUREAU; EXPORTS FAS, IMPORTS CUSTOMS BASIS; 1996 FIGURES ARE ESTIMATES BASED ON DATA AVAILABLE THROUGH NOVEMBER 1996.
[5] Figure as of July 96.
[6] Figure as of June 96.
[7] Preliminary estimate for FY97; does not include military assistance.
[8] Commitments from Jamaica's cooperation partners.

1. General Policy Framework

Jamaica is an open economy with exports equal to 26.8 percent of GDP and imports equal to 55.5 percent of GDP. Tourism, bauxite/alumina, and in-bond apparel assembly industry are the major pillars sustaining the economy. In 1996 these three sectors accounted for nearly 77 percent (US$2.3 billion) of the country's foreign exchange earnings. In addition, remittances bring in over US$500 million annually. Hence, both GDP and foreign exchange inflows are extremely sensitive to external economic factors.

The Jamaican economy grew in real terms by only 0.5 percent in 1995, down from 0.8 percent in 1994. Economic growth during 1996 is expected to be only slightly better (0.8 percent), underpinned by a continuing tight monetary stance by the Central Bank of Jamaica. However, a high rate of crime and violence, widening trade deficits, increasing unemployment, high debt servicing costs, low investment, lack of export competitiveness, and a minor financial crisis are issues of increasing concern. The financial sector is faced with an inability to lend freely, big portfolios of non-performing debt and high interest rates, all of which are likely to inhibit economic growth.

The government continues its efforts to boost economic efficiency through the reduction of public sector operations. To date, over 67 entities have been privatized, with some 46 more slated for divestment in the next few years. The privatization thrust suffered a recent setback with the withdrawal of the Jamaica power company from the program after opposition parties raised strong objections, claiming the proposals presented by the investors were not economically beneficial to consumers. This decision, reached only after protracted discussions with the two competing U.S. bidders, is expected to dampen the enthusiasm of other potential investors.

The Jamaican 1996/97 fiscal year budget calls for J$100 billion (US$2.8 billion) in outlays, a nominal 24 percent increase over the 1995/96 budget but a real increase of just over 5 percent in light of recent inflationary trends (18.5 percent in 1996). With 46 percent of the budget directed to debt servicing costs and 10 percent to public sector wages and retirement benefits, the government's budgetary discretion is limited.

The Bank of Jamaica (BOJ) continues a tight monetary policy, aiming for low inflation and a stable currency. Recent policy successes resulting in a stabilized Jamaican dollar and increased foreign exchange reserves allowed the Bank to subsequently loosen controls, bringing treasury bill rates down from a peak of nearly 44 percent at the start of the year to a recent 28 percent. Lending rates remain high, averaging 58.50 percent in October 1996. Net international reserves were US$602 million in June 1996.

Jamaica became a member of the World Trade Organization on March 9, 1995.

2. Exchange Rate Policy

Exchange controls were eliminated in 1991. The principal remaining restriction is that foreign exchange transactions must be effected through an authorized dealer, licenses for whom are regulated. Foreign exchange dealers (commercial banks and cambios) are required to re-sell 5 percent (lowered from 20 percent) of their foreign exchange purchases to the BOJ. Commercial banks are further required to re-sell at market rates 10 percent of their foreign exchange intake to Petrojam, the recently majority-privatized national petroleum company.

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3. Structural Policies

Prices are generally determined by free market forces. However, prices of certain items such as bus fares, water, electricity and telecommunications remain subject to price controls, changeable only with ministerial approval. A 1993 Fair Competition Act was designed to create an environment of free and fair competition, while providing consumer protection.

Taxation accounts for 89 percent of total recurrent revenue. Major sources of tax revenue include: personal income tax (41 percent), value-added tax (32 percent) and import duties (11.4 percent). In fiscal year 96/97, the government proposes to raise an additional J$8.3 billion (US$231 million) tax revenue through a rigorous program of enhanced compliance, reflecting an increase of more than 10 percent over the previous fiscal year. The new tax collection system was implemented on November 18, 1996. All tax payers in Jamaica will be required to use a taxpayer registration number (TRN) to do business with the Revenue Department.

Jamaica implemented the Caribbean Economic Community (CARICOM) Common External Tariff (CET) in 1991 to enhance the region's international competitiveness. Under the CET, goods produced in CARICOM states are not subject to import duty. Third-country imports, such as those from the United States, are presently subject to duties ranging from zero to 40 percent. Additionally, all items carry a 15 percent general consumption tax. Alcoholic beverages and tobacco imports are subject to an additional stamp duty of 25–56 percent and a special consumption tax of 5–39.9 percent. Non-basic, finished goods, and goods competing with those produced in CARICOM states, carry higher duty rates. The tariff rate is to be phased down to 0 to 20 percent by 1998. The Government of Jamaica offers incentives to approved foreign investors, including income tax holidays and duty-free importation of capital goods and raw materials. The United States and Jamaica signed a bilateral investment treaty in early 1994. Ratification procedures are near completion and the treaty should be in effect by the end of 1996.

All monopoly rights of the state-owned Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991, but it retains responsibility for procurement of commodities under government-to-government agreements such as PL–480. The U.S. Embassy 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 external debt declined by 5.5 percent to US$3.5 billion in 1995 and is expected to decline further in 1996 to US$3.3 billion, the lowest level since 1986. Reductions over the last 5 years have been due mainly to debt forgiveness, conversions of commercial bank debt, debt servicing, and reductions in contracting new loans (facilitated more recently by greater domestic borrowing). About 52 percent of public debt is owed to bilateral creditors (the United States is the largest); 35 percent to multilateral institutions; 10 percent to commercial banks; and 3 percent to other entities. The ratio of total outstanding debt to exports of goods and services declined from 154 percent in 1993 to 117 percent in 1995, helped by both debt reduction and increased exports. However, debt servicing continues to be a major burden on the government budget (46 percent).

Jamaica successfully completed an IMF structural adjustment program in March 1996 and currently has no formal Fund program. Jamaica has also completed its 1992 multi-year rescheduling arrangement (MYRA) with the Paris Club of official bilateral creditors. The MYRA provided for rescheduling of US$281.2 million of principal and interest for the period October 1992 to September 1995. The government does not anticipate the need for further debt rescheduling. Meanwhile, domestic debt increased from J$23 billion in 1993 to J$64 billion by August 1996.

5. Significant Barriers to U.S. Exports

Government Procurement Practices: Government procurement is generally effected through open tenders. U.S. firms are eligible to bid. The government has taken steps to strengthen and expand the contractor general's office for effective monitoring and awarding of contracts.

Both local and foreign business people doing business in Jamaica cite insufficient and inadequately trained staff, inadequate facilities (customs house and warehousing) and cumbersome bureaucratic procedures as ongoing hindrances to trade. Nonetheless, customs procedures have been improved, and documentation and clearance requirements for exporters simplified. In addition, a preclearance system has been in place since 1995 to further speed processing of documentation for imports. Computerization of the entire system is underway.

Under authority of the U.S.-Jamaica Bilateral Investment Treaty, Jamaica has reserved the right to make or maintain exceptions to national treatment in aviation, shipping, communications, banking, mining and gambling.

6. Export Subsidies Policies

The Export Industry Encouragement Act allows approved export manufacturers access to duty-free imported raw materials and capital goods for a maximum of 10 years. The Jamaican Eximbank provides other concessional benefits targeted at export production, including access to foreign currency financing, lines of credit, and export credit insurance.

7. Protection of U.S. Intellectual Property

Jamaica is a member of the World Intellectual Property Organization (WIPO). The Jamaican constitution guarantees property rights and has enacted legislation to protect and facilitate acquisition and disposition of all property rights, including intellectual property. Jamaica is a member of the Berne Convention and Rome Convention, and it is subject to provisions of the TRIPs agreement as a WTO member. It has not yet joined the Paris Convention. Jamaica and the United States signed a bilateral intellectual property rights agreement in March 1994.

The government has begun a public awareness campaign on intellectual property rights issues. As part of that effort, in November an IPR seminar was held during one of Jamaica's major trade expositions.

Patents/Trademarks: Jamaica is modernizing its legislation consistent with obligations under the WIPO and the WTO and to the U.S. under the bilateral agreement. Amended legislation pertaining to patents and trademarks is expected to be available next year. In at least one case, a major U.S. food service corporation, which operates franchises in Jamaica, has sued a local company for alleged trademark infringement over the misuse of its name and sign in Kingston.

Copyrights: Jamaica implemented its current Copyright Act in September 1993. The act adheres to the principles of the Berne Convention and covers a wide range of works, including books, music, broadcasts, and computer programs and data bases. Additional amendments are underway. Discussions are also underway on extending copyright protection in new areas such as the Internet.

Piracy of broadcasts and prerecorded video cassettes for distribution in the domestic and regional market is widespread. As in other areas, enforcement is a problem due to lack of resources. There is no regulatory framework pertaining to personal satellite dishes.

The governmental Broadcasting Commission has examined applications from the public for granting licenses for legal operation of cable television, and its deliberations and recommendations have recently gone to the Prime Minister for his final approval.

8. Worker Rights

a. *The Right of Association:* Jamaican law provides for the right to form or join a trade union. Unions function freely and independently of the government and may have varying political affiliations. For most areas of the economy, while not specifically authorized or prohibited, strikes and other normal labor actions do occur (except in certain categories of "essential services" where striking is prohibited.) While unionization has not occurred in the export processing zones ("free zones"), domestic labor laws do apply.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is widely used as a means of settling disputes. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations on worker rights. The government rarely interferes with union organizing efforts. Judicial and police authorities effectively enforce labor regulations. An independent industrial disputes tribunal hears cases where management and labor fail to reach agreement.

c. *Prohibition of Forced or Compulsory Labor:* Jamaica is a party to both International Labor Organization conventions that prohibit compulsory labor and there are no reports that this practice exists.

d. *Minimum Age for Employment of Children:* The Juvenile Act provides that children under the age of 12 may not be employed except by parents or guardians and then only in domestic, agricultural or horticultural work. Enforcement, however, is erratic. Children under twelve peddle goods and services on city streets, but there is no evidence of widespread illegal employment of children in other sectors of the economy.

e. *Acceptable Conditions of Work:* Work over 40 hours per week or 8 hours per day must be compensated at overtime rates. The provision is widely observed. Industrial accident rates are low. The Labor Ministry's industrial safety division sets and enforces industrial health and safety standards that are generally considered adequate. Workers also have the right to remove themselves from dangerous work situations without jeopardy to employment if they are covered by the Factories Act or they are trade union members.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors, and most of the firms involved are unionized with the important exception of the garment assembly firms. No garment assembly firms in the free zones are unionized and only one firm outside the free zones is unionized. There have been no reports of U.S.-related firms abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		173
Food & Kindred Products	0	
Chemicals and Allied Products	161	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	12	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		5
Services		(1)
Other Industries		12
TOTAL ALL INDUSTRIES		1,400

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	431	280	328
Real GDP Growth (pct)[3]	4.5	−6.2	4.3
GDP by Sector:			
Agriculture	23	15	18
Manufacturing	77	52	60
Services	270	180	205
Per Capita GDP (USD)	4,813	3,072	3,531
Labor Force (millions)	34.6	34.9	36.3
Unemployment Rate (pct)	3.6	6.3	5.7
Money and Prices (annual percentage growth):			
Money Supply (M2)	21.3	38.7	23.8
Consumer Price Inflation	7.1	52.0	26.5
Exchange Rate (peso/USD)	3.3	6.4	7.6
Balance of Payments and Trade:			
Total Exports (FOB)[4]	60.8	79.8	94.5
Exports to United States[5]	49.5	61.7	73.1

Key Economic Indicators—Continued

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

	1994	1995	1996 [1]
Total Imports (FOB) [4]	79.3	72.5	85.1
Imports from United States [5]	50.8	46.3	56.2
Trade Balance [4]	−18.5	7.3	9.4
Balance with United States [5]	−1.3	15.4	16.9
External Public Debt	85	101	98
Debt Service Payments/GDP (pct)	4.8	8.1	6.4
Fiscal Deficit/GDP (pct)	0.1	0.2	0.1
Current Account Deficit/GDP (pct)	7.0	0.3	0.3
Gold and Foreign Exchange Reserves	6.1	15.7	18.7
Aid from United States	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[2] GDP at factor cost. Decline in dollar value of nominal GDP in 1995 is due in large part to devaluation of the peso.
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

In response to the December 1994 economic crisis, the Mexican Government instituted tight fiscal and monetary policies. Those policies, coupled with gains in exports (resulting in large measure from the depreciation of the peso), have helped Mexico to recover from the recent economic crisis. While the macroeconomic statistics indicate that the recovery has taken hold, many Mexicans have not yet benefited as consumer purchasing power and employment opportunities lag behind the macroeconomic recovery.

The growth rate in GDP will exceed the Mexican Government's 1995 predictions and reach 4.3 percent for 1996. Exports, particularly by the maquiladora industry, should reach $94.5 billion, enabling Mexico to maintain a trade surplus of $9.4 billion ($13.4 billion with the United States) in 1996. The rate of inflation was cut in half from 52 percent in 1995 to 26.5 percent in 1996.

The Alliance for Growth, the new economic pact signed October 26, 1996 by the government, business and labor representatives, seeks among other things to achieve a GDP growth rate of at least 4 percent in 1997, a 15 percent yearly rate of inflation and a 17 percent increase in the minimum wage. Mexico is also aggressively seeking to expand its export markets through bilateral and multilateral trade agreement negotiations with countries and multilateral organizations in Latin America, Europe and Asia.

2. Exchange Rate Policy

On December 22, 1994, Mexico abandoned its exchange band mechanism, which had been in place since November 1991, in favor of a free floating exchange rate. The peso continues to float freely with only infrequent interventions by the Bank of Mexico (Mexico's central bank). In 1995, the Bank of Mexico intervened three times to stabilize the peso in the face of extreme volatility generated by rumors and/or trader speculation. Because of the stability that the peso has enjoyed for most of 1996, through mid-November the Bank of Mexico has not intervened in the foreign exchange market. In order to build foreign reserves, the Bank did initiate a scheme in August to offer banks options to sell dollars to the central bank. Currently the Bank of Mexico offers $200 million of these options to banks once a month. The amount of these options is too small to have an appreciable impact on the exchange rate.

For the first 9 months of 1996, the peso gained 2.1 percent against the U.S. dollar. Beginning in early October, however, the foreign exchange market became more volatile as investors awaited key economic policy announcements and third quarter business results. Between early October and mid-November the peso lost almost 5 percent of its value against the U.S. dollar. The strength of the peso in the first 9 months of the year does not seem to have had a negative impact on U.S. exports to Mexico, since, according to U.S. trade data, U.S. exports to Mexico were up almost 20 percent in the first 8 months of 1996 compared to the first 8 months of 1995.

3. Structural Policies

The North American Free Trade Agreement (NAFTA), which entered into force in January 1994, is a key component of Mexico's trade policy. NAFTA's key features include:

Progressive elimination of tariffs, nontariff barriers, and quotas for merchandise trade;

Phased limited opening of Mexico's service sector, including financial services, to investment and crossborder transactions by U.S. and Canadian firms;

Gradual opening of the Mexican central government purchasing and construction contracts to bidding by U.S. and Canadian firms;

Clear dispute resolution and international arbitration procedures to provide protection to U.S. and Canadian investors in Mexico; and

Commitment from all parties to afford effective protection for intellectual property rights.

Mexico is actively pursuing free trade agreements with countries in Central and South America, as well as with the European Union.

Regulation of the Mexican economy has decreased significantly in the 1990's. The government introduced legislation in 1993 to promote greater competition, limit monopolistic behavior, and prohibit practices that restrain trade. A 1993 Foreign Trade Law eliminated most nontariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. Mexican investigations of unfair trade practices are generally considered fair and transparent, although some cases are under NAFTA challenge. The Mexican customs service has been modernized and automated, and a program to professionalize personnel is underway. The customs law reforms, implemented in 1996, have greatly assisted in the effort to weed out corruption.

The government has privatized or eliminated more than 1000 parastatal companies since 1986. Privatizations during the administration of President Salinas included commercial banks, the telephone company, a television network, airlines, steel production, and several major industrial facilities. President Zedillo has committed to continue the privatization trend. His administration currently is working to privatize management and some facilities at ports, airports and railroads. The government has announced plans to sell up to 49 percent of its secondary petrochemical plants. In addition, the government has established procedures to permit competition in telecommunications.

4. Debt Management Policies

Over the past year Mexico has largely achieved the objectives laid out in the emergency economic program developed to cope with the 1995 crisis spurred by the sharp devaluation of the peso at the end of 1994. The maturity structure of public debt has been extended, the debt profile has been reconfigured, the composition of external debt has been altered dramatically, and Mexico has successfully returned to international capital markets. Among the most telling indicators of the success of Mexico's debt strategy are the successful retirement of the $29 billion in short-term dollar-denominated notes ("tesosbonos") outstanding at the end of 1994, early repayment to the U.S. Treasury of $7 billion of the economic support funds extended to Mexico during the 1995 crisis, and the placement of over $24 billion in international capital markets.

At the end of the first half of 1996, Mexico's public sector external debt was $98.5 billion, a decline of $1.4 billion compared to December 1995. Net external borrowing is limited by law to $5 billion annually. In 1996 total amortizations of public external debt will be $16 billion, compared to $41.4 billion in 1995.

5. Significant Barriers to U.S. Exports

Import Licenses: Mexico eliminated its universal regime of import license requirements in 1985 and has committed, under the General Agreement on Tariffs and Trade (GATT)and now the World Trade Organization (WTO)and the NAFTA, eventually to eliminate all import licensing requirements. The Mexican Government still requires import licenses for slightly under 200 product categories, many of which are in the agricultural sector. For U.S. and Canadian exporters to Mexico, NAFTA replaced agricultural import licenses with tariff rate quotas and in some cases with phytosanitary and zoosanitary requirements. The NAFTA agriculture sector reduces tariffs over a longer, fifteen year span.

Services Barriers:

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 may set up joint ventures and obtain majority control by 1998. U.S. insurers will also be permitted to establish wholly owned subsidiaries in Mexico, subject to aggregate market share limits which will be eliminated in 2000. 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, Telecom, is scheduled to be privatized through sale of stock in early 1997. Following the grant of eight new long distance concessions (five of which were awarded to groups that included U.S. firms), the Telmex legal monopoly on long distance and international service ended in August 1996 for corporate accounts and will begin to be phased out for residential service in January 1997. Mexico's new telecommunications law sets no limits on the number of service providers after that date. Local, basic telephone service is already technically open to competition.

Financial Services: There are no major barriers to financial services. Mexico continued during 1995 to promote competition and diversification in the financial sector by encouraging foreign investment. New rules adopted in February 1995 allow foreign banks to acquire up to 100 percent ownership in existing banks that have less than 6 percent of the total capital in the banking system (effectively excluding Mexico's three largest banks). Foreigners may now own up to 25 percent of the net capital of the banking system. Also, both Mexican and foreign individuals and companies are allowed to own up to 20 percent (instead of 10 percent under previous regulations) of a Mexican financial institution. As a group, foreigners can now own up to 49 percent (up from 30 percent) of a bank, stock brokerage house, or financial group.

Standards, Testing, Labeling, and Certification: The Mexican Government continues to be the primary actor in determining product standards, labeling and certification policy, with some input from the private sector and less from consumers. As a result, independent standards and certification organizations are only now beginning to function in Mexico. Mexico also continues to suffer from a lack of testing infrastructure. The Secretariat of Commerce and Industrial Development has begun efforts to reverse this situation, shifting responsibility for the formulation of voluntary standards to the private sector or to mixed commissions.

In 1992 the Mexican Government undertook an ambitious project to revamp its entire system for formulating product standards, testing, labeling and certification regulations. The cornerstone of this review is the 1992 Standardization and Metrology Law, which provides for greater transparency and access by the public and interested parties to regulatory formation. This exercise has resulted in a reduction of obligatory product standards to approximately 500.

Under the NAFTA, Mexico committed to make its standards compatible with U.S. and Canadian standards, and to recognize U.S. conformity assessment bodies beginning in 1998. Nonetheless, imports are treated differently than domestic products in enforcing standards and labeling requirements, with imports checked by Customs and domestic products randomly inspected at the retail level. Toward the end of 1994, Mexico revised its testing and certification procedures to require more frequent testing of products. The requirement that each importer must obtain its own standards certification continues to cause problems for U.S. exporters. However, the Mexican Government is working on revisions to the certification procedure to address the problem.

Investment Barriers:

The National Foreign Investment Commission, chaired by the Secretary of Commerce and Industrial Development, decides questions of foreign investment in Mexico. The country's constitution and foreign investment law of December 1993 reserve certain sectors to the state (such as oil and gas extraction and the transmission of electrical power) and a range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation). Despite remaining restrictions, the 1993 foreign investment law greatly liberalized foreign investment, eliminating the requirement for government approval in around 95 percent of foreign investments. The constitution was amended in 1995 to allow foreign investment in railroads, telecommunications and satellite transmission. Privatization of the country's secondary petrochemical complexes also will be allowed but will be limited to 49 percent of existing facilities. 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 of 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, cogeneration, and independent power production. On November 8, 1995, Mexico issued the first regulations allowing private sector participation in the transportation, distribution and storage of natural gas. The first contract has since been signed, for a natural gas distribution system in Mexicali, and others are on the way.

Investment restrictions prohibit foreigners from acquiring title to residential real estate within 50 kilometers of the nation's coasts and 100 kilometers of the borders. Foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. Only Mexican nationals may own gasoline stations, whose gasoline is supplied by Pemex, the state owned petroleum monopoly. These gasoline stations only carry Pemex lubricants although other lubricants are manufactured and sold in Mexico. Both foreigners and Mexican citizens encounter problems with enforcement of property rights.

Government Procurement 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 Treasury Secretariat. In 1991, Mexico abandoned the rule that state owned enterprises give preference in procurement to national suppliers. Suppliers from all countries, whether WTO members or not, now may bid on most government tenders, and requirements for participation are the same for foreign and domestic suppliers.

Because NAFTA allows some smaller contracts for goods, services or construction to be let without requiring them to be open to suppliers from all NAFTA countries, the procurement law enacted in 1994 distinguishes between procurement contests open to national versus international suppliers. The law, however, acknowledges Mexico's procurement obligations under NAFTA and other international trade agreements. A specific preferential treatment in public procurement is granted to domestic drug suppliers (which include foreign companies established in Mexico). NAFTA gradually increases U.S. suppliers' access to the Mexican Government procurement market, including the state oil company, Pemex, and the Federal Electricity Commission (CFE), which are the two largest purchasing entities in the Mexican Government. Under the NAFTA, Mexico immediately opened 50 percent of Pemex bids, and CFE procurement will be open by 2004. However, Mexico has yet to submit its final list of services excluded from NAFTA coverage; previous lists were overly broad.

Customs Procedures: In 1996, Mexico began implementing a new customs law which simplifies a number of procedures, including bond posting requirements. Traders and Mexican customs brokers agree that Mexican customs procedures have improved dramatically in recent years, although transparency of regulations could still be improved. Remaining complaints center on the delay in obtaining implementing regulations for various sections of the new customs law.

In September 1994, the Mexican Government began to require certificates of origin for textiles, apparel and footwear subject to Mexican unfair trading (primarily antidumping) orders and produced in certain South and East Asian countries. The directive has disrupted some U.S. retailers' inventory and logistics systems, precluding them from exporting such third country goods to stores in Mexico.

6. Export Subsidies Policies

The Mexican Government has no export subsidy program and has informed the U.S. Government that it is in full compliance with a 1986 bilateral understanding on export subsidies. The U.S. International Trade Commission found in April 1990 that past Mexican export subsidy programs have either ended or the subsidy element has diminished. Provisions for promoting exports in Mexico's new foreign trade law are limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export oriented business ventures, and special tax treatment for companies that have significant export sales.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations regulating the protection of intellectual property rights (IPR)—the World Intellectual Property Organization, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention and the Brussels Satellite Convention. It is not on the Special 301 watch list, priority watch list or identified as a priority foreign country.

The Mexican Government strengthened its domestic legal framework for protecting intellectual property by amending its 1991 industrial property law, effective October 1, 1994, to create the Mexican Institute for Industrial Property (IMPI) and gave this agency enhanced powers to implement Mexico's IPR laws. Mexico also passed a law in 1996 providing protection to plant species.

Mexico's implementing regulations for the NAFTA provide for nondiscriminatory national treatment of IPR matters, establishing certain minimum standards for protection of sound recordings, computer programs and proprietary data and providing express protection for trade secrets and proprietary information. The term of patent protection was extended from 14 to 20 years from the date of filing. Trademarks are granted for 10 year renewable periods. A new feature of the amended law is that it is sufficient for a company to have its mark recognized among the U.S. industry to be protected in Mexico.

Mexico adopted amendments to its 1991 copyright law in December 1996. Although the amendments were expected to bring the law into accord with the most up-to-date international practices, initial U.S. industry reaction is that the amended law falls short of adequate and effective protection. The U.S. and Mexican Governments are continuing discussions on the matter. The existing law provides protection for computer programs against unauthorized reproduction for a period of 50 years. Sanctions and penalties against infringements were increased and damages can be claimed regardless of the application of sanctions.

U.S. rights holders have expressed concern with enforcement, especially with regard to copying of software and audio-video works. Although Federal authorities conduct investigations and carry out raids, few arrests result. Criminal cases have been compromised by information leaks and loss of evidence, although the number of such incidents has dropped substantially in the last year. With the entry into force of the new customs law, Mexican Customs authorities have been able, for the first time, to seize pirated merchandise. In an effort to put teeth into its IPR laws, the Mexican Government formed a commission in 1993 to cut through the bureaucratic obstacles hindering effective action. Mexico is also working with the United States through the bilateral working group on intellectual property rights to improve coordination and enforcement in the two countries.

8. Worker Rights

a. *The Right of Association:* The Federal Labor Law (FLL), embodied in the Constitution, gives workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed, with thousands of unions and a number of labor centrals. The Confederation of Mexican Workers (CTM) is by far the largest. Unions must register with Federal or state authorities to acquire legal status. Registration requirements are not onerous, but Federal or state authorities reportedly use this administrative procedure improperly to withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of ministerial consultations in 1995 and in follow-up activities in 1996 under the North American Agreement on Labor Cooperation (NAALC, 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. This can also protect undemocratic or corrupt union leaders. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. Again in 1996, the International Labor Organization (ILO) Committee of Experts and Conference Committee on Application of Standards reiterated previous criticism that restrictions in Mexican Federal employee labor law violate freedom of association, though enacted at Federal employee request. A 1996 Mexican Supreme Court decision invalidated similar restrictions in the laws of two states. The decision may foreshadow similar decisions, including at the Federal level, and spur legal reform.

The CTM and most of the smaller confederations, federations and separate national unions in the Labor Congress (CT) are allied with the governing Institutional Revolutionary Party (PRI). Union officers help select, run as, and campaign for PRI candidates in Federal and state elections, and support PRI government policies at crucial moments. This gives the unions considerable influence on government policies, but limits their freedom of action. Rivalries within and between PRI-allied organizations are strong. Party and legislative reforms would emphasize individual rather than sectional (labor) membership. A few small labor federations and independent unions are outside the CT and not allied to the PRI.

b. *The Right to Organize and Bargain Collectively:* The FLL strongly upholds this right. About 30 percent of the work force is organized, but the effective rate is nearly twice that high, as less than half the work force is in the formal sector. The public sector is almost totally organized. Industrial areas are heavily organized, but states with little industry often have few industrial unions. The law protects workers from anti-union discrimination, but enforcement is uneven. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, though this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer and rural organizations ceased to limit free collective bargaining, as they had voluntarily for the past decade. While the government, major employers, and unions meet occasionally (most recently in late October 1996) to reaffirm the "Alliance for Economic Recovery" or agree on tax breaks or minimum wage increases, 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, with the exception of abuses of refugees and illegal immigrants in the state of Chiapas (see section 2D of the 1996 Human Rights Report).

d. *Minimum Age for Employment of Children:* The FLL sets 14 as the minimum age for employment, but those under 16 may work only 6 hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at large and medium sized companies, but inadequate at small companies and in agriculture and nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (including myriad street vendors), agriculture and rural areas. The Mexican Government requires that children attend a minimum of 9 years of school and holds parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth. It may also consider another such program with the ILO.

e. *Acceptable Work Conditions:* The FLL provides for a daily minimum wage, set annually effective January 1 by the tripartite (government/labor/employers) national minimum wage commission Any party may ask the commission to reconvene to consider a special increase, as occurred when the commission agreed to change from 10 to 12 percent the increase authorized for April 1996. Since that increase, the minimum daily wage, in pesos, in Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone and most border areas, has been 22.6 pesos ($3.01 at an exchange rate of 7.5 pesos per dollar). However, minimum wage earners actually are paid 25.76 pesos due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 12 percent of the labor force earns the minimum wage. Industrial workers average three to four times the minimum wage. The law and collective agreements provide extensive additional benefits. Those legally required include social security, medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit-sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and 6 days the legal workweek, with pay for seven. Workers asked to exceed 3 hours of overtime per day or work overtime on three consecutive days receive triple the normal wage. For most industrial workers, especially under union contract, the true workweek is 42 hours with 7 day's pay. This is why unions jealously defend the legal ban on hourly wages.

Mexico's occupational safety and health (OSH) laws and rules are relatively advanced. Employers must observe "General Regulations on Safety and Health in the Work Place" (recently reformed and reflecting 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 work place 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 enforcement. There are special problems in construction, where unskilled, untrained, poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment:* With respect to 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		133
Total Manufacturing		8,856
Food & Kindred Products	2,278	
Chemicals and Allied Products	1,303	
Metals, Primary & Fabricated	357	
Machinery, except Electrical	489	
Electric & Electronic Equipment	615	
Transportation Equipment	1,621	
Other Manufacturing	2,193	
Wholesale Trade		843
Banking		15
Finance/Insurance/Real Estate		2,008
Services		412
Other Industries		1,772
TOTAL ALL INDUSTRIES		14,037

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

NICARAGUA

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	1,852	1,920	2,029
Real GDP Growth (pct)[2]	3.3	4.5	5.5
GDP by Sector:			
Agriculture[3]	606	639	709
Manufacturing	305	312	317
Services[4]	807	847	893
Government	134	121	110
Per Capita GDP (USD)	460	464	476
Labor Force (000s)	1,412	1,459	1,503
Unemployment Rate (pct)	20.7	18.2	16.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	55.7	18.5	9.5
Consumer Price Inflation (pct)	12.4	11.1	12.0
Exchange Rate (Cordobas/USD—annual average)			
Official	6.72	7.53	8.44
Parallel	6.87	7.61	8.48
Balance of Payments and Trade:			
Total Exports (FOB)[5]	351	526	635

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Exports to United States[6]	167	239	347
Total Imports (CIF)[5]	875	962	1,120
Imports from United States[6]	186	250	261
Trade Balance[5]	−524	−435	−485
Balance with United States[6]	−19	−11	86
External Public Debt (USD billions)	11.7	10.3	5.9[7]
Debt Service Payments/GDP (pct)	13.5	15.5	12.0[8]
Current Account Deficit/GDP (pct)	4.0	36.2	29.6
Fiscal Deficit/GDP (pct)	5.9	5.4	5.6
Gold and Foreign Exchange Reserves	172	176	221
Aid from United States	81	31	29
Aid from All Other Sources	499	493	394

[1] Projections based on data available in November 1996.
[2] Percentage changes calculated in local currency.
[3] Includes livestock and fisheries.
[4] Includes construction and mining.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Assumes finalization of Russian and Mexican agreements.
[8] Unpaid debt service amounts to another 29 percent of GDP.

1. General Policy Framework

Nicaragua's transition from a centralized to a market-oriented economy began with the election of President Violeta Chamorro in 1990. During its first 3 years, the Chamorro administration stabilized the currency, brought inflation under control, and liberalized the foreign trade regime. In 1994, the economy grew for the first time in a decade. Real GDP expanded by 3.3 percent that year, grew 4.5 percent in 1995, 5.5 percent in 1996, and is projected to increase by at least 5.5 percent in 1997. The annual inflation rate averaged 12 percent from 1994 to 1996 and is projected at no higher than that level in 1997.

The country remains essentially agricultural, with a small manufacturing base. It is dependent on imports for most manufactured, processed and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs, eliminated most nontariff barriers and foreign exchange controls. Export promotion is a top national goal; exports are up 81 percent from 1994 to 1996 to an estimated $635 million. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

Elections on October 20, 1996, resulted in the election of Arnoldo Aleman of the pro-business Liberal Alliance (AL) as President over former President Daniel Ortega of the Sandinista National Liberation Front (FSLN). The AL also accounts for the largest bloc of legislators, although it will fall short of a majority in the National Assembly. Upon taking office on January 10, 1997, the Aleman administration faced important economic challenges, including: getting the country back in an Enhanced Structural Adjustment Facility with the International Monetary Fund; making progress on the resolution of thousands of Sandinista-era property confiscation cases; continuing to reduce the foreign debt and fiscal deficit; and reducing unemployment and poverty in the hemisphere's second-poorest nation.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan 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 1 percent in 1996. The government eliminated all remaining restrictions on the foreign exchange system as of January 1, 1996.

3. Structural Policies

Pricing Policies: In the early 1990's, the Nicaraguan Government lifted price controls, with the exception of those 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.

Tax Policies: Nicaragua maintains a maximum tariff level on virtually all imports of 20 percent of CIF value. An additional temporary protection tariff of 5 to 15 percent of CIF value is levied on some 900 imported items, largely goods that are also produced in Nicaragua. Some 750 other products are assessed a specific consumption tax, generally limited to 15 percent of CIF value. A stamp tax of 5 percent is levied on all imports. The country's 15 percent sales tax is charged (in a cascading fashion) on all imported goods that are not categorized as basic food basket items. Overall import taxation levels on so-called "fiscal" goods (e.g., tobacco, soft drinks and alcoholic beverages) are particularly high. Thus, importers of many types of consumer items confront a total import tax burden of 30 to 45 percent. Chicken is the only product in Nicaragua covered by a tariff-rate quota.

4. Debt Management Policies

The Chamorro administration inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next 6 years, Nicaragua negotiated a series of deals that reduced its stock of debt to $5.9 billion. The largest reductions were granted by Russia ($3.3 billion); commercial debt holders ($1.1 billion); Mexico ($0.9 billion); and Germany ($0.5 billion). Despite this progress, Nicaragua's debt, at almost three times GDP, remains unsustainably high. Accordingly, the Aleman Government is expected to make debt reduction one of its top economic priorities. Two promising avenues for further debt reduction are with the Paris Club ($1.2 billion) and through the newly created IMF/World Bank/Paris Club debt reduction initiative for the heavily indebted poor countries ($1.5 billion). However, Nicaragua will be ineligible to benefit from reductions in either of those programs until the country shows sustained performance under an International Monetary Fund program.

5. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms and explosives. U.S. exporters of food products 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 authorized.

Investment Barriers: Remittance of 100 percent of profits and original capital 3 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 1980's 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 June 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.

6. Export Subsidy Policies

A 1991 export promotion decree established a package of fiscal exonerations and incentives for exporters of non-traditional goods (i.e., goods other than coffee, cotton, sugar, wood, beer, lobster and sea-harvested shrimp). Exporters of such products receive exemptions of 65 percent of product value on income tax liabilities. Although this benefit expires after 1997, the government's Export Promotion Committee is empowered to extend exemptions beyond that date to exports of key interest to the country. In addition, foreign production inputs to export goods enter duty-free and are exempt from value-added tax. Exporters of non-traditional goods receive tax benefit certificates equivalent to 10 percent of the FOB value of the exported goods (the benefit will drop to 5 percent in 1997). Export licenses were abolished in 1995.

7. Protection of U.S. Intellectual Property

In 1990, the Nicaraguan Government committed itself to provide adequate and effective protection for the intellectual properties of foreign nationals in exchange for designation as a beneficiary of the Caribbean Basin Economic Recovery Act. Current levels of protection, however, still do not meet international standards.

Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is in the process of modernizing its intellectual property rights protection regime. New patent and copyright laws have been submitted to the National Assembly but are languishing. The trademark law was updated in 1994, and Nicaragua is codified in the Central American Convention for the Protection of Intellectual Property. Nicaragua signed the Convention's Protocol on Trademarks in July 1996 and is studying a proposed Central American Convention for the Protection of Industrial Property, Inventions and Industrial Designs.

In 1995, the government acceded to the Paris Convention for the Protection of Industrial Property. The National Assembly has not yet ratified the Berne Convention on Copyrights. Nicaragua is a signatory to the following copyright conventions:

—Mexico Convention on Literary and Artistic Copyrights (1902)
—Buenos Aires Convention on Literary and Artistic Copyrights (1910)
—Inter-American Copyrights Convention (1946)
—Universal Copyright Convention (Geneva 1952 and Paris 1971)
—Brussels Convention on Satellites (1974)

Trademarks: Protection of well-known marks 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/New Technology: Pirated videos are readily available in video rental stores nationwide, as are pirated audio cassettes. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals, a practice that continues despite a trend of negotiating contracts with U.S. sports and news satellite programmers. One Managua private TV station transmits (often from video cassettes) pirated U.S. films. A report prepared in 1994 by the International Intellectual Property Alliance estimated that losses in Nicaragua due to copyright infringements cost U.S. firms $5.3 million annually.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the right of workers to organize voluntarily in unions. This right was reaffirmed in the new labor code which entered into effect in November 1996. Slightly 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. The right was reaffirmed in the new labor code. According to the 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 new 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. While the law requires school attendance through the sixth grade, it is not enforced. Moreover, 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 modern sector of the economy.

e. *Acceptable Conditions of Work:* The new labor code established that severance pay shall be from one to 5 months duration, depending on the length of employment and the circumstances of termination. The code also requires Nicaraguan compliance with international standards of workplace hygiene and safety, but the Ministry of Labor's limited staffing makes enforcement difficult. The standard, legal workweek is a maximum of 48 hours, with 1 day of rest weekly. Minimum wage rates were established in 1991 and have not been adjusted for inflation since; however, the vast 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—1995

[Millions of U.S. dollars]

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

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

PANAMA

Key Economic Indicators

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

	1994	1995	1996[2]
Income, Production and Employment:			
GDP (at current prices)	7.4	7.7	7.9
Real GDP Growth (pct)	3.7	1.9	1.5
GDP by Sector (pct of Total):			
Agriculture/Forestry/Fisheries	9.8	9.8	9.8
Manufacturing	9.1	9.4	9.3
Construction	7.7	6.5	4.5
Services	34.6	34.6	35.0
Panama Canal	8.4	8.6	8.8
Colon Free Zone	9.0	9.0	8.0
Government Services	10.6	9.9	10.0
Per Capita GDP (USD)	1,136	N/A	N/A
Labor Force (000s)	967	996	1,015
Unemployment Rate (pct)	13.8	13.8	14.0
Money and Prices (annual percentage growth):			
Quasi-Money	15.9	9.2	N/A
Consumer Price Inflation	1.3	1.1	1.3
Exchange Rate (Balboa/USD)	1.00	1.00	1.00
Balance of Payments and Trade:			
Total Merchandise Exports (FOB)	0.5	0.6	0.6
Exports to United States[3]	0.3	0.3	0.3
Total Merchandise Imports (CIF)	2.4	2.5	2.5
Imports from United States[3]	1.3	1.4	1.4
Trade Balance	−1.9	−1.9	−1.9
Balance with United States[3]	−1.0	−1.1	−1.0
Current Account Deficit/GDP (pct)	16.3	N/A	N/A
Public Debt	5.5	5.3	5.6
Debt Service Payments/GDP (pct)	3.9	3.9	N/A

Key Economic Indicators—Continued

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

	1994	1995	1996[2]
Fiscal Deficit/GDP (pct)	N/A	N/A	N/A
Aid from United States (USD millions)	21	19	21
Aid from All Other Sources	N/A	N/A	N/A

[1] Preliminary.
[2] Estimated.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Panama's economy is based on a well-developed services sector that accounts for 70 percent of Gross Domestic Product(GDP). Services include the Panama Canal, banking, insurance, government, the Transisthmian Oil Pipeline, and the Colon Free Zone (CFZ). Manufacturing, mining, utilities, and construction together account for approximately 19 percent of GDP. Agriculture, forestry, and fisheries account for about 11 percent of GDP. Growth of Panama's economy is expected to remain sluggish in 1996 (under 2 percent), as it was in 1995 (1.9 percent). GDP growth was higher during the previous administration (1990–94), but Panama was rebounding from a recession caused by sanctions which ended after Operation "Just Cause" in December 1989.

In December, 1995 the Government of Panama's statistical bureau changed its methodology and advanced the base year from 1970 to 1982. The change in methodology reduced reported real GDP growth rates in the previous administration.

Cattle slaughter, energy consumption, tourism, and the Panama Canal have posted growth in 1996. Most sectors of the economy, however, are stagnant, while some, like the Colon Free Zone, banana and shrimp exports, the oil pipeline, and construction, are down from 1995.

The Perez Balladares Government, which took office September 1, 1994, has advanced an economic reform program to liberalize the trade regime, privatize state-owned enterprises, institute fiscal reform, and encourage job-creation through labor code reform.

The most immediate economic goals of the administration are to conclude key privatizations, ratify WTO accession, attract foreign investment to the U.S. military bases reverting to Panama's control between now and December 31, 1999, and develop "Export Processing Zones." In the absence of progress in these areas, growth in all sectors of the economy is likely to remain sluggish, and job creation, the stated No. 1 goal of the administration, will lag behind population growth.

Privatization of the state's ports, railroad, and telecom is underway; all three should be concluded by April 1997. The only hurdle remaining for WTO entry is approval by Panama's legislature, which is expected forthwith. The government has succeeded in attracting some foreign investment to the reverting areas, and more deals are being negotiated, especially in the tourism sector. Panama's first export processing zone, built by Taiwanese investors, is expected to open in December. In addition to progress in these areas, the government recently concluded a Brady-type plan to restructure Panama's enormous debt.

The drawdown of U.S. troops over the next 3 years will have a negative effect on Panama's GDP, but to what degree is uncertain. The U.S. military presence is contributing over USD 300 million to Panama in 1996 in the form of salaries, contracts, and purchases of goods and services. That equals about 4 percent of Panama's GDP, not counting any multiplier effect. Government officials and private economists believe, however, that growth in such areas as mining, tourism, ports, maritime services and other sectors will make up for the loss. The U.S. and Panamanian Governments are exploring the possibility of a reduced post-2000 U.S. military presence. An agreement could ameliorate the drawdown effect.

The use of the U.S. dollar as Panama's currency means that fiscal policy is the government's only macroeconomic policy instrument. Government spending and investment are strictly bound by tax and non-tax revenues and the government's ability to borrow.

2. Exchange Rate Policies

Panama's official currency, the Balboa, is pegged to the U.S. dollar at a 1:1 ratio. The Balboa circulates in coins only; all paper money in circulation is U.S. currency. The fixed parity means price and availability of U.S. products in Panama depend on transport costs and tariff and non tariff barriers to entry. Also, U.S. exporters have no risk of foreign exchange losses on sales to Panama

3. Structural Policies

The Government of Panama is committed to trade liberalization and reduction of structural economic distortions, and has published an ambitious national economic plan, whose centerpiece includes accession to the WTO. The government is also attempting to impose fiscal discipline, encourage internal savings, and privatize some public entities and utilities.

While the still inflexible labor code needs more revision and some prices are still controlled, the government has established an antitrust law and enforcement authority, and has advanced health and housing programs to ease the poverty and high unemployment which reflect Panama's very uneven distribution of wealth and income.

In the area of trade liberalization, Panama is negotiating Free Trade Agreements with Chile and Mexico, and is planning to join Mercosur, the Andean Pact, and APEC. Panama's WTO accession, which the legislative Assembly should approve in early 1997, will result in an effective rate of protection of under 30 percent for non-agricultural products. Tariffs on agricultural products are also coming down as a result of agreements with international financial institutions. Late in 1995, the government reduced tariffs on almost 2,000 products used as industrial inputs. (There is no local producer for the base majority of these imports.)

Panama enacted a new tax law in December 1991 and a privatization framework law in July 1992. The Tax Reform Act reduced corporate income tax rates to 30 percent effective as of 1994. The June, 1995 "Universalization" law further reduced distortions in the fiscal code.

In July, HIT, a Hong Kong company, won the right to negotiate a contract with the GOP for two state-owned ports, one at each end of the Canal. Meanwhile, Kansas City Southern Railroad, a U.S. company, is negotiating a contract to operate the Transisthmian Railroad. Two bidders are competing in the privatization of INTEL, the state-owned telecom, which should be carried out by April 1997. The GOP is also privatizing a racetrack, casinos, a large convention center, and two sugar mills. In addition, it is soliciting bids for the construction of a 100 megawatt thermo-electric generation plant, to be operated by a private concern.

4. Debt Management Policies

Panama completed its Brady Plan rescheduling of private debt in June 1996. The rescheduling allowed the State Telecom (INTEL) to return to the market with a conservative $28 million package underwritten by Citibank. The package was secured by long distance accounts receivable for the North American market. The central government is reportedly considering a debt offering as well, but details have not been made public. The offering is likely contingent on a favorable rating of Panama's bonds by rating services.

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

The government's economic reform program is oriented toward export-led growth dependent on foreign investment. The Panamanian economy, which had been one of the most heavily protected in Latin America, should be more open after accession to the WTO. The Universalization Law created incentives for export-oriented production and will remove, over a period of years, special incentives previously granted to protected agricultural and industrial sectors. By eliminating such subsidies, the government hopes to encourage investment in sectors that are competitive, rather than in those with an artificial advantage.

The government officially promotes foreign investment opportunities in sectors such as agriculture, industry, export processing zones, and tourism, and affords foreign investors national treatment. A limitation in Panamanian law on foreign government ownership of land affects a few U.S. Government investment insurance programs, but places no legal limitations on foreign private investment or ownerwhip.

While the Government of Panama does not officially present any barriers to U.S. suppliers of banking, insurance, travel/ticket, motion picture, and air courier services, some professionals can expect certain technical/procedural impediments. Architects, engineers, and lawyers, for example, must be certified by Panamanian boards.

Panama does not have an investment screening mechanism, but the Panama Trade Development Institute works to attract investment to priority areas. Under the terms of its bilateral investment treaty with the United States, Panama places no restrictions on the nationality of senior management. Panama does restrict foreign nationals to 10 percent of the blue-collar work force, however, and specialized foreign or technical workers may number no more than 15 percent of all employees in a business. The recent revision to the labor code now makes it less difficult for companies to dismiss employees.

Importers of non-agricultural products must now register their products before distributing them or offering them for sale in Panama. Product registration requirements changed dramatically from last year, when there was a 6-month period during which the registration process could be completed. Importers no longer have the possibility of establishing product sales potential prior to registering the product.

In general, Panama's agricultural sector is still heavily protected by non-tariff barriers. Rice, corn, beef, dairy products, soybeans, and wheat are controlled by the Ministry of Agriculture and/or the Agricultural Marketing Institute (IMA). Permits are required from the Ministry of Agriculture for imports of animal products, animal by-products, and seeds. The Ministry strictly enforces the prior approval requirement (Decree 15 of May 18, 1967) for all imports of meat products, and imposes stringent phytosanitary requirements. These requirements were erected to protect domestic production of pork and beef. IMA maintains a list of 39 agricultural products under import quota, and 19 products under import permit.

6. Export Subsidies Policies

The Universalization Law allows any company to import raw materials or semiprocessed goods at a duty of 3 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 of their profits from export operations through 2002.

Because of the imminent accession to the WTO, Panama has revised export subsidies policies. The Tax Credit Certificate (CAT), which used to be given to firms producing non-traditional exports when the exports' national content and value-added both met minimum established levels, will be gradually phased out. The new policy allows exporters to receive CATs until 1997 equal to 20 percent of the Exports' National Value added. From 1997 until 2000, the CATs will decrease to 15 percent, and after the year 2000 CATs will be eliminated entirely. The certificates are transferable and may be used to pay tax obligations to the government, or can be sold in secondary markets at a discount. The government has become stricter in defining national value-added, attempting to reduce the amount claimed by exporters.

A number of industries which produce exclusively for export are exempted from paying certain types of taxes and import duties. The Panamanian Government uses this policy to attract foreign investment. Companies which benefit from these exemptions are not eligible to receive CATs for their exports.

7. Protection of U.S. Intellectual Property

Panama passed Law No. 15 of August 8, 1994 to modernize its Copyright protection regime. It was not until October 3, 1995, however, that the Cabinet finally implemented the law via Decree 261. The Legislative Assembly passed a new Industrial Property law, covering patents and trademarks, in May 1996. It went into effect in November 1996. These measures, if adequately enforced, would significantly improve very inadequate past Panamanian enforcement of intellectual property rights.

The new copyright law, with implementing legislation, strengthens copyright protection, facilitates prosecution of copyright violators and makes copyright infringement a felony, punishable by fine and incarceration. The bill also protects computer software as a literary work. The Copyright Office was dealt a setback in July 1996 when the Supreme Court ruled that it did not have the authority to seize counterfeit videos. The government is therefore amending the copyright law. The next major challenge for Panama in the copyright field is the creation of the judicial expertise necessary to enforce the law.

The Industrial Property Law establishes a standard of 20 years of protection for all patent holders, in place of the former range of 5 to 20 years for Panamanians and 5 to 15 years for foreigners. The bill also protects processes. The law imposes a working requirement on patent holders, although the patent holder can satisfy the working requirement by importing the product. Under the law, the government is able to 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 1 year of the initial notification of the compulsory licensing proceeding. The recipient of a compulsory license must have the capacity to manufacture the product himself in Panama.

The 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.

Panama is a member of the World Intellectual Property Organization, the Geneva Phonograms Convention, the Brussels Satellite Convention, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Bern Convention for the Protection of Literary and Artistic Works.

Video piracy has long been a problem in Panama. Some priates reproduce and distribute videos illegally from the Colon Free Zone (CFZ) to Panama, Central America, and South America. U.S. firms have also complained about trademark infringement by firms in the CFZ and about use of the CFZ as a transshipment point for pirated products. Police authorities have raided several CFZ warehouses, in response to concerns about illegal transshipments and illegal assembly activity. But American owners of IPR complain that piracy continues on a wide scale and that the government has not pursued the problem aggressively.

Pursuant to a complaint filed by Nintendo of America, the United States Trade Representative is conducting an investigation into Panama's enforcement of intellectual property rights. The outcome of the investigation, expected early in 1997, will determine whether Panama keeps or loses benefits derived from the general system of preferences and the Caribbean Basin Initiative.

8. Worker Rights

a. *The Right of Association:* Private sector workers have the right to form and join unions of their choice, subject to registration by the government. The Labor Code Reform Package, which was signed on August 14, 1995, significantly increases worker's ability to establish unions. The reforms streamline the accreditation and registration process for unions and reduce the minimum size from 50 to 40 workers. Previous practice saw the government effectively deny registration of some unions, especially in "strategic" sectors such as banking and the Free Zone, by refusing to process union applications, largely because of artificial technicalities. The new labor code cuts the government's required response time on applications from 2 months to fifteen days. In the event the government does not respond within the timeframe, the union will automatically be recognized and accorded all rights and privileges under Panamanian law.

According to Ministry of Labor statistics, approximately 10 percent of the total employed labor force is organized. There are 257 active unions, grouped under six confederations and 48 federations representing approximately 73,300 members in the private sector. Other than a loose alliance between the ruling party and the Transport Workers Union, neither the government nor the political parties control or financially support organized labor. This was demonstrated when virtually all unions struck—with the notable exception of the transportation workers—for at least a brief period in August 1995 against the government's labor code reform proposals. Union organizations at every level may and do affiliate with international bodies.

The Civil Service Law of June 20, 1994, permits most government workers to form public employees associations and federations and establishes their right to represent members in collective bargaining with their respective agencies. It also provides most workers the right to strike, except for certain government workers in areas vital to public welfare and security, such as the police and health workers and those employed by the U.S. military forces and the Panama Canal Commission.

The new labor code reforms addressed some long-standing concerns of the international labor organization (ILO). Labor leaders are no longer automatically removed from their union positions if they are fired from their jobs. In addition, the requirement that all labor leaders must be Panamanian citizens has also been dropped.

There were a fair number of private sector strikes in 1996, the most significant by banana workers and construction workers.

b. *The Right to Organize and Bargain Collectively:* The Labor Code affords most workers the right to organize and bargain collectively, and unions widely exercise it. The law protects union workers from anti-union discrimination and requires employers to reinstate workers fired for union activities. The Ministry of Labor has mechanisms to resolve complaints against anti-union employers. The Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike. The Labor Code establishes a conciliation board in the Ministry of Labor to resolve labor complaints and provides a procedure for arbitration.

Employers commonly hire temporary workers in order to circumvent onerous labor code requirements for permanent workers. Temporary workers do not receive pensions or other benefits. The practice of blank contracts is, according to union sources, becoming more widespread. The government, in its new labor legislation, has taken steps to address this problem. All companies are now required to submit a copy of all labor contracts for permanent workers to the Labor Ministry. The Labor Ministry, in turn, is required to conduct periodic inspections of a company's workforce and review all contracts to ensure that they are in order. The authority for the Labor Ministry to levy fines against companies not in compliance with the law is also included in the new legislation.

In January and February, the cabinet issued decrees governing labor relations in export processing zones—in anticipation of Taiwan investment in a proposed industrial park in the former Fort Davis. Some sections of the decrees weaken the right to organize and bargain collectively, as established in the country's overall labor code. Union representatives have challenged the constitutionality of the decrees, which as of this writing (November 1996) were the subject of a review by the ILO.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor, and neither practice was reported.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits the employment of children under 14 years of age as well as those under 15 if the child has not completed primary school; children under 16 cannot work overtime; those under 18 cannot perform night work. Children between the ages of 12 and 15 may perform farm or domestic labor as long as the work is light and does not interfere with the child's schooling. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment; however, the government has not enforced child labor provisions in rural areas, claiming insufficient staff. According to a recent ILO report, 11,600 children between the ages of 10 and 14 are in the labor force—primarily in farm or domestic labor.

e. *Acceptable Conditions of Work:* The Labor Code establishes a standard work week of 48 hours and provides for at least one 24-hour rest period. It also establishes minimum-wage rates for specific regions and for most categories of labor. The minimum wage, last increased in 1995, is USD 1.00 per hour in the districts of Panama, Colon, and San Miguelito, and for workers in financial services. It is not enough to support a family above the poverty level in Panama's relatively high-cost economy. Most Panamanian workers formally employed in urban areas earn the minimum wage or above, but most workers in the large informal sector earn below the minimum wage. Unions have repeatedly alleged that contractors operating on military bases pay less than the required minimum wage. The Ministry of Labor does not always enforce the minimum wage, due to insufficient human and financial resources.

The government sets and enforces occupational health and safety standards. An occupational health section in the Social Security system is responsible for conducting periodic inspections of especially hazardous employment sites, such as those in the construction industry, as well as inspecting health and safety standards in response to union or worker requests. The law protects workers who file requests for health and safety inspections from dismissal. They also have the right to remove themselves from situations that present an immediate health or safety hazard without jeopardizing their employment. Employees are generally not allowed to do so if the threat is not immediate but may request a health and safety inspection to determine the extent and nature of the hazard. The Ministry of Labor is responsible for enforcing health and safety violations and generally does so. The standards are fairly encompassing and generally emphasize safety over long-term health hazards, according to organized labor sources. Health problems, however, continue in the banana sector as well as the cement and milling industries.

f. *Rights in Sectors with U.S. Investment:* Workers in sectors with the largest U.S. investment are, on average, better paid and have better working conditions and training opportunities than those in sectors with little U.S. investment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		871
Total Manufacturing		197
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(2)	
Machinery, except Electrical	0	

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		650
Banking		(1)
Finance/Insurance/Real Estate		13,987
Services		122
Other Industries		(1)
TOTAL ALL INDUSTRIES		15,908

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

PARAGUAY

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	7,857	8,970	9,612
Real GDP Growth (pct)[3]	3.1	4.7	2.0
GDP by Sector (pct):			
Agriculture	26	27	26
Manufacturing	16	15	15
Services	53	53	55
Government	N/A	N/A	N/A
Per Capita GDP (USD)	1,665	1,838	N/A
Labor Force (000s)	1,637	1,686	1,760
Unemployment Rate (pct)	9.4	8.1	8.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	24.6	19.1	14.0
Consumer Price Inflation (pct)	18.3	10.5	9.0
Exchange Rate (Guaranis/USD—annual average)			
Official	1,905	1,963	2,050
Balance of Payments and Trade:			
Total Exports (FOB)[4]	816	819	900
Exports to United States[5]	80	55	41
Total Imports (CIF)[4]	2,140	2,796	2,500
Imports from United States[5]	788	992	910
Trade Balance[4]	−1,324	−1,977	−1,600
Balance with United States[5]	−708	−937	−869
Current Account Deficit/GDP (pct)	17	22	17
External Public Debt	1,240	1,327	1,300
Debt Service Payments/GDP (pct)	2.8	2.6	2.3
Fiscal Deficit/GDP (pct)	1.1	−0.3	−2.0
Gold and Foreign Exchange Reserves	1,044	1,107	1,130
Aid from United States	5.0	5.2	5.5
Aid from All Other Sources	N/A	N/A	N/A

[1] Estimates based on available monthly data in October 1996.
[2] GDP at market cost (factor cost information not available).
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

In 1996, the Wasmosy administration submitted a package of laws aimed at modernizing the economy, but political and economic interest groups that profited from the previous, closed system continue to serve as obstacles to reform. Problems such as the lingering aftereffects of 1995's financial crisis and a recent mixed agricultural performance have slowed growth to an estimated 2 percent for 1996, making the reform process more difficult. Opposition to Wasmosy's economic program from within his own party, and upcoming municipal and general elections, pose further political obstacles to reform. However, several macroeconomic indicators are positive: low inflation (9 percent for the year); record reserves ($1.1 billion); and low debt ($1.3 billion). A fiscal austerity plan has reduced a potential deficit of 5 percent of GDP to an estimated 1.5–2 percent, which the government hopes to finance through the issuance of local bonds.

Key obstacles to continued reform include corruption, the region's worst telecommunications infrastructure, weak protection of intellectual property rights, and the gulf between a growing informal sector and the formal economy. Paraguay's participation in the Mercosur could also disrupt established trading patterns, particularly the multi-billion dollar re-export trade to Brazil, and generally force the previously closed Paraguayan economy to compete with those of its more aggressively entrepreneurial neighbors. Mercosur-prompted infrastructural projects aimed at creating a productive base in the country could provide increased opportunities for foreign investors. Paraguay's membership in Mercosur, and its status as the region's lowest-cost provider of electricity and labor, also offer opportunities for industries looking to enter the 200-million consumer Mercosur market. Industrial zones, taking advantage of what is Mercosur's most attractive investment promotion legislation, are already planned near the Brazilian border.

2. Exchange Rate Policies

All foreign exchange transactions are settled at the daily free market rate. The Central Bank practices a so-called managed float, with periodic interventions aimed at stabilizing the guarani. The flow of an estimated $5–6 billion per year from the border trade with Brazil has overvalued the guarani by approximately 30–35 percent since 1990. The market rate on October 31 stood at 2,090 guaranies to the dollar. It is legal to hold savings accounts in foreign currency, and in October 1994 contractual obligations in foreign currencies were legalized. At present the majority of savings accounts are denominated in dollars.

3. Structural Policies

Consumer prices are generally determined by supply and demand; exceptions are public sector utility rates (water, electricity, telephone); petroleum products; pharmaceuticals; and bus fares. The Ministry of Finance overseas all tax matters. Under current law, corporate income is subject to a 30 percent tax rate, but the current administration is studying the possibility of lowering that 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 startup taxes and customs duties on imports of capital goods. There is a 95 percent corporate income tax exemption for 5 years. The government expanded the tax base with the implementation of a value added tax (IVA) in 1992. Compliance continues to be low, and charges of corruption against tax officials are endemic. As a result, approximately 60–70 percent of tax revenue is collected by Customs on imported merchandise.

4. Debt Management Policies

In 1992 Paraguay reduced external debt with both official and commercial creditors. Full payment of arrears was accomplished without assistance from the IMF or the Paris Club by drawing down reserves. The government currently has approximately $1.3 billion dollars of debt. About half of the debt is to multilateral lending institutions, with the rest to Paris Club members. Paraguay continues to meet its obligations to foreign creditors in a timely fashion.

5. Significant Barriers to U.S. Exports

U.S. manufactured goods face strong competition from Asian and regional producers. A historic lack of transparency has also kept U.S. companies out of government procurement (bids are let on all purchases in excess of $60,000). Paraguay has also received concessional credits from Spain, Japan and Korea that have served as a barriers to potential U.S. entrants into the procurement market. In keeping with its Mercosur obligations, Paraguay neither prohibits nor places licensing requirements on imports of Mercosur-origin products. The potential for exports of U.S. products, especially software, audio and video tapes/games and books is limited by widespread piracy.

In general, financing for both imports and exports is limited. High nominal and real interest rates due to the speculative nature of the financial system are a major obstacle to the availability of medium and long term credit. The banking system also enjoys a wide spread (over 20 percent) between active and passive rates. The banking system experienced a crisis in mid-1995, when the second and third largest domestic banks closed after unregulated operations were exposed. The government bailout of the financial system cost approximately $400 million. A new banking law that brings Paraguay into conformity with international standards is now in force.

6. Export Subsidies Policies

There are no discriminatory or preferential export policies. Paraguay does not subsidize its exports. In fact, export taxes and duties represent a significant source of central government revenues.

7. Protection of U.S. Intellectual Property

Paraguay is a regional distribution and assembly center for counterfeit merchandise. The re-export trade to Brazil, catering to consumer demand for such items as electronics, audio tapes and CDS, designer clothing and footwear encourages widespread piracy. After Paraguay was placed on the Special 301 Watch List, the government has undertaken a series of reforms aimed at improving the situation. These include the formation of an interagency national Intellectual Property Council, increased raids in cooperation with affected industries, and submission of new intellectual property legislation to the Congress. A recent mid-year review by USTR left Paraguay on the Watch List and reiterated the need for improved enforcement efforts both internally and on the borders. There has also been a petition filed to remove GSP privileges from Paraguay for violation of intellectual property rights.

Patents: The outdated patent law of 1925 established an Office of Patents and Inventions and the requirements and procedures for obtaining patents. A new patent law, opposed by the local pharmaceutical industry, was submitted to Congress in October 1996; if passed, it would provide transitional "pipeline" provisions and a 1-year phase-in period.

Trademarks: The illegal appropriation of well-known trademarks presents a serious problem, despite Paraguay's obligations under the Paris Convention and the Uruguay Round accords. The executive has shown willingness to protect famous trademarks, but the bureaucratic process of challenging a trademark is cumbersome (often taking 10–15 years to resolve). U.S. companies are strongly encouraged to register their trademarks locally if they intend to do business in Paraguay. A new trademark law would give the Ministry of Industry and Commerce greater leeway in revoking trademarks.

Copyrights: In 1991, Paraguay became a signatory to the Berne Convention for the Protection of Literary and Artistic Works. Although the government has taken measures to fight piracy, widespread production and trade in pirated recordings, computer software and video cassettes remains a serious and increasing problem. The principal problem is export of pirated merchandise to neighboring countries.

According to the International Intellectual Property Alliance, losses to U.S. industry due to piracy are $30 million dollars a year (but the regional effects could be as high as $300 million.) Recent raids along the Argentine and Brazilian borders have uncovered multi-million dollar factories for audio tapes and video games (both hardware and software), indicating that the problem may be more serious than expected.

8. Worker Rights

a. *The Right of Association:* The Constitution allows both private and public sector workers, excepting the armed forces and police, to form and join unions without government interference. It also protects the right to strike and bans binding arbitration. Strikers and leaders are protected by the constitution against retribution. Unions are free to maintain contact with regional and international labor organizations.

b. *The Right to Organize and Bargain Collectively:* The right to collective bargaining is protected by law. When wages are not set in free negotiations between unions and employers, they are made a condition of individual employment offered to employees. Collective contracts are still the exception rather than the norm in labor/management relations.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited by law. Domestics, children and foreign workers are not forced to remain in situations amounting to coerced or bonded labor.

d. *Minimum Age for Employment of Children:* Minors from 15 to 18 years of age can be employed only with parental authorization and cannot be employed under dangerous or unhealthy conditions. Children between 12 and 15 years old may be employed only in family enterprises, apprenticeships, or in agriculture. The labor code prohibits work by children under 12, and all children are required to attend elementary school. In practice, however, many thousands of children, many under the age of 12, work 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 1 day of rest. The law also provides for a minimum wage of $240 per month, an annual bonus of 1 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. Enforcement of these conditions is lax.

f. *Rights in Sectors with U.S. Investment:* U.S. investors provide better working and pay conditions than their national counterparts.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		5
Food & Kindred Products	(2)	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	5	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		70

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

PERU

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	48.5	50.0	51.5
Real GDP Growth (pct)	13.1	7.0	2.5
GDP by Sector (pct):[3]			
Agriculture	12.1	12.2	10.0
Fisheries	1.4	1.1	1.1
Mining/Petroleum	11.2	10.8	11.2
Manufacturing	22.4	21.9	23.5
Construction	8.5	9.3	9.0
Government	5.4	5.2	4.1
Commerce	13.6	14.3	15.2

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Per Capita GDP (USD)	2,100	2,125	2,155
Labor Force (000s)	7,250	7,400	7,550
Unemployment Rate (pct)[4]	8.8	8.5	8.2
Money and Prices (annual percentage change):			
Money Supply (M2)[5]	48.4	28.8	21.9
Consumer Price Inflation[4]	15.4	10.2	12.0
Exchange Rate (sol/USD—annual average)	2.20	2.25	2.45
Balance of Payments and Trade:			
Total Exports (FOB)	4.6	5.6	6.0
Exports to United States[6]	0.6	1.0	1.2
Total Imports (FOB)	5.5	7.7	7.5
Imports from United States[6]	1.4	1.8	1.8
Merchandise Trade Balance	−1.0	−2.1	−1.5
Balance with United States[6]	−0.6	−0.8	−0.5
Current Account Deficit/GDP (pct)	5.2	7.2	5.7
External Public Debt	24.0	25.2	23.4
Debt Service/Exports	43.9	37.5	31.2
Fiscal Deficit/GDP (pct)	2.3	2.6	1.3
Foreign Exchange Reserves	6.2	6.6	8.4
Aid from United States (USD millions)	134	152	150
Aid from Other Countries (USD millions)	264	275	280

Source: Central Reserve Bank, National Institute of Statistics, Ministry of Labor and Embassy estimates.
[1] 1996 figures are estimates.
[2] Peru's GDP is the subject of considerable debate. Estimates within the Government of Peru vary widely. We have used Ministry of Economy and Finance figures here. The National Institute of Statistics is currently constructing a new GDP estimate based on 1994 as a base year.
[3] Estimates for 1996 are for the first 9 months of the year.
[4] Lima Metropolitan Area only.
[5] Figures are for money supply in national currency only. The majority of financial system liquidity consists of dollars.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Peru is essentially a free market economy which provides significant trade and investment opportunities for U.S. companies. This is due primarily to the economic reform program launched by President Alberto Fujimori in 1990 and continued through 1996. Over the past 6 years, the Peruvian Government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: The economy will probably grow at about 2.5 percent in real terms in 1996. This is down from 13 percent growth in 1994 and 7 percent growth in 1995. In mid-1995, the government began to tighten the monetary base, slowing the economy, over concern for the current account deficit which had risen to over 7 percent of GDP in 1995. In agreement with the International Monetary Fund (IMF), Peru in July 1996 outlined an economic program projecting growth to pick up in 1997 and rise to over 6 percent in 1998. In the same agreement, Peru projected 1996 inflation at 9.5–11.5 percent, in line with the 10.2 percent recorded in 1995, and significantly down from the hyperinflation Peru experienced in 1989 and 1990. Peru also promised a balanced budget by 1998 and an increase in expenditures on education and health. Unemployment and low wages remain important problems in Peru.

Trade Policy: The United States is Peru's largest trading partner, with an estimated $1.1 billion of exports to Peru in 1996. Peru's average tariff rate has been cut to 16 percent, compared with 80 percent in 1990. Currently, a 15 percent tariff rate applies to over 95 percent of imports, and a 25 percent rate applies to the rest (although duty is not assessed on some imports from countries with which Peru has free trade agreements). This tariff structure may change, however, if Peru decides to reintegrate itself into the Andean Pact free trade area and accept its common external tariff structure, or CET (currently consisting of five rates ranging from 0 to 20 percent). Peru proposed at the end of 1996 that the Pact establish, as a condition for Peru's reintegration, a CET with three bands (5, 10, and 15 percent), but no decision has yet been reached. Andean reintegration talks in late 1996 were joined by new negotiations between the Pact (Venezuela, Bolivia, Colombia, Ecuador, and Peru) and Mercosur (Brazil, Argentina, Uruguay, and Paraguay) over plans to establish an eventual free trade area between the two blocs. Peru plans to reintegrate fully into the Andean Pact before this free trade area is created. Peru's flat tariff policy has come under criticism both from industry groups demanding greater protection and from exporters claiming that the duties they have to pay on their imported inputs are too high. Because the Peruvian Government derives a high proportion of its income from customs duties, the government has been reluctant to make major changes to its tariff policy.

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. Dollars account for two thirds of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. The Central Bank does not finance the fiscal deficit. Recurrent government expenditures have been in balance with revenues since late 1990, and the combined fiscal deficit (resulting from debt payment) has been financed by external sources. Over the last 3 years, a strong inflow of foreign capital, primarily from privatizations, has more than offset the merchandise trade deficit, and net foreign reserves have grown to more than $8 billion (they were negative in mid-1990). Peru reached agreement in July 1996 to reschedule its official debt (Paris Club) and is expected to close a deal with its commercial creditors (Brady plan) by the end of 1996.

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.

During the first 9 months of 1996, the sol declined by about 8 percent against the dollar in nominal terms. However, when differences in inflation rates are taken into account, the sol has remained roughly constant. Some industry groups have been pressuring the government to intervene to devalue the sol, but the government has thus far adhered to its laissez-faire policy. Given the fixation of most Peruvians on the dollar, a real devaluation of the sol will remain difficult to achieve.

3. Structural Policies

In the short span of 6 years, Peru has been converted from an economy dominated by a protectionist and interventionist state to a liberal economy dominated by the private sector and market forces. Several major state-owned businesses have been privatized in the past 4 years. Although the timetable for the privatization program has slipped over the past couple of years, the government has announced plans to sell the remaining state-owned enterprises by 1998. Still to be sold are the remaining parts of the petroleum company (Petroperu), the remaining electrical utilities, the water and sewage utilities, management of the ports and the airport, and the remaining mining properties, including the largest, Centromin. 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 once corrupt and inefficient tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to over 14 percent by late 1996. Customs collections have more than tripled since the early 90's, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies heavily on consumption taxes, including an 18 percent value-added tax (VAT). There are also selective consumption taxes on certain items, such as automobiles. As a result, the total tax levied on an imported new car, including VAT, excise tax and 15 percent tariff, exceeds 40 percent.

Regulatory regimes have been streamlined in most sectors. For example, registration of a new company now takes about a month in most cases, compared with 2 years under the previous regime. Under the new automatic registration process, companies may open for business if they do not receive a negative reply to their license applications within 60 days. There are exceptions for certain regulated industries, such as casinos, which require approval of the gaming commission. The 1993 constitution guarantees national treatment for foreign investors. However, many investors continue to have problems because of Peru's unpredictable judicial system and irregular business practices in both the public and private sectors.

4. Debt Management Policies

Peru's public external debt at the end of June 1996 totaled $25 billion—roughly one half of GDP. Total service payments due on the debt for 1996 are estimated at $1.4 billion, or 37 percent of merchandise exports for the year.

Peru cleared its arrears with the Interamerican Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank and negotiated an Extended Fund Facility with the IMF for 1993–95. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993 to March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996.

After a difficult and sometimes contentious 2 year process, Peru reached agreement in principle to restructure its approximately $8 billion commercial bank debt in October 1995. Peru has formally announced that it will pay slightly less than $1 billion in cash to buy back approximately $2.5 billion in principal and past due interest. The remaining $5.7 billion in principal and past due interest will be rolled over into Brady bonds. The World Bank, IMF, and IDB will provide $700–800 million in credits to help underwrite the upfront costs of the deal. The deal is expected to close in early December 1996.

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 6 years. There are no quantitative or qualitative ceilings on imports. Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in cocaine production); and ammonium nitrate fertilizer, which has been used as a blast enhancer for terrorist car bombs. Fireworks imports are banned, and the import of used clothing and shoes is prohibited. A 15 percent tariff applies to more than 95 percent of the value of products imported into Peru; a 25 percent rate applies to the rest. However, Peruvian customs estimates that approximately 15 percent of imports to which the 15 percent tariff would normally apply actually enter Peru tariff-free. These are products from countries with which Peru has full (Bolivia) or partial free trade agreements (Colombia, Venezuela, Ecuador). Peru became a founding member of WTO in January 1995.

Customs procedures have been simplified and the customs administration made more efficient in recent years, although some importers have valuations problems. As part of the reform of customs Peru implemented a system of preshipment inspections, through which private inspection firms evaluate all incoming shipments worth more than $2,000. The importer must pay up to 1 percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays.

Import surcharges imposed in May 1991 remain in effect on 20 categories of agricultural products, covering five basic commodities: wheat, rice, corn, sugar and milk products. The surcharges are calculated monthly, according to prevailing international prices for each commodity. The Peruvian Government defends the surcharges as necessary to protect Peruvian farmers from subsidized international competition and cushion the effect of an overvalued sol and structural adjustment. In 1993, the government agreed to phaseout the surcharges by 1997 as a condition for disbursement of an Interamerican Development Bank trade-sector loan. The government began reducing the surcharge levels in April 1994. Because of high international prices during 1996, surcharges were practically non-existent.

6. Export Subsidies Policies

The Peruvian Government provides no export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies). Exporters can receive rebates of the import duties and 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. The GOP has now announced plans to raise the rebate to 8 percent.

7. Protection of U.S. Intellectual Property

Peru passed two new laws in April 1996 designed to improve its intellectual property rights protection regime and to bring its national laws into conformity with Andean Pact decisions and international obligations on intellectual property. While the new laws are an improvement, they contain several deficiencies, particularly regarding MFN and "standstill" obligations under the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIPS) Rights. Peru, along with the Andean Pact, must further improve its intellectual property regime before the year 2000 when the transition period under the TRIPS agreement ends. While enforcement has been stepped up, piracy remains widespread. Peru was placed on the Special 301 watch list in 1996.

Peru is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Paris Convention on Industrial Property, the Geneva Convention for the Protection of Sound Recordings and the Brussels Convention on the Distribution of Satellite Signals and is a member of the World Intellectual Property Organization. In December 1994, the Peruvian Congress ratified the WTO agreement on Trade-Related Aspects of Intellectual Property (TRIPS).

Peru held consultations on patent protection in November 1996. Presently, the matter remains under consideration.

8. Worker Rights

Articles 28 and 42 of the Peruvian constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of 8.5 million, only about 5 percent belong to unions. More than half the workforce 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 a new employment law in June 1995 that union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this new law with the ILO, and the ILO noted that the new law 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. There are periodic reports of forced labor in remote mountainous and jungle areas, which the government claims is located beyond its control. In response to a complaint filed with the ILO, the government in 1994 acknowledged the existence of such practices and said it had taken measures to end them. But reports of forced labor continued to surface in 1995, including reports of children being forced to pan for gold in remote Madre de Dios Department.

d. *Minimum Age of Employment:* The minimum legal age for employment is 16. 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. A recent government study indicated that 8 percent of the workforce was between the ages of six and 14.

e. *Acceptable Conditions of Work:* The 1993 Constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal." No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector. The current minimum wage is 210 soles per month (about $87 at the current exchange rate).

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors, and more recently in electrical generation. Labor conditions in those sectors compare favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		101
Total Manufacturing		65
Food & Kindred Products	(1)	
Chemicals and Allied Products	33	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		60
Banking		(1)
Finance/Insurance/Real Estate		1
Services		(1)
Other Industries		952
TOTAL ALL INDUSTRIES		1,213

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

TRINIDAD AND TOBAGO

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
GDP (at current prices)	4,942	5,184	5,441
Real GDP Growth (pct)	3.6	2.4	3.1
GDP by Sector:			
Services	2,506	2,695	2,888
Agriculture	111	107	114
Petroleum	1,434	1,414	1,451
Manufacturing	387	445	447
Government	503	526	541
Per Capita GDP (actual)	3,954	4,116	4,288
Labor Force (000s)	509	521	525
Unemployment Rate (pct)	18.4	17.2	16.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	−1.8	2.0	2.9
Consumer Price Inflation	8.8	5.3	3.6

Key Economic Indicators—Continued

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

	1994	1995	1996
Exchange Rate (TT$/USD)	5.87	5.89	6.03
Balance of Payments and Trade:			
Total Exports (FOB)	1,972	2,477	2,295
Exports to United States [1]	1,113	968	1,028
Total Imports (CIF)	1,374	1,885	1,807
Imports from United States [1]	541	689	644
Trade Balance	598	592	488
Balance with United States [1]	572	279	384
Current Account Deficit/GDP (pct)	4.8	5.2	1.4
External Public Debt	2,064	1,905	1,670
Debt Service Payments/GDP (pct)	11.9	8.4	6.0
Fiscal Deficit/GDP (pct)	−0.1	1.0	0.9
Gold and Foreign Exchange Reserves	515	467	564
Aid from United States	0.5	0.4	1.0
Aid from Other Countries	N/A	N/A	N/A

All statistics compiled by the Central Statistical Office, except BOP/trade figures which are compiled by the Central Bank. All 1996 figures are estimates based on the first 6 months.

[1] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

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 led 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 recent structural reforms have begun to stimulate growth in non-hydrocarbon sectors, overall economic prospects remain closely tied to oil, gas and petrochemical prices and production.

Since 1992, the government has successfully turned the state-controlled economy into a market-controlled 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. A 5-percent customs duty levied on imports of manufacturing inputs was lowered to 2.5 percent effective August 1995 and eliminated altogether in several categories.

Trinidad and Tobago aggressively courts foreign investors, and signed a bilateral investment treaty with the United States in 1994. New U.S. investment grew to US$400 million in 1995, and will total about US$3 billion from 1996 to 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 dramatically, contributing to small public sector budget surpluses in both 1995 and 1996 in spite of increased outlays.

The exchange rate, which was loosely managed by the Central Bank after it was floated in 1993, remained stable in 1994 and 1995. In 1996 supply and demand imbalances led to more volatility. The Central Bank relies largely on commercial bank reserve requirements to control the money supply, raising them as high as 21.3 percent in 1995 and to 23 percent in 1996. The Bank is now switching to open-market operations. Inflation has declined steadily since 1991, and is expected to fall below 4 percent in 1996.

2. Exchange Rate Policy

In April 1993 the government removed exchange controls and floated the TT dollar, which had been pegged to the U.S. dollar at the rate of TT$4.25 since 1988. The Central Bank loosely manages the rate through currency market interventions and consultations with the commercial banks. The average rate in 1994 and 1995 stabilized at just under TT$6.00 to US$1.00. 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$6.21 to US$1.00 on October 22. In early November, the rate hovered around TT$6.06 to US$1.00. Foreign exchange supply depends heavily on the 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 fall in value of the TT dollar from its previous pegged rate of TT$4.25 to US$1.00 lowered imports from the United States in 1993. However, the dismantling of tariff and trade barriers and liberalization of the investment regime led to a 36 percent growth of imports from the United States in 1995. While U.S. imports fell slightly in 1996, they will likely rise in 1997 with several mostly U.S.-content petrochemical plants slated to begin 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 CARICOM-origin goods, most goods entering Trinidad and Tobago have been subject to varying import charges, including customs duties, stamp taxes, excise taxes, import surcharges and value-added tax (VAT). Many 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. The CET, in turn, is being reduced on a phased basis to reach 5 to 20 percent by 1998. 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 to 2.5 percent from 5 percent and eliminated in several categories. Import surcharges of from 20 to 60 percent (the latter on a very small number of items) are still levied on most meats, milk, and some fruits and vegetables, which were previously subject to quotas under the "negative list." The surcharges will be progressively phased out by 1999.

The standard rate of VAT is 15 percent; however, many basic commodities are zero-rated. Excise tax is levied only on petroleum products, tobacco and alcoholic beverages. The corporate tax rate was lowered in 1994 from a maximum of 45 percent to 38 percent, 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

Trinidad has repaid all but US$21 million of a US$335 million IMF loan and enjoys excellent relations with the international financial institutions. Its major lender is the Inter-American Development Bank (IDB), which by early 1996 had approved US$640 million in loans. Total external debt has declined steadily, falling to below US$2 billion for the first time in 1995. The debt to GDP ratio fell to 35 percent in 1995 and to an estimated 31 percent in 1996, while debt service as a percent of exports fell from 21.5 percent in 1995 to 18.5 percent in 1996. The lower 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, and Standard and Poor's to give it an initial rating of BB+ (among the highest in the hemisphere).

5. Significant Barriers to U.S. Exports

Trinidad and Tobago is highly import-dependent, with the United States supplying over 45 percent of total imports in both 1995 and 1996. Only a limited number of items remain on the "negative list" (requiring import licenses). These include some seafood, livestock, and meats, some oils and fats, some paper products, sugar, copra, left-hand drive vehicles, pesticides, and boats under 250 tons.

Foreign 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. However, on one occasion in 1995 the Food and Drug Division held up imports of U.S. canned vegetables by requiring new and non-customary certificates. In 1996, importers of U.S. goods complained about overly rigid standards for used clothes and tires.

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 non-tax incentives may be negotiated. On September 26, 1994 the government signed a bilateral investment treaty with the United States, granting national treatment and other benefits to U.S. investors. The treaty is expected to come into force in early 1997 at the latest. The repatriation of capital, dividends, interest, and other distributions and gains on investment may be freely transacted.

Government procurement practices are generally open and fair 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.

6. Export Subsidies Policies

The government does not directly subsidize exports. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates. The government also offers incentives to manufacturers operating in free zones (export processing zones) to encourage foreign and domestic investors. 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.

7. Protection of U.S. Intellectual Property

Trinidad and Tobago signed an Intellectual Property Rights Agreement with the United States in 1994 which, along with Trinidad's commitments under the WTO TRIPs agreement, necessitated revisions of most IPR legislation. All but one of the new pieces of legislation—the Copyright Act—has been passed by parliament. While the government's awareness of the need for IPR protection has improved, enforcement of existing regulations remains lax.

Trinidad and Tobago is a member of the Universal Copyright Convention, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the Rome Convention for the Protection of Performers, Producers of Phonograms, and Broadcasting Organizations. As a member of the Caribbean Basin Initiative, the government is committed to prohibiting unauthorized broadcasts of U.S. programs.

Until enactment of the new legislation, copyright protection is governed by the Copyright Act of 1985, which complies with the revised Berne and Universal Copyright Conventions. A copyright is valid for a period of fifty years. Although the Act provides for protection of literary, musical and artistic works, computer software, sound recordings, audio-visual works and broadcasts, it is not well enforced. Video rental outlets in Trinidad and Tobago are replete with pirated videos, and pirated audio cassettes are sold openly in the street and in some stores.

The existing law on patent protection is the Patents and Design Act, which established a registration system with no form of examination of patentable subject matter, novelty, inventive step, or industrial applicability. Patents are currently valid for a period of 14 years and may be extended repeatedly for periods up to 7 years with permission of the President. Infringement of patents is not a discernible problem in Trinidad and Tobago, but the existing law is outdated. The new patent law, which introduces a full examination system, is now awaiting proclamation by the President.

The new Trademark Amendment Act was proclaimed on August 16, 1996. Trademarks can be registered for a period of 14 years, with unlimited renewals. Counterfeiting of trademarks is not a widespread problem in Trinidad and Tobago.

New technologies: Larger firms in Trinidad and Tobago generally obtain legal computer software, but some smaller firms are believed to use wholly or partially pirated software. Licensed cable companies are faced with unlicensed cable operators and satellite owners who connect neighborhoods to private 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 copyright enforcement. By signing the IPR agreement, the government has acknowledged that IPR infringement is a deterrent to investment and that it is committed to improving both legislation and enforcement.

8. Worker Rights

a. *The Right of Association:* The right of association is respected in law and practice, and unions are independent of government or political party control. Union members are free to choose representatives, air their views and determine their own policies. All employees except those in "essential services" have the right to strike. Union membership is declining, with less than 30 percent of the workforce now belonging to the 14 functioning unions.

b. *The Right to Organize and Bargain Collectively:* The right of workers to bargain collectively is established in the Industrial Relations Act of 1972. Anti-union discrimination is prohibited by law. The same laws apply in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not explicitly prohibited by law, but there have been no reports of its practice.

d. *Minimum Age for Employment of Children:* Legislation prohibits the employment of children under the age of 12, and children aged 12 to 14 are permitted to work only in family businesses. General employment is permitted after age 14.

e. *Acceptable Conditions of Work:* There is no national minimum wage; however, the government has set minimum wage standards in 53 job categories ranging from US$26 to US$57 per week. The standard work week is forty hours, with no cap on overtime.

The Factories and Ordinance Bill of 1948 sets occupational health and safety standards in certain industries. State inspectors monitor conditions in work places and workers who refuse to perform work because of hazardous conditions are protected from retribution under the Industrial Relations Act of 1972.

f. *Rights in Sectors with U.S. Investment:* Employee rights and labor laws in sectors with U.S. investment do not differ from those in other sectors.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		506
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(2)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	3	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		13
Services		2
Other Industries		(1)
TOTAL ALL INDUSTRIES		813

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

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URUGUAY

Key Economic Indicators

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

	1994	1995	1996 [2]
Income, Production and Employment:			
Nominal GDP [3]	7.5	7.3	7.4
Real GDP Growth (pct)	6.8	−2.4	1.0
GDP by Sector:			
Agriculture	1.4	1.6	1.7
Manufacturing	3.0	3.1	3.3
Financial Services	1.3	2.0	2.0
Other Services	5.3	5.6	5.7
Government/Health/Education	1.1	1.6	1.7
Per Capita GDP (USD)	5,110	5,595	N/A
Labor Force (000s)	1,409	1,423	1,436
Unemployment Rate (pct)	9.2	10.3	13.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	37.3	37.9	33.0
Consumer Price Inflation	44.1	35.4	23.0
Exchange Rate (Uruguayan peso/USD—annual average)			
Interbank floating selling rate	5.05	6.93	7.99
Balance of Payments and Trade:			
Total Exports (FOB) [4]	1.9	2.1	2.4
Exports to United States (USD millions) [5]	168	167	257
Total Imports (CIF) [4]	2.8	2.9	3.0
Imports from United States (USD millions) [5]	311	396	484
Trade Balance [4]	−0.9	−0.8	−0.6
Balance with United States (USD millions) [5]	−143	−229	−227
Current Account Deficit/GDP (pct)	2.7	1.9	1.5
External Public Debt	4.6	4.9	5.0
Debt Service Payments/GDP (pct)	4.1	3.8	3.8
Fiscal Deficit/GDP (pct)	2.6	1.8	1.5
Gold and Foreign Exchange Reserves (net)	1.4	1.8	1.8
Aid from United States (USD millions)	1.0	1.0	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Data in Uruguayan pesos was converted into U.S. dollars at the average interbank selling exchange rate for each year.
[2] 1996 figures are all estimates based on available monthly data in October 1996.
[3] GDP at producer price.4/Merchandise trade.5/Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Uruguay has a small, open economy. The historical basis of the economy has been agriculture, particularly livestock production. Agriculture remains important both directly (wool and rice) and indirectly for inputs to other sectors (textiles, leather and meat). Industry, which diversified beyond agro-industry into chemicals and consumer goods for local consumption, has declined in the face of greater competition, and now accounts for 20 percent of GDP. The service sector, particularly tourism and financial services, now dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

The government was relatively successful in reducing its fiscal deficit from 7.4 percent in 1989 to a small surplus in 1992. However, the deficit reemerged in 1993, grew to 2.9 percent of GDP in 1994 and reached 3.4 percent of GDP by March 1995. Principal sources of the deficit are losses by the Central Bank on nonperforming loans purchased from private banks, foreign debt payments and transfers to the social security system. Inflation, which peaked at 129 percent in 1990, declined to 35 percent in 1995.

The government of President Julio Maria Sanguinetti, which took office in March 1995, has been implementing a three-stage stabilization program consisting of: a) an immediate fiscal adjustment package focused mainly on industrial tax incentives and increased payroll and consumption taxes; b) a medium-term program for government downsizing; and, c) a long-term program for social security reform to address one of the main sources of the deficit. A fiscal adjustment law to implement the tax measures of the stabilization program went into effect in May 1995. The social security reform legislation was approved by Congress in September 1995 and is being implemented gradually. The reduction of the fiscal deficit through social security reform will take at least 10 years and is being facilitated by long-term foreign financial assistance during the transition period. The medium-term program for a major restructuring of government was part of the Sanguinetti Administration's 5-year budget submission which was approved by Congress in December 1995.

At the end of December 1995, the public sector deficit had decreased to about 1.6 percent of GDP. The inflation rate decreased to 35 percent for 1995 and the rate for the twelve month period ending October 1996 had further decreased to 26 percent.

Uruguay is the beneficiary of large inflows of capital, principally from neighboring Brazil and Argentina. The government has been able to finance a substantial portion of its deficit through the issuance of dollar-denominated treasury bills. The Central Bank of Uruguay uses the adjustment of reserve requirements as the main tool to control the money supply. However, the lack of instruments to sterilize capital inflows makes control of the money supply difficult.

The International Monetary Fund (IMF) approved the Uruguayan Government economic program for 1996. Discussions are underway on targets for a 1997 program.

2. Exchange Rate Policy

The Uruguayan Government allows the peso to float against the dollar within a declining 7 percent band. The band currently declines by 1.4 percent per month. The Central Bank regularly buys and sells dollars to keep the peso's value within the band. The gap between devaluation and inflation was 9 percentage points at the end of 1995, and by September 1996 had decreased to 1.5 percentage points.

Uruguay has no foreign exchange controls. The peso is freely convertible into dollars for transactions and much of the economy is dollarized.

3. Structural Policies

Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels. The government relies heavily on consumption taxes (value-added and excise) and taxes on foreign trade (export taxes and import tariffs) for its general revenue. A substantial social security tax, up to 50 percent of the base wage rate, is assessed on workers and employers. The top tariff rate was lowered from 24 percent to 20 percent in January 1993, which had a positive effect on U.S. exports to Uruguay. Tariff rates declined to zero percent for most Mercosur (Southern Cone Common Market composed of Argentina, Brazil, Paraguay, and Uruguay) products on January 1, 1995, and a common external tariff (CET) entered into effect on imports from non-Mercosur countries ranging (with some exceptions) between zero and 20 percent.

4. Debt Management Policies

As of March 1996, Uruguay's total external debt was $10 billion. Of this amount, $4.8 billion was public sector debt and $5.2 billion represented private sector debt. The public sector external debt included $1.9 billion in dollar-denominated Uruguayan Government bills and bonds, $357 million in foreign currency deposits of nonresidents, $2.1 billion in long-term loans of the nonfinancial public sector and $136 million in supplier credits. The balance, amounting to $307 million, represents liabilities, reserves and other credits of the government financial sector. International reserves of the public sector banking system amounted to $2.7 billion, resulting in a net public sector foreign debt of $2.1 billion.

The $5.2 billion of the private sector foreign debt was primarily made up of $3.1 billion of foreign currency deposits by nonresidents and $391 million of supplier credits. The balance, amounting to $1.7 billion, represented liability reserves of the private banks. International reserves of the private sector banks amounted to $5 billion, resulting in a net private sector foreign debt of $200 million.

The debt service in 1995 was $675 million, equivalent to 32 percent of total merchandise exports, 18 percent of combined merchandise and service exports, and less than 4 percent of GDP.

5. 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 years. Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active in off-shore banking. There are no significant restrictions on professional services such as law, medicine or accounting. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance coverage in Uruguay was passed in October 1993.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment 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.

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 10 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 yet to sign the WTO Government Procurement Agreement.

Following a recent reduction in the top rate, Uruguay's tariff structure now varies between zero and twenty percent. Most imports from Mercosur member countries enter free of duty. The only exemptions to tariff regulations, in the context of anti-dumping legislation, are reference prices and minimum export prices, fixed in relation to international levels and in line with commitments assumed under WTO. These are 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.

6. Export Subsidies Policies

The government provides a 9-percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports.

7. Protection of U.S. Intellectual Property

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 3 years of registration in the country of origin. Registered patents are protected for 10 years, less the period of protection already enjoyed in the country of origin. Licensing is not mandatory. Pharmaceuticals and chemical products are not patentable. The lack of patent protection for pharmaceuticals has had a marked negative effect on U.S. trade and investment in the sector.

Foreign trademarks may be registered in Uruguay and receive the same protection as domestic trademarks. Protection is afforded for 10 years initially and is renewable.

Uruguay affords copyright protection to, inter alia, books, records, videos, and software. Despite legal protection, enforcement of copyrights for software is still weak and pirating of software is estimated at 90 percent. Software suppliers have estimated that losses due to pirating are in excess of $10 million. There is also considerable pirating of videotapes and music cassettes. The International Intellectual Property Alliance estimates trade losses from copyright piracy of books, motion pictures, sound recordings and musical compositions at over $9 million.

8. Worker Rights

a. *The Right of Association:* The Constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and in practice.

d. *Minimum Age for Employment of Children:* Children as young as 12 may be employed if they have a work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work apart from domestic employment.

e. *Acceptable Conditions of Work:* There is a legislated minimum wage. The standard work week is 48 hours for 6 days, with overtime compensation. Workers are protected by health and safety standards, which are generally 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 often are better than average.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		119
Food & Kindred Products	94	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		35
Services		3
Other Industries		0
TOTAL ALL INDUSTRIES		368

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	58.1	75.0	63.8
Real GDP Growth (pct)[3]	−2.8	2.2	−1.6
GDP by Sector:			
Agriculture	2.9	3.8	3.2
Manufacturing	12.5	16.1	13.7
Services	20.9	27.0	23.0
Government	4.9	6.3	5.4
Per Capita GDP (USD)	2,718	3,434	2,858
Labor Force (000s)	8,026	8,611	9,205
Unemployment Rate (pct)	8.5	10.2	15.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	56.3	36.7	24.2
Consumer Price Inflation	70.8	56.6	103.0
Exchange Rate (Bs/USD—annual average)[4]			
Official	148.9	176.8	411.3
Parallel	158.8	270.3	462.6

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Balance of Payments and Trade:			
Total Exports (FOB)[5]	15.7	18.3	22.7
Exports to United States[6]	8.4	9.7	12.6
Total Imports (FOB)[5]	8.1	11.6	10.2
Imports from United States[6]	4.0	4.6	4.8
Trade Balance[5]	7.6	6.7	12.5
Balance with United States[6]	4.3	5.1	7.8
External Public Debt	27.0	26.9	26.5
Fiscal Deficit/GDP (pct)	6.8	4.8	0.2[7]
Current Account Surplus/GDP (pct)	4.2	2.0	11.8
Debt Service Payments/GDP (pct)	8.8	7.7	9.5
Gold and Foreign Exchange Reserves	11.5	9.7	14.2
Aid from United States (USD 000s)[8]	595	750	800
Aid from All Other Sources	N/A	N/A	N/A

[1] 1996 figures are all estimates based on available monthly data in November 1996.
[2] GDP at market value.
[3] Percentage changes calculated in local currency.
[4] On April 22, 1996, the government abandoned the fixed rate of 290 bolivars to the dollar, eliminated exchange controls, and allowed the currency to float. For the remainder of 1996, the bolivar hovered around 470 bolivars 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 and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] A surplus of 0.2 percent is forecast for 1996.
[8] Counternarcotics assistance and aid under the International Military Education and Training Program.

1. General Policy Framework

Venezuela's potential as a market for U.S. exports improved significantly in 1996, as the government abandoned the exchange and price controls it had enacted in 1994 to cope with a financial crisis in the banking sector. Under the name "Agenda Venezuela," President Caldera in April 1996 announced a series of economic reforms designed to put Venezuela back on a free-market path. A $1.4 billion standby agreement with the International Monetary Fund (IMF) in July helped give the reform program credibility. Among other reforms, the government significantly reduced the longstanding subsidy on gasoline, which resulted in an immediate 500 percent increase in pump prices. After experiencing the failure of interventionist measures to improve the country's economic situation, the public accepted the reforms with a minimum of political and social unrest. This was in stark contrast to 1989, when a move by the government to increase gasoline prices caused major riots that left more than 300 dead.

Under the "Agenda Venezuela," the government has also begun to trim the bloated public bureaucracy and re-start its stalled privatization program. In November 1996, the government sold most of its remaining 49 percent stake in CANTV, the national telephone company, completing a privatization process begun in 1991. In 1997, several affiliates of state industrial holding company CVG—a four-company aluminum complex, an iron and steel company, and a ferrosilicon plant—are scheduled to go on the auction block. All together, these companies are expected to sell for more than $3 billion. Similarly, the government is proceeding with plans to reprivatize a number of banks, insurance companies, and other financial institutions taken over by the state during the 1994 banking crisis. At the end of 1996, the government was holding tripartite meetings with business and labor to forge a consensus on reforming the costly severance benefit system, which currently requires employers to pay up to 2 months' salary for each year of employment of a departing worker. While an agreement on reform will be difficult to reach, all parties acknowledge that the current system is unsustainable.

Venezuela is rich in natural resources, including petroleum, natural gas, hydroelectric power, bauxite, iron ore, coal, gold, and diamonds. The petroleum industry still dominates Venezuela's economy, accounting in 1995 for roughly 25 percent of the country's GDP, 50 percent of central government revenues, and 72 percent of export earnings. The role of petroleum is likely to become even more important as the state petroleum company (PDVSA) plans to double its production over the next 10 years, from its current level of 3.3 million barrels per day (b/d) to more than 6 million b/d by 2006. At the same time, however, the government has begun efforts to diversify the Venezuelan economy by expanding non-oil exports. Toward that end, the government will create a new Ministry of Industry and Commerce in early 1997, which will put the current Ministry of Development and the semi-autonomous Foreign Trade Institute (ICE) under one roof. A new Foreign Trade Bank (BANCOEX) will also begin operations in early 1997 with a charter to promote as well as finance exports. The idea is to make trade policy one of the main instruments of economic development.

Real GDP contracted in 1996 as a result of macroeconomic adjustments, but is expected to grow by 4 percent or more in 1997. The lifting of exchange and price controls followed by a major devaluation caused an inflationary burst in 1996, which was expected to push the consumer price index to more than 100 percent, the highest level ever recorded in Venezuela. Nevertheless, the underlying causes of the inflation—an expansionary credit policy, deficit spending, and the expansion of monetary liquidity—are being addressed. The government projects inflation in 1997 will fall to 25 to 30 percent, but that may be optimistic. The government was planning at the end of 1996 to place approximately $3 billion in windfall profits from higher-than-expected oil prices in a stabilization fund to keep the monetary inflow from derailing anti-inflationary efforts.

2. Exchange Rate Policy

On April 22, 1996, Venezuela ended exchange controls and abandoned the fixed exchange rate of 290 bolivars to the dollar. For the next several weeks, the bolivar was allowed to float freely. After the exchange rate stabilized at 470 bolivars per dollar, the BCV began to manage the bolivar within a 15-percent band of fluctuation. For the rest of 1996, the BCV devalued the central parity of the band at about 1 percent per month, in line with government inflation targets. The BCV sold short-term monetary notes (known as TEMS) 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, is required by law to sell its dollar proceeds to the central bank, which in turn supplies these dollars to the local market.

At the end of 1996, there was concern that the bolivar was becoming overvalued again since the rate had remained essentially unchanged in the face of continuing high domestic inflation. Among other things, the unexpected inflow of $3 billion in windfall profits from increased world oil prices has helped to keep the bolivar strong. On January 2, 1997, the central parity was adjusted to 472 bolivars to the dollar, with the 15 percent band continuing and the central parity projected to depreciate by 1.32 percent per month in 1997, in line with inflation targets. The BCV is expected to continue using the bolivar as an anchor against inflation at least through the first quarter of 1997. This policy could hurt non-traditional and agricultural exports and increase import demand, dampening economic growth in the non-oil sector. The Finance Ministry still retains the right to intervene in the foreign exchange market without consulting the BCV under the 1995 Foreign Exchange Law. The government, however, is unlikely to resort to foreign exchange controls given its commitment to the IMF standby program and the failure of the controls to stem capital flight during the financial crisis.

3. Structural Policies

Pricing policies: As part of its "Agenda Venezuela" reform program, the government in April 1996 lifted price controls on all basic goods and services, with the exception of 7,000 pharmaceuticals. However, there is an informal pricing agreement between the government and business with a view toward suppressing inflation. 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 plans to eliminate the rest of the subsidy on gasoline in March 1997, bringing domestic retail prices up to export prices. At the end of 1996, domestic retail prices were about 85 percent of export prices. The extent to which domestic retail prices change with the elimination of the subsidy will depend on international oil prices and the bolivar-dollar exchange rate.

Tax policies: All companies and individuals are required to register with the national tax authority (SENIAT) and are subject to taxation on income received from any economic activity carried out in Venezuela. 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. Hydrocarbon revenues of PDVSA are subject to a 67.7 percent income tax, in addition to a 16.7 percent royalty payment on production. 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. The government in September 1996 announced that future projects involving extra-heavy crude oil would also be entitled, on a case-by-case basis, to reductions in the 16.7 percent royalty payment to as low as 1.5 percent.

Since 1993, the government has imposed a 1-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 on certain items, at a rate of 10 or 20 percent. During the period of exchange controls (July 1994 to April 1996), the luxury tax was applied against many U.S. exports, including theatrical prints and videos. Now, far fewer items are subject to the tax.

4. Debt Management Policies

Venezuela's public sector external debt stood at $26.9 billion at the end of 1995 and was expected to decrease by $400 million during 1996. The 1995 stock of external debt included $17.6 billion in commercial bank debt rescheduled in 1990 and $9.3 billion in nonrestructured debt (including commercial bank debt and military promissory notes). External debt represents about 40 percent of GDP. In 1995, Venezuela's debt service totaled about $5.8 billion, or approximately 32 percent of export earnings. The government forecasted that debt service would increase to $6.1 billion in 1996, but the debt service/exports ratio was expected to fall to 27 percent on the strength of increased earnings from oil exports. Venezuela was scheduled to pay off $940 million in external debt arrears by the end of 1996 under its IMF standby agreement. The government raised part of the funds by issuing $500 million worth of bonds in the German financial markets in September 1996.

Venezuela also continues to carry a heavy domestic debt burden largely incurred during the 1994 financial crisis. Internal debt service represented 43 percent of total debt service in 1996. The cost of borrowing on domestic and international markets should come down for Venezuela as government export banks and financial markets regain confidence in government policymaking under the IMF standby agreement.

5. Significant Barriers to U.S. Exports

General: 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 Pact's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET, with a five-tier tariff structure of 0, 5, 10, 15, and 20 percent, reflects old import substitution ideas as it imposes the highest tariff rates on finished goods and the lowest rates on raw materials and intermediate products. The country's average import tariff on a trade-weighted basis is roughly 10 percent. Under the Andean Pact's Common Automotive Policy (CAP), assembled passenger vehicles are an exception to the 20-percent maximum tariff and are subject to 35-percent import duties. The CAP also sets minimum regional content requirements for automotive assemblers. The local content requirement for passenger cars was 30 percent in 1996 and is scheduled to rise to 33 percent for 1998.

Venezuela implemented the Andean Pact price band system in 1995 for certain agricultural products, including feedgrains, oilseeds, oilseed products, sugar, rice, wheat, milk, pork and poultry. In 1996, yellow corn was added to the price band system. Under the system ad valorem tariff 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 tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the tariff is reduced. floor and ceiling prices are set once a year based on average CIF prices during the past 5 years. A Presidential commission presented a draft law to Congress in October 1996 which would give the Ministry of Agriculture broad powers to intervene in food and feed markets for the express purpose of reducing Venezuela's dependence on imported food. Some two-thirds of the food consumed in Venezuela is imported. If the bill is passed, the concept of "food security" could be used as a justification to limit food imports and to subsidize domestic production.

Import Licenses: Venezuela does not have an import licensing regime, but sanitary and phytosanitary certificates from the Ministries of Health and Agriculture are required for most pharmaceutical and agricultural imports. The government has made extensive use of these measures to restrict agricultural and food imports. The import of U.S. pork and poultry has been banned since 1993 on the basis that there is a history of porcine respiratory and reproductive syndrome and avian influenza in the United States. Agricultural authorities, however, have failed to establish that these diseases do not already exist in Venezuela. The government also halts the issuance of phytosanitary permits for grain imports to protect domestic producers during their sorghum harvest. 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.

Service 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 want to work in the domestic Spanish-language media face similar re-validation requirements. Imports receiving government-approved tariff reductions, government financing or those which are government-owned must be insured by local insurers.

Standards, Testing, Labelling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have experienced difficulties in complying with the documentary requirements for issuance of COVENIN certificates. Some Venezuelan importers of U.S. products have alleged that the COVENIN applies these standards more strictly to imports than to domestic products. The ministries of finance and development issued a joint resolution in March 1996 introducing a new requirement for certificates of origin for imports which are "similar to goods which currently have antidumping or compensatory measures applied to them." Importers complained that the new requirement, which primarily affects textile and garment goods, would be burdensome and time-consuming.

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. However, the government may enter into agreements with private companies as long as the agreements guarantee state control of the operation, are of limited duration, and have the prior authorization of Congress. Since 1993, PDVSA has been opening the oil sector to increasing amounts of foreign investment through joint ventures and equity associations. PDVSA expects a total of $65 billion to be invested in the oil sector over the next 10 years, with $12 billion coming from U.S. firms participating in joint ventures.

Venezuela limits foreign equity participation to 19.9 percent in enterprises engaged in television, radio, Spanish language press, and professional services subjected to national licensing legislation. There are no formal barriers to foreign investment in the mining sector, but antiquated laws and complex executive decrees effectively inhibit it. Foreign investment is unrestricted in other sectors of the economy, but the government retains wide discretionary power to declare a sector as "basic" and to impose a 49-percent ceiling on foreign investment.

Venezuela's labor law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 27 of the law 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 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 established three classifications of tendering procedures for government procurement, based principally on the value of the goods and services being procured: general tenders (over $21,200), selective tenders ($2,120 to $21,200) and direct purchases (less than $2,120). For general and selective tenders within a "reasonable range," the law states that preference will be given to those which score highest on national content, labor impact, national value-added, local participation, and technology transfer. The government also applies an unwritten policy that local goods be purchased 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 material 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. Venezuela is not a signatory of the WTO Agreement on Government Procurement.

Customs Procedures: Venezuelan customs is plagued by corruption and antiquated procedures which frequently delay the clearance of incoming goods. In October 1996, however, the government took the first step in modernizing customs procedures by initiating a new computerized operation at La Guaira, one of the country's main ports. The computer system, known as SAVIA, automatically classifies incoming shipments and charges the appropriate customs duties based on information supplied by importers. SAVIA increases efficiency and reduces the potential for corruption by choosing at random those containers which need to be inspected. Traditionally, all incoming shipments have been individually opened and appraised by assigned customs agents. The government plans to extend SAVIA to Puerto Cabello and six other customs posts in 1997.

6. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with rebate of customs duties paid on imported inputs Exporters can also get a rebate of the 16.5 percent wholesale tax that is levied on imports. Foreign as well as domestic companies are eligible for these rebates, which are given in the form of tax refund certificates (CERTs) denominated in bolivars. Exporters of selected agricultural products—coffee, cocoa, some fruits and certain seafood products—receive a tax credit equal to 10 percent of the export's FOB value.

7. Protection of Intellectual Property

Venezuela's legal regime for the protection of intellectual property rights, as established by recent Andean Pact decisions and domestic legislation, does not provide adequate and effective protection. Enforcement of those rights by the government also remains inadequate, resulting in widespread piracy of well-known trademarks, videos, satellite signals, etc. Moreover, the Venezuelan court system has proven to be an unreliable means for pursuing IPR claims. As a result, Venezuela remains on the Special 301 Watch List.

The government has recently made some strides in addressing its deficiencies in enforcement. In July 1996, it created an Anti-Piracy Command (COMANPI) of eight police officers to work with the National Copyright Office to enforce copyright law. In the first few months of operation, COMANPI successfully raided several illegal videotape laboratories and seized thousands of pirated videotapes. The Motion Picture Association reported in October 1996 that the sales of legitimate videos in Venezuela by its member companies had increased 30 percent, apparently on the strength of recent enforcement efforts.

The government has also proposed a new customs law and a new patent and trademark law which would strengthen enforcement and impose criminal sanctions on violators, but at the end of 1996 both were still languishing before Congress. The Patent and Trademark Office (SARPI) and the National Copyright Office, which now are separate agencies under different ministries, are expected to be merged into an Office of Intellectual Property Rights under the new Ministry of Industry and Commerce in 1997. There are hopes that this new organization will focus and improve enforcement efforts.

Venezuela is a member of the World Industrial Property Organization (WIPO) and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Geneva Phonograms Convention, the Paris Convention for the Protection of Industrial Property and the Universal Copyright Convention. It has yet to accede to the Patent Cooperation Treaty or the Brussels Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite. Venezuela has not yet fully implemented the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPs).

Patents: Andean Pact Decisions 344 and 345, which came into effect in 1994, are comprehensive and offer a significant improvement over previous standards of protection for patents and trademarks provided by Venezuela's 1955 Industrial Property Law. The Decisions are faulty, however, since they include compulsory licensing provisions, working requirements, and restrictions on biotechnical inventions. In addition, the Decisions deny pharmaceutical patent protection for medicines listed on the World Health Organization' List of Essential Drugs, and they lack provisions concerning transitional ("pipeline") protection, and protection from parallel imports. The Decisions also lack provisions for enforcing intellectual property rights. At the end of 1996, the Venezuela Patent and Trademark Office was planning to propose a modification of Andean Pact Decision 344 that would remove many of these deficiencies and make it compatible with the WTO TRIPs agreement. The government has proposed legislation to modernize and upgrade the 1955 Industrial Property Law, but it is still pending before Congress.

Trademarks: Decision 344 improves protection for famous trademarks, prohibits the co-existence of similar marks, and provides for 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, despite their involvement in lengthy opposition proceedings. Trademark piracy is common in the clothing, toy and sporting goods sector and enforcement remains poor.

Copyrights: Andean Pact Decision 351 and Venezuela's 1993 Copyright Law are modern and comprehensive and have substantially improved protection of copyright products in Venezuela. The Copyright Law extended copyright protection to all creative works, including computer software. The law is being used aggressively by the new Anti-Piracy Command and private concerns to combat counterfeiting. Computer software and video piracy, however, is still rampant. Unauthorized reception and retransmission of U.S. satellite signals and services is also widespread.

New Technologies: Decision 351 and Venezuela's Copyright Law protect computer software, satellite signals and cable television but do not provide adequate criminal sanctions to deter violations. Decision 344 excludes from patent protection diagnostic procedures, animals, genetic material obtained from humans and many natural products but includes provisions for the protection of industrial secrets.

The Business Software Alliance, an association of computer program companies, estimates that U.S. trade losses due to inadequate copyright protection in Venezuela were approximately $162 million in 1995. Piracy of computer programs accounted for the largest losses ($110 million), followed by piracy of satellite signals ($27 million), records and music ($10 million), videotapes ($8 million), and motion pictures ($7 million). Comprehensive estimates for losses due to patent and trademark infringement were not available, but one company estimates that it has lost more than $200 million due to trademark piracy in Venezuela since 1987.

8. Worker Rights

a. *The Right of Association:* Articles 90 and 91 of the Constitution 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 confederation, the Venezuelan Confederation of Workers (CTV), and three smaller ones, as well as a number of independent unions, operate freely. About 25 percent of the national labor force of eight million workers 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. The code also contains a provision stating that wages may be raised by administrative decree, provided that the Congress approves the decree. The law prohibits employers from interfering with the formation of unions or with their activities and from stipulating as a condition of employment that new workers must abstain from union activity or must join a specified union.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code states that no one may "obligate others to work against their will." However, there are credible reports of prison labor being administratively imposed on persons detained under the vagrancy law.

d. *Minimum Age for Employment of Children:* The Labor Code allows children between the ages of 12 and 14 years to work if the National Institute for Minors or the Labor Ministry grants special permission. Children between the ages of 14 and 16, however, need only the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health" or could damage intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than 6 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:* Venezuela has a national urban minimum monthly wage of 15,000 bolivars ($32) and a national rural minimum wage of 12,000 bolivars ($26). In addition, minimum-wage workers in the private sector receive mandatory food and transport bonuses of 37,800 bolivars ($80) per month. The law excludes only domestic workers and concierges from coverage under the minimum wage decrees. 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 specified 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.

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. 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,747
Food & Kindred Products	427	
Chemicals and Allied Products	322	
Metals, Primary & Fabricated	70	
Machinery, except Electrical	58	
Electric & Electronic Equipment	23	
Transportation Equipment	376	
Other Manufacturing	470	
Wholesale Trade		398
Banking		(1)
Finance/Insurance/Real Estate		82
Services		28
Other Industries		806
TOTAL ALL INDUSTRIES		3,372

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

NEAR EAST AND NORTH AFRICA

ALGERIA

Key Economic Indicators

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

	1994	1995	1996 [1]
Income, Production and Employment:			
Nominal GDP [2]	42.5	41.4	44.7
Real GDP Growth [3]	−1.1	4.3	4.0
GDP by Sector:			
Agriculture	4.2	4.3	4.7
Manufacturing	4.0	3.8	4.1
Services	9.5	9.6	10.1
Government	5.4	4.9	5.0
Per Capita GDP (USD)	1,530	1,459	1,540
Labor Force (millions)	7.3	7.6	7.8
Unemployment Rate (pct)	26.5	28.1	28.3
Money and Prices (annual percentage growth):			
Money Supply (M2)	15.4	10.5	14.0
Consumer Price Index	29.0	29.8	19.0
Exchange Rate (annual average)			
Official	34.7	47.3	54.0
Parallel [4]	52.0	56.8	59.5
Balance of Payments and Trade:			
Total Exports (FOB)	8.5	9.9	12.5
Exports to United States [5]	1.5	1.7	2.1
Total Imports (CIF)	9.4	10.3	9.3
Imports from United States [5]	1.2	0.8	0.6
Trade Balance	−0.9	−1.3	3.2
Balance with United States [5]	0.3	0.9	1.5
Current Account Surplus/GDP (pct)	−4.34	−5.57	2.44
External Public Debt	29.5	31.7	32.0
Debt Service Payments/GDP (pct)	2.8	3.1	3.2
Fiscal Surplus/GDP (pct)	−9.3	−6.9	1.9
Gold and Foreign Exchange Reserves	2.7	2.0	4.0
Aid from United States	0	0	0
Aid from All Other Sources	0.4	0.3	0.4

[1] IMF, ADB, and U.S./French Embassy estimates.
[2] GDP at current market prices.
[3] Percentage changes calculated in local currency.
[4] Algerian press service, l'Economie, No. 36, September 1996.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The Algerian market presents significant commercial opportunities to U.S. exporters. Algeria has major oil and gas reserves being readied for nearby export markets, and U.S. technology and know-how are highly prized. 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. The government has deregulated the trade sector. Higher export earnings and debt payment rescheduling have provided banks with foreign exchange to finance imports. Algeria has a growing population, and its infrastructure is in desperate need of renovation. In addition, its industrial sector often employs antiquated technologies. Thus, over the medium and long term, Algeria should be a large and expanding market for U.S. exports of food, machinery, modern services and investment capital.

During 1996, U.S. exports to Algeria continued a decline, down by about 22 percent from the 1995 level. A record Algerian agricultural harvest displaced traditional U.S. food imports, and lack of American supplier credits placed many other U.S. exporters at a disadvantage in competition with European firms. In addition, new Algerian oil and gas field investment slowed, reducing demand for imports of equipment to the sector in which U.S.-Algerian commercial ties are strongest.

During the next 2 years, Algeria's domestic consumption will not rise quickly since the government plans to maintain tight fiscal and monetary policies in conjunction with an IMF-backed reform program. In 1996, the government had a budget surplus equaling about 2 percent of gross domestic product, a development which contrasts sharply with the deficits of the two previous years. The government achieved this by limiting budget expenditures, which in turn slowed some investment projects. It also raised excise taxes and some luxury import duties. This year's surplus enabled the government to pay off debts owed to the central bank, the Bank of Algeria.

Algerian monetary policy instruments remain limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set by the government. In late 1996 the central bank rediscount rate stood at about 13 percent, and commercial bank lending rates ranged between 17 and 24 percent. Although the government has sold bonds to help finance its deficit, total sales remain relatively small.

High interest rates restrict private investment in Algeria, as have lower real government capital expenditures. In addition, the unstable security environment raises investment risk. As a result, private businessmen in Algeria rarely undertake projects which do not promise payback within a few years.

2. Exchange Rate Policy

The dinar is not yet fully convertible, but may be by the end of 1998. Meanwhile, private and public importers may buy foreign exchange from the five commercial banks for commercial transactions provided they can pay for the hard currency in Algerian dinars. Since the end of 1995, banks can obtain foreign exchange in a full-fledged interbank foreign exchange market. Although commercial banks may buy foreign exchange from the Bank of Algeria at regular weekly auctions, at which the price of the dinar is set, 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 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 of the foreign 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 3 years. It has loosened its previously tight hold on state-owned enterprise's (SOE) purchasing, production, and pricing decisions and instead has given local managers more autonomy. At the same time, the treasury is providing SOEs with much less access to emergency financing to cover bad business decisions. The government has also pursued a policy of eliminating subsidies even on sensitive items like flour and milk. The subsidies on energy products will be removed in 1997.

The government transformed its former budget deficit into a surplus in 1996 in large part because of increases in revenues from hydrocarbon exports, which account for 60 percent of fiscal revenues. In 1996, the government modified its import duty schedule so that eight different rates cover all foodstuffs, semi-finished and finished products, the top rate being set at 50 percent. The IMF has recommended that the government strengthen its tax administration in order to at least double income tax collection as a percent of GDP; it reached only 1.6 percent of GDP in 1994 and may not have exceeded that in 1996.

4. Debt Management

Following the conclusion of an IMF standby agreement in March 1994, and a subsequent 3-year extended fund facility in April 1995, the Algerian Government rescheduled as much of its $32 billion foreign debt as possible. The government succeeded in reducing the share of export earnings spent on debt service payments from 49 percent in 1994 to 32 percent in 1996. The most important debt accord reached in 1995 was a $7.5 billion rescheduling of payments due to the Paris Club countries between 1995 and 1998. The government also concluded a $3.2 billion rescheduling agreement with London Club bankers in May 1995 which allows the Bank of Algeria to delay payments until 2000. The Algerian central bank estimated the 1995 rescheduling saved it $3.6 billion.

The improved debt situation in 1995 contributed to the 9.4 percent growth in imports from 1994 levels. Although the government projected at that time that imports would continue to rise about 6 percent annually for the remainder of the decade, imports declined 9.2 percent in 1996. Meanwhile, Algeria's foreign exchange reserves rose from $2.7 billion in 1994 to $4.0 billion in 1996. Assuming Algeria continues to meet its IMF-backed extended fund facility obligations, the 1997 debt rescheduling tranche should enable Algeria to limit the share of export earnings used for debt service to under fifty percent during the next 3 years.

Through its structural adjustment program, the government aims to raise non-hydrocarbon export revenues substantially by the end of this decade. Starting from a relatively low base of about $280 million in 1994, non-hydrocarbon exports rose to about $750 million in 1996. Petroleum and gas export earnings climbed from $8.6 billion in 1994 to about $13 billion in 1996. Algeria must increase its export earnings to maintain balance of payments viability when rescheduled debt payments begin coming due again. Payments are projected to increase from $3.8 billion in 1996 to $9.8 billion in 2000, and the increased burden will continue for several years thereafter.

5. Barriers to U.S. Exports

Algeria is in the process of negotiating accession to the World Trade Organization. The government has 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 imposes no particular testing, labeling, or certification requirements other than quality control on imported foods and drugs. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic and French, but this regulation is not widely enforced. Although the Customs Administration has officially simplified import clearance procedures, the clearance 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), and one multinational courier offers service in several Algerian cities. Although the PTT has a monopoly on all telecommunications services, the production, importation, and distribution of telecommunications equipment are allowed.

There are no significant barriers to or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law govern investments in these two sectors. Production sharing agreements are routine. A 1993 Investment Code broadly deregulated the investment regime in other sectors.

The Algerian Government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but we know of no instance in which 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 Subsidy Policies

About 97 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide these or non-hydrocarbon exports direct subsidies. However, despite recent rate hikes, electricity is subsidized and remains an indirect subsidy to local producers. The benefit of this subsidy is offset by the cost effect of an overvalued dinar (its official rate is slightly above the parallel rate), the effect of which is an implicit tax on Algerian exporters. The government has adopted new measures to encourage non-hydrocarbon exports in 1996. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance. Establishment of a state-owned bank to provide competitive financing for such exports is under consideration.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Convention on industrial property and the Universal Copyright Convention. Algerian legislation protects intellectual property and its enforcement is adequate. We know of no reports of cases of infringement, counterfeiting, or piracy.

Patents: 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.

Trademarks: 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). INAPI sources indicate that a new law is under consideration which would transfer trademark authority back to INAPI.

Copyrights: An April 1973 Algerian law provides copyright protection for books, plays, musical compositions, films, paintings, sculpture and photographs. The law also grants authors 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 effect on U.S. trade. We have 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 this 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 44-hour workweek, which may be reduced to 40 hours within the next 6 months. A guaranteed monthly minimum wage is 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. *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. Workers at American firms enjoy better pay and safety than do workers elsewhere in the economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		3
Services		0

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Other Industries	(1)
TOTAL ALL INDUSTRIES	228

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
GDP (at current prices)	4,842	5,035	5,200
Real GDP Growth (pct)	4.1	4.0	3.5
GDP by Sector:			
Agriculture	48	52	54
Manufacturing	852	1,108	1,200
Services	1,021	1,157	1,300
Government	943	979	1,009
Per Capita GDP (USD)	8,900	8,900	8,800
Labor Force (000s)	221	231	232
Unemployment Rate (pct)	15	15	15
Money and Prices (annual percentage growth):			
Money Supply (M2)	5.6	6.1	6.1
Consumer Price Inflation	0.9	N/A	N/A
Exchange Rate (BD/USD)	0.377	0.377	0.377
Balance of Payments and Trade:[2]			
Total Exports (FOB)[2]	3,604	4,030	4,434
Exports to United States[3]	148	134	117
Total Imports (CIF)	3,734	3,613	4,075
Imports from United States[3]	444	255	241
Trade Balance	−139	396	359
Balance with United States[3]	−296	−121	−124
Current Account Deficit/GDP (pct)	7	3	2
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1,170	1,150	1,300
Aid from United States	0	0	0
Aid from All Other Sources	50	50	50

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[2] Exports include transshipment which accounts for 14 percent of non-oil exports from Bahrain.
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies which affect demand for U.S. exports, can best be described as laissez-faire. Except for 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 primarily a revenue device for the government and are assessed at a 10-percent rate on most products. The Bahraini Dinar (BD) is freely convertible, and there are no restrictions on the remittance of capital or profits. With the exception of the petroleum sector, Bahrain does not tax either corporate or individual earnings.

Over the past two decades, the Government of Bahrain has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a regulatory framework which has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute over 55 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports. Bahrain's oil production amounts to about 40,000 barrels a day and it receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Saafa off-shore 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. Budgetary revenues consist primarily of receipts from oil and gas, supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes and thus does not use its tax system to implement social or investment policies. In 1995, revenue was $1.47 billion and expenditures were $1.66 billion. The resulting $173 million shortfall was financed through the issuance of 3-month and 6-month treasury bills to domestic banks according to the normal practice of recent years. Budget figures for 1996 project a $302 million deficit which also will be financed through the issuance of treasury bills.

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 5 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 1 percent over their cost of funds, as determined by the recommended deposit rates, for loans to prime customers. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989, the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of Dinar Certificates of Deposit (CD's) at freely negotiated rates for any maturity from 6 months to 5 years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the Bahraini dinar and the U.S. dollar at the rate of one U.S. dollar equals 0.377 dinar. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the six-nation Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates in addition to Bahrain). In addition to according duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiations on a trade agreement with the European Union. If these negotiations are successfully concluded, such an agreement could have a long-term adverse impact on the competitiveness of U.S. products within the GCC, including Bahrain. Bahrain is also an active participant in the ongoing U.S.-GCC economic dialog. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain participates officially in the 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 of Bahrain does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices are basically dependent upon the source of supply, shipping costs, and agents' markups. Since the opening of the Saudi Arabia-Bahrain Causeway in 1985, local merchants are less able to maintain excessive margins, and as a consequence, prices have tended to fall toward the levels prevailing in other GCC countries.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain is levied on oil, gas, and petroleum companies. There is no individual income tax, nor does the island have any value added tax, property tax, or production tax. A few indirect and excise taxes are assessed. Aside from customs duties, including a tax on gasoline, a 10-percent levy on rents paid by residential tenants, a 12.5 Percent tax on office rents, and a 15 percent tax on hotel room rates are imposed.

4. Debt Management Policies

The Government of Bahrain follows a policy of strictly limiting its official indebtedness to foreign financial institutions. In the past, it has financed its budget deficit through local banks. The $1.4 Billion Aluminum Bahrain (ALBA) Smelting Plant Expansion Project, completed in December 1992, was financed in part through foreign commercial and supplier credits. The Government of Bahrain does not regard this debt as sovereign risk. Bahrain has no international monetary fund or world bank programs.

5. Significant Barriers to U.S. Exports

Standards: Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer which has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and in recent years promulgated regulations permitting 100 percent foreign ownership of new industrial establishments and the establishment of representative offices or branches of foreign companies without local sponsors. Most other commercial investments are subject to government approval and generally must be made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia, and the United Arab Emirates, foreign nationals are not permitted to purchase land in Bahrain. The government encourages the employment of local nationals by setting local national employment targets in each sector and by restricting the issuance of expatriate labor permits.

An Amiri Decree was issued in December 1996 amending Bahrain's insurance law to allow foreign companies to open life insurance businesses because of a lack of local experience in the field. Prior to the new decree, companies could establish only representative offices 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. Likewise, construction companies bidding on government construction projects must be registered with the Ministry of Works and Agriculture. Smaller contracts are handled by individual ministries and departments and are not subject to prequalification.

Customs Procedures: The customs clearance process is used to enforce the primary boycott of Israel. While goods produced by formerly blacklisted firms may be subjected to minor delays, the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance, and the process of removing firms from the blacklist has become almost automatic, upon application by the subject firm. Bahraini customs also enforces the Commercial Agencies Law. Goods manufactured by a firm with a registered agent in Bahrain may only be imported by that agent, or, if by a third party, upon payment of a commission to the registered agent.

6. Export Subsidies Policies

The Government of Bahrain provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not specifically target subsidies to small businesses. Bahrain is a member of the World Trade Organization.

7. Protection of U.S. Intellectual Property

Bahrain has a good patent and trademark law; there are few, if any, reports of violations of U.S. patents and trademarks in Bahrain, and pharmaceutical companies in particular have expressed happiness with the law. However, the country's 1993 copyright protection law is seriously deficient and, until recently, the Government of Bahrain was not actively involved in enforcement. Bahrain was retained on the Special 301 Watch List following the April 1996 review, which noted that piracy was growing because Bahrain lacks protection for foreign copyrighted works. Bahrain is making an effort to respond to criticism of its copyright protection record. 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. Moreover, government officials responsible for IPR enforcement have opened a dialog with embassy officials concerning Bahrain's 301 Watch List status.

The 1993 Copyright Law does not give explicit protection to sound recordings. Similarly, it explicitly protects only those foreign works "first published in Bahrain" and works of Arab authors who are citizens of states that have ratified the Arab Convention for the Protection of Authors. The law does, however, explicitly extend copyright protection to computer programs, and it includes a definition of such programs.

Piracy of U.S. Intellectual Property, including audio and video cassettes and computer software, is a serious problem. Virtually as soon as films are released to theaters in the U.S., copies appear in Bahrain. Some of these originate as hand-held video camera recordings made during theater performances; others are copied from promotional cassettes or from pay-TV programs. Films which legitimately have been released on video or laser disc also provide the originals for higher quality videos, but normally without payment of additional royalties.

The Copyright Protection Office (CPO), under the jurisdiction of the Ministry of Cabinet Affairs and Information, registers intellectual property works and provides verification of registration. The CPO, however, has no active role in actually enforcing copyrights. Copyright holders are responsible for filing and pursuing private lawsuits against any copyright infringements. In its first 9 months of existence, the CPO registered only five copyrights (movies, computer programs, and books combined, but no sound recordings). In the following 9 months (through the end of September 1995) it issued 28 more copyrights. Given the CPO's insistence that each work must be registered individually, rather than as part of the collective works of a recording, publishing, or film company, current procedures cannot register, let alone protect, the thousands of U.S. works which are produced each year.

8. Worker Rights

a. *The Right of Association:* The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "Freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union."

In response to labor unrest in the mid-1950's and in 1965 and 1974, the government passed a series of labor regulations which, among other things, allow the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Committees (JLC's) established by ministerial decree. Between 1981 and 1984, 12 JLC's were established in the major state-owned industries. In 1994, four new JLC's were established in the private sector, including one in a major hotel.

Bahraini Labor Law is silent on the right to strike, and there were no strikes in 1996. Strikes with political overtones were repressed by the government in the 1960's and early 1970's. Actions perceived to be detrimental to the "existing relationship" between employers and employees or to the economic health of the state are forbidden specifically by the 1974 Security Law. There are no recent examples of major strikes, but walkouts and other job actions have been known to occur without governmental intervention and with positive results for the workers.

b. *The Right to Organize and Bargain Collectively:* Bahraini Labor Law neither grants nor denies workers the right to organize and bargain collectively. While the JLC's described above are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Bahrain, and the Labor Ministry is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compel foreign workers from developing countries to perform work not specified in their contracts, as well as labor ministry responses. Once a complaint has been lodged by a worker, the Labor Ministry opens an investigation and often takes action.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over 6 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 $237 dollars (91 dinars) a month. Wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home and 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 which cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor law are generally considered to favor the worker.

f. *Rights in Sectors with U.S. Investment:* U.S. capital investment in Bahrain is concentrated primarily in the petroleum sector. It takes the form of minority share interests in the Bahrain Petroleum Company, the Bahrain National Gas Company, and the Bahrain Aviation Fueling Company. There are also joint venture factories producing plastic bottle caps, tissues, and pipes. Workers at all these companies enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		-7
Total Manufacturing		-3
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-3	
Wholesale Trade		(1)
Banking		-14
Finance/Insurance/Real Estate		(1)
Services		-3
Other Industries		0
TOTAL ALL INDUSTRIES		39

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

EGYPT

Key Economic Indicators [1]

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

	1994	1995	1996
Income, Production and Employment:[2]			
GDP (at current factor cost)	48.0	56.3	63.1
Real GDP Growth (pct)	3.9	4.7	4.9
GDP by Sector:			
Agriculture	6.8	7.0	7.3

Key Economic Indicators[1]—Continued

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

	1994	1995	1996
Industry/Mining	6.9	7.3	7.9
Of which: Petroleum	4.2	4.3	4.3
Services	19.6	20.5	26.1
Government	3.0	3.1	3.3
Per Capita GDP (USD)	715	730	738
Labor Force (in millions)	16.0	16.5	17.4
Unemployment Rate (pct)	9.6	9.6	9.4
Money and Prices:			
Money Supply (M2)	11.4	11.1	10.5
Consumer Price Inflation[3]	9.1	9.4	7.3
Exchange Rate (LE/USD—annual average)			
Market Rate[3]	3.39	3.39	3.39
Balance of Payments and Trade:			
Total Exports (FOB)	3.3	5.0	4.6
Exports to United States[4]	0.5	0.6	0.7
Total Imports (CIF)	10.6	12.8	13.8
Imports from United States[4]	2.9	3.0	3.0
Trade Balance	−7.3	−7.9	−9.2
Balance with United States[4]	−1.6	−2.4	−2.4
Current Account Balance/GDP (pct)	0.4	0.7	−0.2
External Public Debt	30.9	33.0	31.4
Debt Service Payments/GDP (pct)	4.2	3.4	3.2
Fiscal Deficit/GDP (pct)	2.5	1.5	1.3
Gold and Foreign Exchange Reserves	14.0	16.7	17.5
Aid from United States[5]	2.0	1.9	2.3
Aid from All Other Sources	N/A	N/A	N/A

[1] Except as noted, all figures are for Egyptian fiscal years 1993/4, 1994/5 and 1995/6 running from July through June. Primary sources are Egyptian and U.S. Government data and IMF International Financial Statistics.

[2] 1994/95 figures are preliminary actual while 1995/96 figures are projected.

[3] Consumer price inflation and exchange rates are average estimates. 1995/96 figures cover the period July 1995 through end March 1996.

[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996. Bilateral trade figures are based on calendar years.

[5] Aid figures are based on calendar years.

1. General Policy Framework

Egypt is instituting reforms to reduce the State's role and increase reliance on market mechanisms. In 1991, Egypt lifted most foreign exchange controls, unified the exchange rate, instituted a sales tax, reduced the budget deficit, freed interest rates and began financing the deficit through Treasury bill auctions. In the last 5 years, a stable Egyptian pound (LE) exchange rate against the dollar and high interest rates have prompted dedollarization and fed a steady growth in the money supply. In early 1996, following the creation of a new government under Prime Minister Kamal Ganzouri, Egypt entered a critical new phase of economic reform. The new Cabinet is focusing on improving Egypt's export competitiveness, liberalizing its trading regime, encouraging the private sector, eliminating obstacles to doing business in Egypt and improving Egypt's investment climate. Still less than a year into a new mandate, the Cabinet continues to enjoy broad-based support among Egyptian businessmen and positive reviews from international observers.

In 1993, the 314 public sector enterprises were organized into 17 holding companies, which are permitted to sell, lease or liquidate company assets and to sell government-owned shares. According to government estimates, the state enterprise sector's book value amounts to LE 90 billion ($27 billion). In 1996, the government offered shares of some 22 mostly small companies to investors through Egypt's small (LE 37 billion—$10.9 billion) but rapidly growing stock market, where turnover has doubled in each of the past 2 years. Although only three major companies have been sold outright, majority stakes in 14 other companies are also in private hands. Controlling interests in ten public works firms have been sold to employees.

While the government has no current plans to privatize "strategic" enterprises such as pipelines and petroleum refining, water works, EgyptAir, or the Suez Canal, it is beginning to explore ways to bring private management and investment to telecommunications, electricity generation and transportation. Regulatory reform will be necessary in these areas. For example, the government has used its total control of energy to keep prices low, representing one of the largest continuing areas of distortion in the economy.

In late September, Egyptian officials reconfirmed that Egypt plans to privatize 90 or more state-owned companies over the next 2 years. The next phase of the program will involve sales of remaining government stakes in some companies already listed and trading on the stock market, along with some other less attractive but profitable firms still wholly owned by the government. An effective marketing program with clear and transparent bidding procedures will be critical to the success of this next phase of privatization.

As reforms proceed and the private sector gains more strength, exporters of U.S. products (which are popular in Egypt) may find improved market opportunities in Egypt. This will depend on the government's ability to spur private investment, which remains dormant outside the tourism sector. Potential investors await progress on privatization and the elimination of bureaucratic barriers before proceeding with new projects. Trade reform has been significant, but domestic industry remains protected by relatively high tariff rates and nontariff import barriers. In 1993, import bans on most commodities were eliminated. In 1996, the maximum tariff rate was reduced from 70 to 55 percent.

The United States is Egypt's largest supplier, with 1995 exports to Egypt nearing $2.9 billion. Approximately $200 million worth of exports are financed annually through USAID's Commodity Import Program, $800 million through various USAID projects and about $165 million under Department of Agriculture programs (GSM 102). A substantial portion of the $1.3 billion in U.S. military assistance finances U.S. exports to Egypt.

2. Exchange Rate Policy

In November 1991 Egypt adopted a free market exchange system subject only to Central Bank buying and selling intervention. High interest rates and stable exchange rates have stimulated large capital inflows and dedollarization of the economy. Central Bank foreign exchange reserves stand at a substantial $18 billion. New inflows are concentrated in short-term deposits and Treasury bills, but medium-term corporate issues and Treasury bonds are now also being offered. In June 1996, the Parliament passed a bill amending the banking law that allows foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In July 1996, another bill eliminated one of the articles of Foreign Exchange Law 39/1994 that placed a restriction of 5 years on the repatriation of Egyptian real estate sale proceeds owned by foreigners residing outside Egypt.

Exchange rate stability and the sharp increase in the availability of hard currency should increase opportunities for U.S. exports to Egypt. Egypt's export competitiveness, however, has eroded because its exchange rate has not depreciated to compensate for high annual inflation, now almost 7 percent.

3. Structural Policies

The Egyptian Government freed all industrial prices with the exception of pharmaceuticals, cigarettes, rationed sugar, and rationed edible oil. It still subsidizes mass-consumption bread, which stimulates demand for U.S. wheat. The government has shown no sign of relaxing price controls on pharmaceutical products, which are administered inflexibly and are financially harmful to U.S. and other foreign pharmaceutical companies. While energy, transportation and water prices are expected to remain administered, price increases have brought domestic petroleum product prices to about 88 percent of international prices and electricity prices to about 77 percent of long-run marginal costs (the exact figure remains in dispute between the World Bank and the government). The government is also in the process of deregulating the cotton sector and reactivating the cotton exchange.

Tariff rates remain high. In October 1996, the maximum tariff rate was cut to 55 percent, and tariffs across the board were reduced by ten to fifteen percentage points. The lowest rate was maintained at 5 percent. In February 1994, the government imposed a "service fee" surcharge of between 3 and 6 percent (depending on the custom duty of the imported item), which undermined much of the benefit of the customs rate reduction. The government failed on its pledge to the World Bank to abolish this surcharge by July 1995; in late 1996, the government pledged to reduce it over time. In addition to the custom tariff, a sales tax ranging between 5 and 25 percent is added to the final customs value of the imported item. Assembly industries may benefit from lower custom rates on imported goods if they meet a local content requirement of 40 percent.

Egypt instituted a general sales tax (GST) in May 1991, but the tax is currently applied to importers and manufacturers only. Fear of social unrest has made the government reluctant to develop the GST into a full value-added tax. Taxes on certain consumer goods (alcoholic and soft drinks, tobacco and petroleum products) not integrated in the GST were raised and progressively converted to ad valorem taxes. A unified income tax has been adopted which reduces marginal tax rates, simplifies the tax rate structure, and aims to improve administration of tax policy.

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 medium- and long-term debt has declined to about $31 billion, and debt service payments have been reduced from 46 percent of export earnings to around 10 percent. Egypt has cleared up its arrearages to Paris Club creditor countries and is committed to remaining current on its Paris Club payments. The reduction in Egypt's debt service bill has helped it reduce dramatically the budget deficit, create macroeconomic stability and build a high level of reserves.

In 1996, Egypt began a new round of discussions with the IMF. In October 1996, the two sides agreed to an ambitious package of structural reform measures through 1998, and the IMF approved a $291 million Precautionary Standby Agreement 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.

5. Significant Barriers to U.S. Exports

Egypt participated in the Uruguay Round negotiations and became a member of the World Trade Organization in June 1995.

Import barriers: Egypt does not require import licenses. For food and non-food imports that have a shelf-life, the government mandates that they should not exceed half the shelf-life at time of entry into Egypt. The importation of commodities manufactured using ozone-depleting chemicals is prohibited.

Services barriers: As noted in Section 2, legislation was adopted in 1996 amending the banking laws to allow foreign ownership in joint venture banks in excess of 49 percent and to eliminate a 5-year limitation on the repatriation of real estate sale proceeds for foreigners. Foreign investors are prohibited from establishing foreign exchange companies. The domestic insurance market is closed to foreign companies, but they may operate in free trade zones as minority partners. Four public sector insurance companies (one of which is a reinsurance company) dominate the market, although three private sector Egyptian companies exist. Two joint ventures, each with 49 percent ownership, operate in the free zones.. Only Egyptian nationals may become certified accountants. There is a screen quota for foreign motion pictures and regular censorship of films and printed materials. Private and foreign air carriers may not operate charter flights to/from Cairo except with the approval of the national carrier.

Standards, testing, labeling and certification: As a signatory of the GATT Standards Code, Egypt pledged that it would not introduce any new nontariff barriers as it reduced tariff rates and eliminated import bans. When reductions in the import ban list were announced in August 1992 and July 1993, however, many items that came off that list were added to the list of commodities requiring inspection for quality control. In August 1994, five more items were added to the list, which now consists of 131 items, including food stuffs, spare parts, construction products, electronic devices, appliances, and many consumer goods. Although Egyptian authorities maintain that standards applied to imports are the same as those applied to domestically produced goods, importers report that testing procedures for imports differ and charge that tests are carried out with faulty equipment by testers who often make arbitrary judgments. Moreover, importers face the problems of ill-defined or unwritten product standards as well as backlogs due to limited staff or inspection equipment.

All imported goods are required to be marked and labeled on each package in Arabic with the brand and type of the product, country of origin, date of production and expiration date, and any special requirements for transportation and handling of the product. An Arabic-language catalog must accompany imported tools, machines and equipment. Although standards for vehicles are still lacking, the government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates.

Investment barriers: In January 1996, Egypt announced that projects with capital investment of over LE 50 million ($15 million) need not obtain General Authority For Investment (GAFI)approval to be established. Instead, companies incorporated under Investment Law 230 can begin operations immediately and need merely to notify GAFI of their activities, a step that would remove the approval roadblock. Performance requirements are not specified in Investment Law 230. However, assembly industries must meet a minimum local content requirement of 40 percent in order to benefit from tariff reductions on imported industrial inputs. Industrial establishments may also be formed under Companies Law 159, but they will not receive incentives or protections offered by Law 230. Under these two laws, Egyptians must normally comprise 90 percent of the company's workforce, and wages for the Egyptians employed must constitute 80 percent of the total wage bill. In cases where qualified Egyptian workers do not exist, companies may seek permission from the appropriate ministry to hire foreign workers, advisors or specialists.

The U.S.-Egypt Bilateral Investment Treaty (BIT) was implemented in June 1992. While its safeguard provisions are generally no more liberal than those in Law 230, it provides a further measure of protection to American investors. The BIT has not yet resulted in significant new U.S. investment which would stimulate Egyptian demand for U.S. machinery, spare parts, and technical services.

Government procurement practices: Egypt has not signed the WTO Government Procurement Agreement. Although Egypt does not employ systematic or discriminatory policies which adversely affect U.S. businesses, the government buys from public sector firms whenever possible. Egyptian bidders (public and/or private sector) receive a 15 percent price preference. There is no penalty for government delays in making an award decision or in returning bid or performance bonds. Still, Egypt has moved away from government-to-government barter agreements and toward private sector initiatives.

Customs procedures: Egyptian customs procedures are complicated, subjective, and rigid in areas such as duty rates. Tariff valuation is calculated on the so-called "Egyptian selling price", which is based on the commercial invoice that accompanies a product the first time it is imported from any source. Some allowance is given on an ad hoc basis for different sources of supply (such as expensive versus cheap-labor source countries). Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product to have a value no lower than that noted on the invoice from the first shipment. As a result of that expectation, and the belief that underinvoicing is widely practiced, customs officials routinely increase invoice values by 10 to 30 percent.

6. Export Subsidies Policies

Direct export subsidies do not exist in Egypt. Exporting industries, including Investment Law 230 projects, may benefit from duty exemptions on imported inputs (if released under the temporary release system) 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.

7. Protection of U.S. Intellectual Property

Egypt, as a party to the Berne copyright and Paris industrial property conventions, bears a commitment to protect U.S. intellectual and artistic works. While Egypt's legal system provides protection for all forms of intellectual property, enforcement is still ineffective though improving. The government passed an improved copyright law in 1992 and added software protection in early 1994. A new patent law is currently under consideration. Because progress was being made on copyright protection, in April 1994 the U.S. Trade Representative moved Egypt from the Special 301 Priority Watch List to the Watch List, and in April 1995 placed Egypt on the list of countries "to be monitored for progress achieved." The United States is working closely with Egypt to improve intellectual property rights protection.

Patents: Egypt's 1949 Patent Law excludes certain categories of products and contains overly broad compulsory licensing provisions. Pharmaceuticals and food products are excluded from product patent protection. The patent term is only 15 years from the application filing date. A 5-year renewal may be obtained only if the invention is of special importance and has not been worked adequately to compensate patent holders for their efforts and expenses. Compulsory licenses, which limit the effectiveness of patent protection, are granted if a patent is not worked in Egypt within 3 years or is worked inadequately. U.S. officials have conferred with Egyptian officials and proposed revisions of the draft patent law text. The draft law represents a significant improvement, and if implemented, could be considered a model patent law for the developing world. Egypt has made a commitment to the United States to submit a suitable new patent law to Parliament soon. Industrial designs receive protection (under the patent law) through registration with the Bureau of Industrial Designs in the Ministry of Supply. Egypt grants industrial design protection without examination of previous registrations and without consideration of possibly conflicting trademarks.

Trademarks: Egypt is a signatory of the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the Classification of Goods and Services. Trademark protection is provided by Law 57 of 1939. The Trademark Law is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than $100 per seizure, not per infringement, although criminal penalties are theoretically available. The Ministry of Supply is working on a draft bill that consolidates Egypt's 1939 Trademark Law, the 1951 Trade Name Law, and the 1949 Industrial Design Law.

Copyrights: In response to calls for improved legal protection for copyrighted works, the government passed Law 38 of 1992, amending the 1954 Copyright Law. The Berne Convention, to which Egypt acceded in 1977, is self-executing according to Egypt's Constitution. Thus, U.S. copyright holders may be able to rely directly on Berne Convention provisions in Egyptian courts in areas where the coverage of the Egyptian copyright law is vague or non-existent, such as retroactive protection or protection for satellite or cable transmissions. As a result of U.S. lobbying, in March 1994 the government amended provisions of Law 38 to ensure that computer software was afforded protection as a literary work (allowing it a 50-year term of protection). In addition, in April 1994 a ministerial decree clarified rental and public performance rights, protection for sound recordings, and the definition of personal use. Copyright piracy is still widespread and affects all categories of works. Although motion picture piracy (in video cassette format) has fallen off over the past year, holders of copyrights on sound recordings, printed matter (notably medical textbooks), and computer software continue to suffer harm. Most piracy seems to be for the local market, with some imports of pirated works from Lebanon and the Gulf States.

New technologies: There is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington Semiconductor Convention. Plant and animal varieties do not receive protection under current law.

Estimated trade losses due to piracy in 1993 (the most recent figures available) were $84 million, of which approximately $11 million were due to video piracy (a significant drop from the 1992 level of $37 million prior to passage of Copyright Law 38/92), and $52 million due to computer software piracy. U.S. officials continue to stress the need for better enforcement efforts by Egyptian authorities and underscore the importance of police activity being followed by prosecutions and court decisions.

8. Worker Rights

a. *The Right of Association:* Egyptian workers may, but are not required to, join trade unions. A union local or worker's committee 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. However, the International Labor Organization (ILO) has long noted that a law requiring all unions to belong to a single federation infringes on a worker's freedom of association. The government has shown no sign that it intends to accept more than one federation. ETUF leadership asserts that it actively promotes worker interests and that there is no need for another federation. The ETUF leadership is elected freely and speaks vigorously on behalf of workers' concerns, but public confrontations between ETUF and the government are rare.

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. 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" which had been 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 6 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 and local non-governmental organizations put the number of children working at 2 million, although verification is impossible. While an estimated 720,000 children, work on farms, children also work as apprentices in repair and craft shops, in heavier industries such as brick making and textiles, and as workers in leather factories and in carpet-making, which largely supply the export market. Enforcement of child labor laws is minimal at best; violations abound, as the laws lack penalties severe enough to deter child labor. Economic pressures, rural tradition, the inadequacy of the education system, and lack of government control in remote areas will make it difficult to improve the conditions of Egypt's working children in the near future.

e. *Acceptable Conditions of Work:* The government and public sector minimum wage is approximately $20 a month for a 6-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. 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.

f. *Rights in Sectors with U.S. Investment:* The worker rights described in the foregoing sections also apply to workers in the following industries: petroleum, food and related products, metal, non-electric machinery, electric and electronic equipment, and transportation equipment.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		1,069
Total Manufacturing		109
Food & Kindred Products	(1)	
Chemicals and Allied Products	−2	
Metals, Primary & Fabricated	8	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	2	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		86
Banking		135
Finance/Insurance/Real Estate		(1)
Services		(1)
Other Industries		3
TOTAL ALL INDUSTRIES		1,409

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

ISRAEL

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	74.1	86.7	95.0
Real GDP Growth (pct)	6.5	7.1	3.8
GDP by Sector:			
Agriculture	2.1	2.5	2.8
Manufacturing	14.5	16.4	18.0
Services	42.4	49.2	53.8
Public sector[2]	15.1	18.6	20.4
Per Capita GDP (USD)	13,725	15,635	16,650
Labor Force (000s)[3]	2,030	2,110	2,160
Unemployment Rate (pct)[3]	7.8	6.9	6.5
Money and Prices:			
Money Growth (M2) (pct)[4]	33	35	24
Consumer Price Inflation (pct)[5]	14.5	8.1	11.0
Exchange Rate (NIS/USD)[4]	3.01	3.01	3.19
Balance of Payments and Trade:			
Total Exports (FOB)	16.1	17.9	19.8
Exports to United States[6]	5.2	5.7	6.4
Total Imports (CIF)[7]	23.4	28.0	29.8
Imports from United States[6]	5.0	5.6	6.0
Trade Balance[7]	−7.3	−10.1	−10.0
Balance with United States[6]	0.2	0.1	0.4
Current Account Deficit/GDP (pct)	3.4	4.5	5.7
External Public Debt (gross)	23.0	23.8	24.4
Debt Service/GDP (pct)[8]	6.6	6.1	6.5
Fiscal Deficit/GDP (pct)	2.1	4.1	5.0
Gold and Foreign Exchange Reserves[5]	6.8	8.1	11.0
Aid from United States	3.1	3.1	3.1
Aid from Other Countries	N/A	N/A	N/A

[1] Projected on basis of preliminary data.
[2] Includes public nonprofit institutions.
[3] Broader labor force definition adopted 1995.
[4] Annual average.
[5] End of period.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[7] Non-military trade only.
[8] Includes private sector debt service.

1. General Policy Framework

Israel has enjoyed rapid economic growth since the beginning of the decade, which has made it an increasingly attractive market for U.S. and other exporters. Economic growth averaged 6 percent annually between 1990 and 1995, as Israel's imports of goods and services surged by some two-thirds to $40 billion. While Israel's growth rate slowed to approximately 4 percent in 1996, its per capita income neared the $17,000 mark.

One factor propelling Israel's economy in the 1990's has been the inflow of nearly 700,000 immigrants, mostly from the countries of the former Soviet Union, a group that now constitutes about 12 percent of Israel's 5.7 million people. The absorption of the immigrants, who continue to arrive at a rate of 70,000 per year, has required a rapid increase in Israel's housing stock, expansion of its infrastructure, and sizable investments in new plant and equipment. With population growth projected at 2.5 percent annually for the next several years, capital investment is expected to remain high. A number of large infrastructure projects are planned, including a new north-south highway, the expansion of Israel's principal airport, an underground rail system for the Tel Aviv area, the development of a natural gas distribution network, and a significant increase in electric power generating capacity. Under the terms of the 5-year, $10 billion program of loan guarantees provided by the U.S.

Government to assist with the absorption of the immigrants, Israel pledged to substantially increase its purchases of investment goods and services from the United States.

Another factor benefiting Israel's economy in recent years has been the Middle East peace process, which has opened new markets to Israeli exports, stimulated foreign investment, and encouraged tourism. Israel's reduced international isolation has increased the number of foreign companies willing to do business with it and improved its international credit rating. Israeli companies, notably in its growing high tech sector, have been particularly active in raising money on Wall Street, and Israel now ranks second only to Canada in the number of its companies traded on U.S. stock exchanges.

Although well below the level of a decade earlier, public debt remains high, at 92 percent of GDP in 1995. Since 1991, Israel has operated under a deficit reduction law that mandates a steadily reduced budget deficit target each year. In both 1995 and 1996, however, the actual deficit substantially exceeded its target. The government has pledged a renewed commitment to fiscal discipline for 1997 and succeeding years, in part to curb Israel's growing trade deficit. To reduce spending, the government is reexamining its program of subsidies to private investors, both domestic and foreign. These subsidies now provide tax holidays and grants of up to 34 percent for approved investments in priority sectors, but the government is proposing to reduce this rate to a maximum of 20 percent.

The goal of monetary policy is to reduce Israel's rate of inflation, which has averaged 10 percent in recent years, to the rate prevailing among Western countries over the next several years. The central bank's principal tool of monetary policy is the rate of interest charged on its "monetary loans" to the commercial banks. High domestic interest rates in 1995 and 1996 led Israelis to increase substantially their use of foreign currency denominated credit. The central bank has sterilized the resulting capital inflow by reducing the amount of its monetary loans to the banking system.

2. Exchange Rate Policy Framework

Under the crawling-peg "diagonal" exchange rate system introduced in 1991, the shekel floats within a target zone of plus or minus 7 percent around a midpoint determined by a weighted average of the exchange rates of five currencies: the dollar, yen, mark, pound, and French franc. The midpoint depreciates at a predetermined nominal rate, currently 6 percent annually, thought to be the inflation differential between Israel and its key trading partners. The high interest rates that prevailed during 1995 and 1996 kept the shekel relatively strong, benefiting exporters to Israel generally.

Israel ended all foreign exchange restrictions for current account transactions in 1993 and is progressively reducing its remaining capital controls. Virtually all restrictions on capital inflows and on outward investment by individuals have been eliminated. In October 1994, the government also removed its limit, previously 40 percent of equity, on direct foreign investment by Israeli companies. Foreign portfolio investment by institutional investors is the last area in which significant capital controls remain. Because of tax considerations, most foreign portfolio investment by Israeli residents, both institutional and individual, has been in the shares of Israeli companies traded abroad.

3. Structural Policies

Since its successful economic stabilization program of 1985, Israel has been undertaking a number of economic and structural reforms intended to improve its financial position and reduce the role of the government in economic life. One aspect of Israel's transition to a more market dominated economy has been its privatization program, through which some $3.6 billion had been raised by mid-1996. Progress toward privatizing the government's remaining holdings was slower than expected in 1995 and 1996. However, the government of Prime Minister Netanyahu, elected in May 1996, has pledged to revitalize the privatization program. Preparatory work continues toward the eventual full or partial privatization of several of the largest companies in the government's portfolio, including the telecommunications company Bezeq, the national airline El Al, the shipping company Zim, and Israel Chemicals. Partial stakes in Bezeq, Zim, and Israel Chemicals have already been sold.

The government is reviewing its plans for the sale of the government's interests in the country's major banks. To limit the dominant role of the banks in the economy, the Knesset approved legislation in early 1996 mandating that banks reduce their ownership of nonfinancial companies to a maximum 20 percent interest by 1999. The collective value of such nonfinancial holdings will be limited to 15 percent of the banks' capital.

Other structural reforms in progress will increase the scope of competition in services now provided by the public sector. In telecommunications, two consortia, both with a U.S. company represented, won the right to provide international telephone service in competition with the existing public company. Other measures to increase competition in domestic telecommunications have been announced. In 1996, a U.S.-based company was awarded the first contract for the construction of a privately operated independent electric power generating plant. In the future, up to 10 percent of Israel's electricity will be generated by such independent producers; another 10 percent may be imported. Israel is also designing its first natural gas importation and distribution system and is considering a variety of mechanisms to maximize competition in this sector as well.

4. Debt Management Policies

In the decade after its 1985 stabilization program, Israel's net external debt fell from 73 to 23 percent of GDP. Israel is taking advantage of the 5 year, $10 billion U.S. loan guarantee program to finance the additional investments required for immigrant absorption and to refinance existing debt on more favorable terms. Looking to the expiration of the loan guarantee program, Israel has begun to tap the international capital markets under its own name. In November 1995, Israel raised DM 350 million (roughly $250 million) from a London-based syndicate of 40 international banks. In December 1995, Israel borrowed $250 million in a successful Yankee bond offering in New York at 76 basis points above comparable U.S. Treasury securities. In September 1996, Israel agreed with a syndicate of leading investment banks on a $750 million multiyear borrowing program in the Eurobond market.

5. Significant Barriers to U.S. Exports

Israel became a member of the World Trade Organization on April 21, 1995.

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 U.S.-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.

The U.S.-Israel FTAA allows the two countries to protect sensitive agricultural subsectors with nontariff barriers including import bans, quotas, and fees. Pursuant to the WTO agreement, most quantitative limits have been translated into tariff rate quotas, 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 5-year program of agricultural market liberalization. The agreement covers all agricultural products and provides for increased access during each year of the agreement via tariff rate quotas and reductions in tariff levels for a significant number of U.S. goods.

Israel has two unique forms of protection for locally produced goods. The first is Harama, meaning "uplift," which is applied at the pre-duty stage to the CIF value of goods to bring the value of the products to an acceptable level for customs valuation. Israel calculates import value according to the Brussels Definition of Value (BDV), a method which tolerates uplifts of invoice prices. For purposes of calculating duty and other taxes, the Israeli Customs Service arbitrarily uplifts by two to 5 percent the value of most products which exclusive agents import, and by 10 percent or more the value of other products. Since 1995, Israel has used only the actual wholesale price for large importers.

The second uniquely Israeli form of protection is TAMA, a Hebrew acronym standing for additional quota percentage. TAMA is a post-duty uplift designed to convert the CIF value plus duty to an equivalent wholesale price for purposes of imposing purchase tax. Coefficients for calculation of the TAMA vary from industry to industry and from product to product.

In addition, purchase taxes that range from 25 to 95 percent are applied on goods ranging from automobiles to some agriculture and food items. The government has eliminated or reduced purchase taxes on many products including consumer electronics, building inputs, and office equipment. Where remaining, purchase taxes apply to both local and foreign products. However, when there is no local production, the purchase tax becomes a duty equivalent charge.

Israel has reduced the burden of some discriminatory measures against imports. In late 1990 Israel agreed to harmonize standards treatment, either dropping health and safety standards applied only to imports or making them mandatory for all products. Implementation of this promise has been slow. Enforcement of mandatory standards on domestic producers can be spotty, and in some cases (e.g., refrigerators, auto headlights, plywood, carpets, and packaging/labelling for food items) standards are written so that domestic goods meet requirements more easily than imports. Israel is in the process of amending its law on standards which should facilitate entry of some standard U.S. units. Israel has agreed to notify the United States of proposed new, mandatory standards to be recorded under the WTO. However, packaging and labelling standards continue to prevent the importation of a broad range of U.S. foods.

The Standards Institution of Israel is proposing a bilateral mutual recognition agreement of laboratory accreditation with the United States that could result in the acceptance of U.S. developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements.

The Israeli Government actively solicits foreign private investment, including joint ventures, especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations, and are eligible for incentives for designated "approved" investments in priority development zones. There are generally no ownership restrictions, but the foreign entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty through a licensed bank. About 100 major U.S. companies have subsidiaries in Israel and some 170 Israeli companies have subsidiaries in the United States. Investment in regulated sectors, including banking, insurance, and defense industries, requires prior government approval.

Israel has one free trade zone, the Red Sea port city of Eilat. In addition to the Eilat Free Trade Zone, there are three free ports: Haifa Port (including Kishon); Port of 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 party to the WTO Agreement on Government Procurement, which provides wide coverage of Israeli Government entities to enable more open and transparent international tendering procedures. While the Israeli Government provides information to the U.S. Government on existing and proposed tenders issued by government entities valued at over $50,000, some U.S. companies report problems in receiving timely notice of Israeli Government tenders. Moreover, U.S. and other foreign suppliers are totally locked out of Ministry of Defense food tenders for the army and other security forces. Complex technical specifications and kosher requirements discourage foreign participation.

Israel frequently seeks offsets (subcontracts to Israeli firms) of up to 35 percent of total contract value for purchases by ministries, state-owned enterprises, and municipal authorities. Failure to enter or fulfill such industrial cooperation agreements (investment, codevelopment, coproduction, subcontracting, purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, U.S. firms may still encounter requests to enter into offset arrangements. Israeli Government agencies and state owned corporations not covered by the WTO Government Procurement Agreement follow this "Buy Israel" policy to promote national manufacturers.

Recent legislation codified and strengthened a 15 percent cost preference given domestic suppliers in many Israeli public procurement purchases, although the legislation recognized the primacy of Israel's bilateral and multilateral procurement commitments. This preference can reach as high as 30 percent for domestic suppliers located in priority development areas.

In addition to its WTO multilateral trade commitments and its FTAA with the United States, Israel also has free trade agreements (FTAs) with the European Union, Canada, Turkey, Slovakia, the Czech Republic, and the EFTA states. With respect to all other countries, Israel substituted steep tariffs for nontariff barriers previously applied to trade, and is gradually reducing these tariffs. The 7 year phase-in of Israel's import liberalization program has diluted, to some extent, U.S. advantages under the bilateral FTAA. Israel also has a preferential trade agreement with Jordan and is negotiating FTAs with several Eastern European countries.

As part of the Middle East peace process, Israel has granted duty free access to its market for 50,000 metric 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 after 1997. This preferential access reduces the competitiveness of U.S. products in the Israeli market.

6. Export Subsidies Policies

The U.S.-Israeli FTAA included an agreement to phaseout the subsidy element of export enhancement programs and not to institute 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 5 percent on the FOB value of merchandise. Israel still retains a mechanism to extend long term export credits, but the volumes involved are small, roughly $250 million. Israeli export subsidies have resulted in past U.S. antidumping or countervailing duty cases. In 1994 the U.S. Government cited Israeli subsidy of butt weld pipe fittings in an antidumping/countervailing duty investigation.

The Knesset passed legislation in May 1994 authorizing creation of free processing zones (FPZs). Qualifying companies operating in the FPZs are exempt from direct taxation for a twenty year period, and imported inputs are not subject to import duties, tariffs or most health and safety regulations generally in effect throughout Israel. Companies are also exempt from collective bargaining and minimum wage requirements, although subject to other labor requirements. The legislation was originally intended to promote investment in export related industries, but the wording of the legislation as passed does not limit applicant companies to exporters or providers of services to overseas clients. Accordingly, the FPZs do not violate the U.S.-Israeli FTAA export subsidies commitment.

7. Protection of U.S. Intellectual Property

Cable television, video, and software piracy is common in Israel. Israel currently has an antiquated copyright law which, together with weak enforcement, has led to piracy in these industries. A new draft copyright law, with updated IPR requirements, is under review. The proposed legislation includes enhanced rights of distribution in connection with rental rights and imports of copyrighted materials. Rental rights will cover all protected works, including sound recordings, cinematographic works, and computer programs. Protection for software has been upgraded, and the two major movie distribution chains generally comply with copyright requirements. A cable broadcast law is also under consideration. Israel is a member of the International Center for the Settlement of Investment Disputes and the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards.

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 is under review; the revised law would upgrade IPR patent protection and eliminate compulsory licensing. In addition, revised laws are under consideration for protection of industrial designs, trademarks, and integrated circuits.

The government is also considering an amendment to the patent law which would allow nonpatent holders to manufacture patented pharmaceutical products prior to the expiration of patent rights in order to submit data to foreign and Israeli health authorities to gain marketing approval. The U.S. pharmaceutical industry and U.S. Government have objected to the proposal, since it does not provide any compensatory extension of exclusive patent rights and would permit experimental production for submission to foreign regulatory agencies.

Israel is a member of the Paris Convention on industrial property and the Universal and Berne copyright conventions. In addition, as a signatory of the Uruguay Round agreements, including the TRIPs agreement, Israel is in the process of making revisions necessary to meet all WTO TRIPs requirements.

8. Worker Rights

a. *The Right of Association:* Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. In 1995, membership in the Histadrut dropped sharply after the federation's links with the nation's largest health maintenance organization were severed. A majority of the workforce still was covered by Histadrut's collective bargaining agreements. Non-Israeli workers, including nonresident Palestinians from the West Bank and Gaza who work legally in Israel, may not be members of Israeli trade unions, but are entitled to some protections in organized workplaces. The right to strike is exercised regularly. Unions freely exercise their right to form federations and affiliate internationally.

b. *The Right to Organize and Bargain Collectively:* Israelis fully exercise their legal right to organize and bargain collectively. While there is no law specifically prohibiting antiunion discrimination, the Basic Law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the Knesset has passed legislation authorizing creation of free processing zones, as discussed in section 6.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor, and neither Israeli citizens nor nonresident Palestinians working in Israel are subject to such practices.

d. *Minimum Age for Employment of Children:* Children who have attained the age of 15 years, but who are liable to compulsory education under the compulsory education law, may not be employed unless they work as apprentices under the apprenticeship law. Notwithstanding these provisions, children who have completed their 14th year may be employed during a period of official school holidays. Employment of those aged 16 to 18 is restricted to ensure time for rest and education. Ministry of Labor inspectors enforce these laws, but advocates of children's rights charge that enforcement is inadequate, especially in smaller, unorganized workplaces. Illegal employment of children does exist, probably concentrated in urban light industrial areas.

e. *Acceptable Conditions of Work:* Legislation in 1987 established a minimum wage at 45 percent of the average wage, calculated periodically and adjusted for cost of living increases. Union officials have expressed concern over enforcement of minimum wage regulations, particularly with respect to employers of illegal nonresident workers. Along with union representatives, the Labor Inspection Service enforces labor, health, and safety standards in the workplace. By law, maximum hours of work at regular pay are 47 hours per week (eight hours per day and 7 hours the day before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are technically covered by the 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 as described above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		1,107
Food & Kindred Products	(1)	
Chemicals and Allied Products	82	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	663	
Transportation Equipment	2	
Other Manufacturing	266	
Wholesale Trade		8
Banking		0
Finance/Insurance/Real Estate		(1)
Services		136
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,574

(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]

	1994	1995	1996[1]
Income, Production and Employment:			
GDP (at current prices)[2]	5,996	6,594	7,213
Real GDP Growth (pct)[3]	5.9	6.4	6.5

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
GDP by Sector:			
Agriculture	290	313	320
Manufacturing	705	746	775
Services	1,158	1,244	1,283
Government	957	1,042	1,072
Per Capita GDP (USD)	1,153	N/A	N/A
Labor Force (000s)	949	1,100	1,170
Unemployment Rate (pct)	15.3	18.0	19.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.0	6.6	3.0
Consumer Price Inflation	3.6	2.3	7.0
Exchange Rate (JD/USD—annual average)			
Official	0.699	0.701	0.709
Balance of Payments and Trade:			
Total Exports (FOB)[4]	1,424	1,771	1,907
Exports to United States[5]	29	29	36
Total Imports (CIF)[4]	3,381	3,696	4,064
Imports from United States[5]	287	335	352
Trade Balance[4]	−1,957	−1,925	−2,157
Balance with United States[5]	−258	−306	−316
Current Account Deficit/GDP (pct)	6.7	3.7	3.1
External Public Debt	6,209	6,373	6,500
Debt Service Payments/GDP (pct)	8.4	6.9	7.7
Fiscal Deficit/GDP	3.2	2.5	4.1
Gold and Foreign Exchange Reserves[6]	630	625	817
Aid from United States	30	37	20
Aid from All Other Sources	251	248	268

[1] 1996 figures are estimates.
[2] GDP at producer prices.
[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; 1996 figures are estimates based on data available through November 1996.
[6] Represents net foreign exchange reserves plus gold.

1. General Policy Framework

Jordan continues to pursue policies and programs designed to liberalize its economy and promote economic growth. It has managed to sustain real economic growth of about 6 percent and contain inflation at 3 percent over the past 4 years. However, these positive domestic developments are undermined by political uncertainty over the future of the Mideast peace process and the lack of economic policy harmonization within the region. Jordan's economic progress is linked to a significant degree to the success of the peace process. Until early 1997, slow progress toward a political settlement between Israelis and Palestinians had constrained Jordan's opportunities for trade with both of these parties. Domestically, Jordan's two most critical challenges are to encourage greater investment and reduce unemployment.

Jordan has been reasonably successful so far in reaching targets established under its IMF Economic Adjustment program. The government is concentrating on meeting three major macroeconomic targets: 6.5 percent real GDP growth, inflation at less than 5 percent, and a current account deficit of 3.1 percent of GDP. Expectations are that it will come close to meeting these targets, but external factors have intervened to frustrate some of its efforts. International commodity prices reached record levels in 1996, forcing the government to raise prices of bread, wheat and feed grain. The government also raised the prices of electricity, water, and asphalt during 1996. These price increases caused inflation to exceed earlier forecasts. In addition to lowering the balance of payments deficit for 1996 to 3.1 percent of GDP from 3.7 percent in 1995, the government is seeking to contain the trade deficit at 29.9 percent of GDP in 1996, up slightly from 29.2 percent in 1995. The overall balance of payments deficit was $436 million in 1994 and $308 million in 1995.

Jordan's Minister of Finance announced on November 5 that the government plans to submit an ambitious fiscal year 1997 budget to Parliament. The plan's long-term goals include reducing external public debts from the current 96 percent of GDP to 75 percent, trimming public debt service to 15 percent of total exports, and lowering the budget deficit from 4.1 percent of GDP in 1996 to 2.5 percent by 1998. In January 1996, the government passed Labor Law Number 8 and instituted regulations pertaining to limits on foreign capital under the Investment Law. The changes do little to facilitate foreign investment; foreign ownership remains restricted to not more than 50 percent of invested capital. Passage of the Income Tax Law and Sales Tax Amendment enabled the government to shift its budgetary focus to non-direct tax revenues. For 1996, revenues and expenditures will reach $2.53 billion. Total revenues are expected to increase by 9.5 percent and expenditures are estimated to increase by 5 percent.

Most raw materials and capital equipment are exempt from import duties, and the remainder are expected to be exempted by 1997. Following three tariff reductions since January 1996, import tariffs now range between 5 and 50 percent on all commodities. The tariffs on tobacco and alcohol range between 60 and 120 percent and on automobiles between 70 and 200 percent. Automobile duties are levied on the basis of engine size rather than FOB price of the unit.

The Central Bank of Jordan (CBJ) regulates the Jordanian banking system via indirect methods, such as interest paid on dinar-denominated certificates of deposit. The dinar is a fully convertible currency for non-capital remittances, and a fixed dollar-dinar rate regime, covering current payments, is in place. Securities brokerage firms are expected to set up offices in Jordan as soon as the new Securities Law is passed.

2. Exchange Rate Policies

The Central Bank of Jordan (CBJ) regulates foreign currency transactions in Jordan and sets the exchange rate. It also restricts moneychangers' currency transactions to a specified range of buying and selling rates. 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 will continue to fluctuate against other currencies according to market forces.

On October 24, 1996, the CBJ announced four measures to further liberalize the foreign exchange system. The move was prompted in part by the CBJ's growing confidence in its ability to maintain dinar stability. Under the new measures:

—The mandatory reserve requirement for foreign currency deposits held by banks is reduced from 35 percent to 14 percent. However, the reserve will not receive interest from the CBJ.

—Banks must keep 80 percent of the mandatory reserves at the Central Bank but may use the remaining 20 percent in the inter-bank placement market.

—There will be equal treatment of resident and non-resident foreign currency deposit holders with regard to paying and receiving current remittances. Citizens may maintain foreign exchange accounts without limits.

—Foreign currency holders may engage in asset swap deals with banks on spot (dinars-for-dollars) and forward (dollars-back-for-dinars) basis with rollover options.

The CBJ's first measure may free up to $700 million in foreign currency for domestic investment. The Bank hopes that this will enhance the country's foreign exchange reserve position, which now stands at approximately $620 million, and raise the volume of dinar deposits in the banking system.

Jordan's Minister of Planning announced in September 1996 that the government had canceled plans for a redemption fund to protect the dinar against monetary pressures from West Bank-circulated dinars. The IMF agreed to this decision in view of Jordan's improving foreign exchange reserve position in July 1996. The net balance of reserves increased by $250 million after Jordan received a $125 million grant from the European Community and a pledge of $120 million as part of a structural adjustment loan in October 1996. Also, Jordan and the U.S. Eximbank signed a $200 million framework agreement for short/medium term credit insurance and guarantees for Jordanian importers of U.S. products and services.

3. Structural Policies

Pricing Policies: On August 13, Jordan's Minister of Supply announced the government's decisions to raise bread prices and lower subsidies for bread. Prices of wheat, flour and bread are now set according to international market prices. The government intends to remove itself from the price-setting process once it completes the privatization of grain importation and bread production. The government replaced the sales price subsidy with a monthly direct cash subsidy of JD 1.280 per person to Jordanian citizens for the purchase of bread (slightly higher for those below the poverty line). Following the decision, the average price of bread rose 88 percent. The new decision was taken in order to avoid severe budget deficit problems and meet targets set under the IMF-driven economic reform program. International wheat prices had increased considerably over the past 2 years, raising subsidy payments and swelling the budget deficit to $1~~20~~ million, or about 2 percent of Jordan's GDP. The decision saved the government approximately $90 million in subsidies and some $40 million in hard currency payments.

Increasingly, market forces set prices in Jordan. The government is reportedly setting up a plan to remove itself from the importing of basic foodstuffs such as cereals, sugar, milk and frozen meat. However, it will continue to set some commodity prices, probably until anti-monopoly legislation is adopted and the Ministry of Supply closes in late 1997. The Ministry continues to control the prices of other non-strategic commodities such as automobile spare parts, construction materials, household cleaning materials, soft drinks, and food and beverages served in restaurants. About two-thirds of Jordanians, or 90 percent of the Jordanian workforce, are eligible to receive the government-controlled ration card, which has become an important policy tool for preserving the social net. Riots which erupted in July after the bread price hikes and subsidy program change delayed the Ministry's plan for a total elimination of price controls on non-subsidized, non-strategic commodities. Although subsidized prices do not have a major impact on Jordanian imports of U.S. foodstuffs, price-mandated shifts in Jordan's policy may reinvigorate efforts to identify other, more price-competitive suppliers.

Tax Policies: The government announced on August 25 that it will exempt 492 capital goods from customs duties. This decision follows three earlier measures to gradually reduce customs tariffs and encourage foreign investment in Jordan. The government remains dependent on customs duties and import taxes for much of its domestic revenue. These duties/taxes are collected on all imports, except industrial raw materials and machinery. High tariff rates are imposed on most consumer and luxury goods. Tariff rates on automobiles range from 70 to 210 percent, depending on engine size.

The Kingdom's new income tax law, which went into effect on January 1, 1996, imposes a 35 percent maximum marginal rate. Taxes on individual incomes are between 5 percent (for annual incomes less than $3,000) and 30 percent (for annual incomes exceeding $22,500). 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 from income tax, reflecting the government's desire to encourage reinvestment of capital in new projects and re-capitalization of net returns from existing projects. The Prime Minister announced on August 25, 1996, that the capital gains tax will be abolished in fiscal year 1997.

The current sales tax law imposes an across-the-board 10 percent sales tax. However, the sales tax may reach up to 36 percent on certain luxury items. The law exempts exports from the sales tax and empowers the Council of Ministers to impose additional sales taxes to compensate for revenue losses resulting from reduced customs duties on goods and services subject to the sales tax. Almost all types of professional, business and legal services are also subject to a 10-percent sales tax.

Regulatory Policies: On November 4, the Prime Minister announced that the government plans to present to Parliament as soon as possible an amendment to the Customs Law, a new Companies Act, and a new Securities Law to complete its package of legislation on economic liberalization which began before the Amman Economic Summit. The government has promised to push the Parliament to pass these laws in the session which convened on November 11. In addition to the above laws, the government announced that it will pass the National Product Protection Law, an antidumping safeguard to protect local products from unfair international competition as Jordan moves to join the World Trade Organization. This law will be submitted to Parliament in the current session. Other possible changes in economic and commercial laws are pending, including laws related to use of state property and small project financing guarantees, and the government is considering whether to introduce a draft antitrust law. The current investment law, which went into effect in September 1995, removes cumbersome and time consuming procedures delaying registration and government approval of projects carried out by foreign investors.

4. Debt Management Policies

Jordan's outstanding external public debt as of December 1995 stood at $6.3 billion, an increase of $178 million over 1994 that nonetheless represented a decline in relation to GDP from more than 103 percent of GDP in 1994 to under 97 percent in 1995. The absolute rise was due to an increase in net external borrowing to finance the economic adjustment and restructuring program and to a reevaluation of the balance of outstanding debt from U.S. dollars to Jordanian dinars. These external debt figures do not take into consideration contracted but undisbursed loans, which stood at $1.46 billion at the end of 1995. With the addition of these undisbursed loans, total debt net of repayments would rise to $7.7 billion, or 119 percent of GDP (compared to 110 percent in 1994).

Debt servicing payments of $455 million in 1995 represented a decline by $10 million from 1994. As a result, the ratio of debt service to exports of goods and services fell from 35.4 percent in 1994 to 25.7 percent in 1995. According to government records, the drop in external debt repayments in 1995 was the outcome of efforts to alleviate public debt through debt rescheduling agreements with the Paris Club of creditor governments. Jordan was able to re-schedule $290 million in principal repayments and $132 million in interest in 1995. In addition, the second tranche of the U.S. debt forgiveness package was completed in 1995. The government is working with other major creditors, including France, Japan and Germany, to further reduce its debt.

5. Significant Barriers to U.S. Exports

Import Licenses: Except in specific cases, no import license is required for Jordan. Importers registered with the Ministry of Industry and Trade receive an importer's card from the Ministry and get a trade permit from the local municipal authority. The card is essentially an open license to import and is presented upon clearing the goods at customs. Strategic food commodities, telecommunications products, certain electronic equipment, and medical materials continue to require import licenses. Imports from countries having trade protocols with Jordan also require licenses. The Central Bank of Jordan (CBJ) now issues licenses to importers to use foreign exchange upon opening a letter of credit with the local bank. CBJ-controlled foreign exchange permits are issued with letters of credit. This new procedure has made it easier to do business in Jordan.

Services Barriers: Jordan is not yet a member of the WTO, but has applied for membership and begun accession negotiations. Foreign service suppliers do not benefit from national treatment or Most Favored Nation (MFN). Almost all service industries are affected by barriers.

Standards, Testing, Labeling, and Certification: All imports to Jordan are subject to the approval of the Standards and Measures Corporation. Foodstuffs and medicines must undergo laboratory testing and certification. Jordanian testing standards for consumer and durable items are becoming increasingly flexible for importers of U.S. products. However, they often lack transparency. Until a new customs law is passed that will implement internationally accepted rules of origin, the government will continue to penalize importers of U.S. products containing parts and components made outside the United States.

Investment Barriers: The U.S. and Jordanian Governments are negotiating a bilateral investment agreement, expected to be signed in 1997. The new 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 for equal treatment between foreign and Jordanian investors, though some restrictions on foreign investment may remain in sectors specifically designated by the Council of Ministers. The Investment Promotion Department implements measures granting foreign investors the rights of national treatment under the prevailing investment law. However, foreign ownership is restricted to 50 percent in the land and air transportation and construction sectors as well as specially designated subsectors of education, small trade and media.

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. Foreign bidders may seek recourse only through the Jordanian legal system. The Higher Procurement Commission has not yet been formed, leaving a wide gray area of ad hoc decisionmaking in Jordan's procurement system.

Customs Procedures: Cumbersome customs procedures continue to undermine Jordan's business and investment climate. Overlapping areas of authority and cumbersome clearance procedures remain in place. Actual commodity appraisal and tariff assessment practices frequently differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict or lack specificity. Delays in clearing customs are routine. The Minister of Finance recently has endorsed a new program for customs reforms. The program entails setting up a permanent training center, streamlining and decentralizing all customs procedures, improving computer and networking systems, and upgrading anti-smuggling and laboratory testing systems at the Customs Department.

6. Export Subsidies Policies

The Central Bank runs a low interest, export-promotion financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. The facilities are extended to local banks and financial institutions against bills, letters of credit and drafts, with interest rates set at 1 percent below the prevailing discount rate.

The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The corporation's primary objective is to provide guarantees to cover the risk of credits extended by the Jordanian banking system to small and medium-scale enterprises. The Export and Finance Bank, a public shareholding corporation, was set up in 1994 to provide commercial financing and loan guarantees to Jordanian exporters. The bank offers commercial loans and export advances on a case by case basis.

7. Protection of U.S. Intellectual Property

Copyright: A 1992 law provides a framework for protection of foreign copyrights. The law deals with all aspects relating to exclusive rights to (1) copy or reproduce works, (2) translate, revise, or otherwise adapt or prepare program derivatives work, and (3) distribute or publicly communicate copies of the work. Royalties may be remitted abroad under licensing agreements approved by the Ministry of Industry and Trade. However, only works of Jordanian and foreign authors who formally register their works inside the Kingdom are protected. The Ministry of Culture's Department of National Libraries has drafted a new copyright law, which awaits the approval of the Council of Ministers and consideration by Parliament. If adopted, the law would reportedly place Jordan in compliance with the Berne Convention. The 1992 law does not have strong enforcement provisions, though the new draft law is expected to establish a stringent enforcement regime. The practice of pirating audio and video tapes for commercial purposes is widespread and the government makes no effort to intervene. Pirated books are sold in Jordan, though few, if any, are published within the country. In January 1994, the government announced that it would issue strict new measures on copyright protection, but to date it has issued only procedural notes for existing regulations.

Trademarks and Patents Laws: Trademark and patent laws have not been amended since the early 1960's. The Trademark Law is scheduled to be amended in 1997. Government officials state that a new patent law is being drafted in accordance with WIPO guidelines. Protection under the current law is available only to domestic and foreign patents that are registered in Jordan. A foreign company may register a patent by sending a power of attorney to a local patent agent or lawyer. Initial registration may be renewed once for a total period of protection of 14 years. Jordan's current patent law does not respect product patents in any fashion. Process patents must be registered with the Ministry of Industry and Trade to receive protection. Infringement of a foreign patent, such as a manufacturing process for a chemical compound, is considered to be a violation by Jordanian courts only if it is proven to be an exact duplication.

New Technologies: Computer software piracy is rampant in Jordan's small but growing computer market. There is no Jordanian legislation providing for the protection of domestic or foreign-developed technologies; nor is there legislation providing for the proper registration of imported technology.

Lack of intellectual property protection has resulted in lost opportunities for U.S. sales to Jordan. Jordan applied to join the WTO in 1996 and held its first formal accession meeting at the end of October. The government says that it intends to meet TRIP's intellectual property standards. However, it is reportedly seeking a 10-year grace period to comply, which is seen as unacceptable by the United States and Europe.

8. Worker Rights

a. *The Right of Association:* Less than 15 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. *The Right to Organize and Bargain Collectively:* 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 2 weeks, the union may strike. Arbitration is the usual means of resolving disputes, and labor actions are generally low-key and do not lead to strikes.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is forbidden by the Jordanian constitution.

d. *Minimum Age for Employment of Children:* Children under age 16 are not permitted to work except in the case of professional apprentices. 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 30 full-time Ministry of Labor inspectors. There is no comprehensive minimum wage in Jordan, but the new labor law contains a mandate to this effect. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who can work up to 54 hours. Working conditions and minimum wage for foreign workers are stipulated in bilateral treaties but are not strictly enforced nor consistently adhered to. Jordan also has a workers' compensation law and a social security system which covers companies with more than five employees.

The new labor law, which went into effect in August 1995, protects workers from arbitrary or politically motivated dismissals, establishes a minimum wage mandate, extends maternity leave for women, and calls for a new social security system and law. Though the new labor law provides for stronger protection than the old law, it does not provide for flexible treatment of foreign workers, skilled or unskilled, unless they are licensed to work by the Ministry of Labor and permitted to stay in Jordan by the Ministry of Interior. Jordan is an active member of the ILO and has officially expressed strong interest in complying with international protocols and agreements.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

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

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

KUWAIT

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	25.0	26.6	28.0
Real GDP Growth (pct)[3]	3.5	7.3	2.6
GDP by Sector:			
Manufacturing	2.6	2.9	3.0
Services	3.0	3.0	3.1
Government	6.1	6.4	6.5
Petroleum	9.5	10.5	11.1
Per Capita GDP	16,697	15,474	15,872
Labor Force (000s)	990	1,047	1,100
Unemployment Rate (pct)	0.7	1.4	1.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	5.4	9.4	−4.5
Consumer Price Inflation	2.5	0.8	2.5
Exchange Rate (KD/USD—annual average)			
Official	0.294	0.299	0.299
Balance of Payments and Trade:			
Total Exports (FOB)	11.4	12.8	13.9
Exports to United States[4]	1.5	1.3	1.6
Total Imports (CIF)	6.8	7.8	7.9
Imports from United States[4]	1.2	1.4	1.9
Trade Balance	4.6	5.0	5.9
Balance with United States[4]	0.3	−0.1	−0.3
Current Account Surplus/GDP	10.1	15.8	19.1
External Public Debt[5]	6.2	3.9	2.4
Debt Service Payments/GDP (pct)	7.2	8.8	10.8
Fiscal Deficit/GDP (pct)[6]	13.1	7.3	15.4
Gold and Foreign Exchange Reserves	3.8	3.6	3.7
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1996 figures are projections based on data through September 1996.
[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; 1996 figures are estimates based on data available through November 1996.
[5] Based on Kuwait Government figures as of June 30, 1996.
[6] This is a Ministry of Finance projection; U.S. Embassy projects a near zero deficit for fiscal year 1996/97.

1. General Policy Framework

Kuwait is a politically stable state where 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 citizenry who benefit from a generous welfare state.

Kuwait still faces structural problems in its budget, primarily excessive dependence on oil revenue, and growing government expenditures due to the need for continued high defense spending and to growing social expenditures resulting from high levels of government employment and provision of heavily subsidized social services and utilities. Primarily because of stronger oil revenues, Kuwait's budget may be in balance for the fiscal year 1996/97 if oil prices remain strong. A draft five-year plan to reduce government employment, reduce subsidies and encourage privatization of services is expected to be presented to Parliament in the current fiscal year, 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. A lower budget deficit and repayment of government obligations to domestic banks resulted in a reduction of money supply in 1995.

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 Kuwait 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 are prohibited from having majority ownership in virtually every business other than certain small service oriented businesses and may not own property (excepting some other GCC citizens). Non-GCC nationals are forbidden to trade in Kuwait stocks on the Kuwait stock exchange except through the medium of unit trusts (mutual funds).

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. Current estimates of the value of Kuwait's foreign assets, concentrated primarily in the future generations fund, range between $35 and $39 billion. Kuwait is scheduled to make the final payment on its $5.5 billion jumbo loan in December 1996. The total debt service payment scheduled for 1997 is $282 million owed primarily to foreign export credit agencies, including the U.S. Eximbank.

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 4-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 U.K., 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 Kuwait Government tenders often specify the purchase of obsolete, more costly items.

Kuwait Government procurement policies specify local products when available and prescribe a 10 percent price advantage for local firms in government tenders.

The Kuwait 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 the Government of 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. U.S. firms still occasionally receive requests for boycott-related information from private Kuwaiti firms or uninformed Kuwaiti public officials. In such cases, U.S. firms should advise the Embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. antiboycott laws. Kuwait, along with many other Middle East countries, has received two one-year waivers of the 1995 "Brown Amendment" requirements. The current waiver will expire in May, 1997. 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 3 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 has made progress toward improved Intellectual Property Rights (IPR) protection; however, the level of protection remains inadequate by international standards. In 1995, the Ministry of Information issued ministerial decrees protecting U.S. and British-origin audio and video products, and the Kuwait Institute for Scientific Research hosted a regional conference of the World Intellectual Property Organization (WIPO) on industrial property.

In April 1996, Kuwait became a member of WIPO. Nevertheless, progress in IPR protection slowed in 1996. Draft legislation for a copyright law, which would extend copyright terms, ease conditionality for protection and provide stiffer penalties for violators, was not submitted to Kuwait's National Assembly as hoped. The most recent draft of their legislation did not meet all U.S. guidelines for future World Trade Organization (WTO) requirements, primarily because it failed to provide national treatment for foreign works unless they are first published in Kuwait. A final version of the legislation has not been released, but is expected to be submitted to parliament in the current year.

Kuwait has continued its efforts to implement a patent and trademark office by means of the implementation of a GCC-wide patent and trademark office. Kuwait was "watch listed" in 1995 both for lack of progress in passing copyright legislation and for its lack of patent coverage for pharmaceuticals. It 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.

Computer software piracy, in particular, continues to be a problem. Annual losses resulting from software piracy in Kuwait are estimated by industry sources at $45 to 50 million.

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 5 years residence, but only as nonvoting members; in practice, they can join after 1 year.

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. "Run away" maids can be treated as criminals under law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Sponsors often hold their servants' passports, a practice which the government prohibits but enforcement is inconsistent. Credible reports continue that foreign nationals employed as domestic servants have been denied exit visas if they seek them without their employers' consent.

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 from the ministry to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of 6 hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least 1 hour. Compulsory education laws exist for children between the ages of 6 and 15. These laws are not fully observed in the nonindustrial sector, 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 1996 minimum monthly wage was approximately $74 for Kuwaiti citizens and $15 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. 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 of 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		−1
Services		(1)
Other Industries		4
TOTAL ALL INDUSTRIES		110

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

MOROCCO

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	30.4	32.5	33.8
Real GDP Growth (pct)[3]	11.6	−7.6	10.3
GDP by Sector:			
Agriculture	5.6	4.7	7.5
Manufacturing	5.2	6.1	6.2
Services	5.7	6.4	6.4
Government	3.8	4.4	4.4
Per Capita GDP (USD)	1,167	1,223	1,244
Labor Force (000s)	7,600	7,700	7,900
Unemployment Rate (pct)	16.0	16.0	16.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.2	7.0	4.5
Consumer Price Inflation	5.1	6.1	4.5
Exchange Rate (DH/USD—annual average)			
Official	9.18	8.51	8.69
Balance of Payments and Trade:			
Total Exports (FOB)[4]	4.0	4.7	5.1
Exports to United States (USD millions)[5]	192	239	252
Total Imports (CIF)[4]	7.2	8.6	8.7
Imports from United States (USD millions)[5]	409	517	474
Trade Balance[4]	−3.2	−3.8	−3.7
Balance with United States (USD millions)[5]	−217	−278	−222
Current Account Deficit/GDP (pct)	−2.2	−4.8	−2.2
External Public Debt	21.7	22.3	22.9
Debt Service Payments/GDP (pct)	9.9	10.9	9.8

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Fiscal Deficit/GDP (pct)	3.1	5.3	4.1
Gold and Foreign Exchange Reserves	4.5	4.0	4.5
Aid from United States (USD millions)	23	43	40
Aid from All Other Sources	1.6	1.7	1.8

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[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; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural (including fishing) sector, a large tourist industry, a growing manufacturing sector (especially clothing), and considerable inflows of funds from Moroccans working abroad. Most of Morocco's trade is with Europe; France alone accounts for about a quarter of Morocco's imports and a third of its exports.

The Moroccan Government has pursued an economic reform program since the early 1980's. It has restrained government 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 1980's levels. Economic growth has been modest, with wide year-to-year fluctuations due largely to the effect of variations in rainfall on the domestic agricultural sector.

The reform program continues to move forward, although there have been a few setbacks. The severe 1994–1995 drought resulted in larger than planned fiscal deficits in 1994 and 1995. An anti-corruption campaign in early 1996 considerably slowed customs clearances, and put a damper on some economic activity. The privatization program has progressed slower than expected. However the Moroccan Government has signaled its intent to broaden the program to include some of the largest public companies, and has recently announced plans for private financing, construction and operation of some highways, a new Atlantic Ocean 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.

The economy contracted more than 6 percent in 1995 largely due to the drought. Heavy rains in 1996 nourished a record harvest, and GDP growth is expected to top 10 percent this year. Foreign exchange reserves bounced back after falling throughout 1994–1995. With increased agricultural production, Morocco's chronic merchandise trade deficit narrowed slightly in 1996. Receipts from remittances, tourism and foreign investment fell slightly in 1995 but have shown signs of recovery in 1996.

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. 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 reverses a legal presumption of import protection, spelling out permissible grounds for exceptions to the general principle of free trade and providing a legal basis for antidumping and countervailing duty actions. It replaces quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items. The government reimposed the import license requirement on bananas in 1995 in the face of rising imports but has warned domestic producers that it intends to phase it out in the near future.

Interest rate policy has also changed in recent years. In 1994 the government revised the interest rate ceilings on bank loans. The ceiling had previously been set as a 2.5 percentage point markup over the average rate banks receive on deposits, excluding the below-market rates for some required holdings. The new ceiling is set as a three to 4 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 new investment code passed by the Parliament in October 1995 calls for reductions in corporate and individual income taxes, and the reduction of import duties and elimination of 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 68 percent of GDP in 1995. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 34 percent in 1995, which is roughly what actual rescheduled debt service payments averaged in recent years. The Moroccan Government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors.

5. Significant Barriers to U.S. Exports

Morocco became a founding member of the World Trade Organization on January 1, 1995.

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. By 1993 the maximum tariff was 35 percent and the (trade-weighted) average tariff was about 13 percent. That trend is now being reversed as Morocco replaces quantitative restrictions with higher tariffs on a number of products. In particular, tariffs of up to 300 percent were imposed in late 1993 on dairy and meat products in conjunction with the elimination of licensing requirements on those items. Tariffs of between 73 and 311 percent may be imposed on cereals, vegetable oils and sugar following the elimination of licensing requirements and reference price systems on those goods. There is also a 10 to 15 percent surtax on imports of most goods.

Services Barriers: In November 1989 Parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993 the Moroccan Government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the Moroccan Government's 50 percent share of Mobil's Moroccan subsidiary in 1994. However a proposed law may limit foreign equity investment in insurance companies.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat must be slaughtered according to Islamic law.

Investment Barriers: The Moroccan Government actively encourages foreign investment. The Parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides income tax breaks for investments in certain regions, and in crafts and export industries.

Government Procurement Practices: While Moroccan Government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulty with the requirement that bids for government procurement be in French.

Customs Procedures: In principle customs procedures are simple and straightforward, but in practice they are sometimes marked by delays. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

6. *Export Subsidies Policies*

There are no direct export subsidies, although the 1995 investment code provides a 5-year corporate income tax holiday for export industries. Morocco has a temporary admission scheme which allows for suspension of duties and licensing requirements on imported inputs for export production. This scheme extends to indirect exporters (local suppliers to exporters). In addition, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports which were subsequently transformed and exported.

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

Morocco is a member of the World Intellectual Property Organization and is a party to the Berne and Universal copyright conventions, the Paris Convention on industrial property, the Brussels Satellite Convention, and the Madrid, Nice, and the Hague agreements for the protection of intellectual property.

Copyright: Computer software is not specifically covered by Morocco's copyright law, and violations of software copyrights are widespread. Moroccan officials have recently begun preparing a law to offer protection for computer software.

Patents: Morocco has a relatively complete regulatory and legislative system for the protection of industrial 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 will amend this provision and require that applications be filed only in Casablanca.

Trademarks: Counterfeiting of clothing, luggage, and other consumer goods is not uncommon; however, laws against counterfeiting have been increasingly enforced. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier, though this provision will be amended in the new law.

8. *Workers Rights*

a. *The Right of Association:* Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. Probably 10 percent of Morocco's 4.9 million urban workers are unionized, mostly in the public sector. The selection of union officers and the carrying out of their duties are subject to government pressure. More narrowly focused strikes continue to occur, although strikers have encountered police harassment and arrest. Work stoppages are normally intended to advertise grievances and last 24–48 hours. A widely adhered to 24-hour strike in June 1996 was generally peaceful.

b. *The Right to Organize and Bargain Collectively:* While the protection of the right to organize and bargain collectively exists in the Constitution and labor law, the government does not always enforce the protections fully. The laws governing collective bargaining are inadequate. Collective bargaining has been a longstanding tradition in some parts of the economy, but the practice is not spreading. A 1996 social dialog 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 yet to be implemented, and there remains some dissatisfaction among workers.

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 compensation. Child labor laws are generally well-observed in the industrialized, unionized sector of the economy.

e. *Acceptable Conditions of Work:* The minimum wage is about $178 a month and is not considered adequate to provide a decent standard of living for a worker and his or her family. The minimum wage is not enforced effectively in the informal sector of the economy but is enforced fairly effectively throughout the industrialized, unionized sectors, where most workers earn more than the minimum wage. Workers 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 holidays and annual vacations, 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, all of which is in the formal, industrial sector of the Moroccan economy, do not differ from those described above.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		77
Food & Kindred Products	32	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		111

(1) 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] [1]

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	11.9	12.4	15.4
Real GDP Growth (pct)	3.8	4.6	N/A
GDP by Sector:			
Agriculture/Fisheries	0.3	0.4	N/A
Petroleum	4.7	5.3	5.7
Manufacturing	0.6	0.6	0.7
Services [2]	5.1	5.3	N/A
Government Services	1.8	1.8	2.0
Per Capita GDP (USD)	6,159	6,015	6,402

Key Economic Indicators—Continued

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

	1994	1995	1996
Labor Force (000s)	655	755	798
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	3.2	6.7	−0.2
Consumer Price Inflation[3]	N/A	−1.3	0.2
Exchange Rate (Omani rial/USD)	2.6	2.6	2.6
Balance of Payments and Trade:			
Total Exports (FOB)	5.5	6.1	6.9
Exports to United States (USD millions)[4]	458	295	435
Total Imports (CIF)	4.0	4.2	4.8
Imports from United States (USD millions)[4]	219	222	208
Trade Balance	1.5	1.8	2.1
Balance with United States (USD millions)[4]	277.9	101.2	215.5
External Public Debt	3.1	N/A	3.1
Debt Service Payments/GDP (pct)	2.9	2.1	N/A
Fiscal Deficit/GDP (pct)	10.0	9.1	1.2
Current Account Deficit/GDP (pct)	7.1	6.5	N/A
Gold and Foreign Exchange Reserves[5]	1.7	1.9	1.9
Aid from United States (USD millions)	0.1	0.1	0.1
Aid from Other Sources (USD millions)	0.8	N/A	N/A

Sources: *Annual Report, 1995*, Central Bank of Oman; *Statistical Year Book, 1995* and "Monthly Statistical Bulletin" (Oct. 31, 1996), Ministry of Development. Bilateral trade date is from U.S. Department of Commerce.

[1] All 1995 GDP data is preliminary. National account data has been revised and based on a new methodology, and vary therefore from prior reporting of 1994 data. For 1996 data, GDP is through June; foreign exchange data is foreign assets and includes near-money assets, IMF reserve assets and securities, with 1996 figure from June 30; balance of payments and trade table is through August, 1996; public finance and CPI through Sept. Most 1996 data, except the CPI, are annualized proportionate to same reporting period in 1995. External debt figure is based on a public statement in December 1996 on total public debt less estimated domestic holdings.

[2] 1995 and 1994 are the sums of Statistical Yearbook table 1–14, categories G–P except O. Health and Education are included in Services although mostly government-provided. Government is category O, public administration and defense.

[3] Muscat Governate CPI data has been revised from a 1990 price base and 1990/91 consumer survey. Data published from 1994 onward. Data listed above is the General Price Index, which adds housing and home utility charges to the CPI.

[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996. The trade balance with the United States does not include Omani oil purchased by the United States on the spot market. No oil is purchased directly from Oman by U.S. companies.

[5] Gold and foreign currency are Central Bank Reserves; 1995 data is from June 1996. State General Reserve Fund figures are not publicly available.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.4 million people (including about 750,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman is a small oil producer and its economy moves in lock step with the world price of oil. Oil revenue accounts for up to 77 percent of government revenues. Oman produced an average of 852 thousand barrels of oil per day in 1995. It boosted output through 1996 and expected to reach one million barrels per day in January 1997. As an artifact of rising oil prices, Oman's per capita GDP rose from about $6,100 in 1995 to $6,400 in 1996 (including expatriates in the population). A significant proportion of its rural population lives in poverty. An annual population growth of no less than 3.7 percent for Omani nationals surpasses economic growth and presents ever greater demand on infrastructure.

The Omani Government links developmental priorities and budgetary plans in 5 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 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. Stringent budgets, based on revenue from $15 per barrel petroleum, aimed for a zero fiscal deficit in year 2000. Average crude oil prices rose to $20 barrel in 1996. In 1995, the government financed a $1.25 billion fiscal shortfall as usual by drawing down on reserves and issuing development bonds, which were first sold in August 1991. By the end of September 1996, Oman trimmed the fiscal year deficit from a projected $572 million to a seasonally adjusted estimate of $75 million. Throughout 1996, the Sultanate delayed publication of plan details as it continued to revise its actual project priorities, its approaches to privatization, and economic projections. While the government considered cost trimming measures, including gradual implementation of user fees and privatization of certain government utilities, Omanis continued to enjoy free medical care and free education through postsecondary school vocational or higher education.

Among major public expenditure categories in 1996, defense and security accounted for 34 percent of current expenditures (military capital expenditures are not published),and current and capital expenditures for Petroleum Development Oman (PDO) accounted for an additional 13.5 percent. Total expenditures were 0.8 percent lower in the first 9 months of 1996 compared to the comparable period in 1995. Revenues were 8.8 percent higher.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan-to-deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. The large amounts of money sent home by expatriate workers in the country and by foreign companies in Oman helps ease monetary pressures. Outward workers' remittances were 12.9 percent of GDP in 1995.

2. Exchange Rate Policies

The rial has been pegged to the U.S. dollar since 1973. It has remained steady at 2.60 dollars to the rial since a 10.2 percent devaluation in 1986.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both in terms of employment and as a purchaser of goods and services. Contracts to provide goods and services to the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through three specialized development banks and the Ministry of Commerce and Industry), tax incentives, procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants 5-year tax holidays to newly established industries; a one-time renewal is possible. Oman has fairly rigid 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; specifically, the 7.5 percent maximum rate of corporate income tax applicable to wholly Omani-owned firms now also applies to public joint venture companies 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 a 30 percent rate, 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 5 percent level, zero for essentials, higher for some few protected local products. There are no personal income taxes or property taxes. Employers pay 7 percent of the non-Omani's basic salary to a vocational training fund for Omanis, and 8 percent of the Omanis' 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. The government delayed approving other electrical utility projects through 1996 as it tried to retool its approach to privatization to avoid subsidizing rates.

In a major policy move, the Sultan approved development of Salalah's Raysut port. Raysut is poised to become the major container transshipment port for the Indian Ocean Rim area, with operations commencing in mid–1998. Sea-Land Services, Omani investors, and the Omani Government are joint venture partners in the Port Raysut project. For 1997 and beyond, Oman has port and other transportation requirements associated with industries planned for Sur and Sohar.

Five years after the discovery of natural gas reserves, a mixed enterprise with majority government holding, Oman Liquefied Natural Gas, wrapped up all agreements allowing construction startup on a 6.6 million ton per year LNG plant with deliveries on a 25 year, 4.1 million ton contract to start in 2000. 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 is among the spin-off industries expected to cluster around the LNG plant. Governmental allocation of gas in October 1996 has also advanced private sector developers' proposals to establish a major aluminum smelter complex and a $900 million polyethylene plant at Sohar.

Oman's modern but still state-owned telecommunications sector will upgrade its fiber optic backbone expansion to Salalah. It introduced GSM service in late 1996. Internet service is expected by early 1997. Other development plans include potential tourist facilities at many coastal and inland sites, technical and business management training, water and waste water requirements, arid land agriculture and fisheries management. Oman has not tapped major coal deposits inland from Sur.

4. Debt Management Policies

Oman's sovereign external debt is estimated at $3.1 billion. In late 1996 Oman reported $3.6 billion in total public debt, of which domestic debt is about $470 million. The debt is easily managed and is owed to a consortium of international banks. Oman has a reputation for solid credit worthiness. There are no International Monetary Fund or World Bank adjustment programs. Oman gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional donations to Arab causes or Muslim institutions. Although Oman does not publish figures on the level of its fund for the future, the State General Reserve Fund (SGRF), that fund was drawn down and development bonds issued starting in 1991. Robust crude oil prices and fiscal restraint late in 1995 reduced the fiscal deficit and enabled some replenishment of the SGRF.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceutical, liquor and defense equipment. Some foreign suppliers have complained over the years that exclusive agency agreements are difficult to break. In September 1996, Oman amended its the agency law to allow nonexclusive representational agreements.

Service 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, 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 Bank of International Settlements 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 an affiliation with U.S. firms. No major U.S. legal firm has as yet entered into a partnership with an Omani firm.

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 toward 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 Omani Centre for Investment Promotion and Export Development, set to open January 1997, will strive to provide "one-stop shopping" to simplify and expedite investment project realization.

Oman uses a mix of standards and specifications systems. Generally, Gulf Cooperation Council (GCC) standards are adopted and used. However, because of the long history of trade relation with the United Kingdom, 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.

The major barriers facing exporters of U.S. food products are:

—*Labeling regulations:* Production and expiration dates must be printed on the original label.

—*Time-consuming red tape:* Halal (Islamic dietary law, here pertaining to meat and poultry only) and health certificates must be notarized by both the National U.S.-Arab Chamber of Commerce and either the Embassy of Oman or an Omani consulate in the United States.

—*Lack of information:* Import regulations can change, often without adequate notification. U.S. companies must work closely with their importers.

Despite requirements to "Omanize" the work force, the private sector depends on an increasing number of expatriates for managerial, technical, and physical labor. Oman continues to promote "Buy Oman" laws, but 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 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 in time 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. Until superior officers can be contacted, an occasional customs officer can cause delays and confusion by insisting that documentation or shipments comply with suspended boycott regulations. As part of "Omanization," as of late 1996 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 U.A.E. seldom encounter problems.

In 1995 Oman substantially eased visa requirements by offering 2-year multiple entry visas to attract American tourists and business representatives and since late 1996 has tried to issue visas expeditiously. In general, these visas are readily issued at Oman's Washington embassy but appear unavailable to U.S. citizen business applicants residing outside the United States. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996, the Royal Oman Police reduced nonresident stays from 2 months to 1 month per entry by U.S. citizens and non-U.S. employees of U.S. firms, thereby hampering business visits of longer duration. 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 to Dubai for a visa renewal.

Finally, business and other visitors to Oman face the exceedingly high costs of international telephone calls from the Sultanate. International access cards are not allowed.

6. Export Subsidies Policies

In 1996 Oman informed the World Trade Organization of its intent to apply for accession. Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally, with promotion of the latter two sectors relatively more difficult to achieve. Investors in the 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 joined the World Intellectual Property Organization in 1996 and plans to begin copyright enforcement in 1997 of a law issued mid-1996. Audio and video cassette retailers have been selling pirated copies alongside some legitimate imports. Government and major companies purchase legitimate software, while many consumers acquire pirated software and music compact disks. Oman's internal market is too small to attract major producers of pirated products. Protective of their nation's image, Omani authorities could be expected to crack down on any pirate operation seeking to make Oman a distribution base. Omani writers, artists, and programmers are keen to see copyright enforcement.

Oman has no patent office. Its limited local industry has sought licensing arrangements and is not known to produce counterfeits. Drug imports must be registered with the Ministry of Health. Late in 1996 Oman was exploring use of the registration process to protect patented pharmaceutical products. Backers of a planned pharmaceutical production facility say they will only produce generics or licensed patented products. In theory, GCC patents would be valid in Oman if the GCC were to set up a registration and enforcement mechanism. Oman actively enforces its trademark law; application for protection requires a local agent.

8. Worker Rights

Sultan Qaboos issued a Basic Law on November 6, 1996, that serves as Oman's first written basic framework, akin to a constitution but consistent with Islamic law. The Sultanate will issue legislation implementing the Basic Law's provisions within

2 years of its issuance. In late 1996 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 allow 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 the age of 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 workers is about $156 month, less any charges for Omani sponsors of 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 workweek and generous leave of 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 40–45 hour private sector workweek. International Labor Organization standards mandate the stoppage of outside labor when temperatures reach 50° C, but the official temperature surprisingly never reaches this mark. Non-Moslem 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. The one U.S. petroleum firm with significant in-country activities in 1996 is favorably known for its relations with its employees while complying fully with provisions of Omani law.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		2
Services		(1)
Other Industries		0
TOTAL ALL INDUSTRIES		122

(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 indicated]

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	123.4	128.7	140.0
Real GDP Growth (pct)[3]	0.0	0.0	2.0
GDP by Sector:			
Agriculture	11.0	11.0	8.0
Manufacturing (including oil)	54.8	N/A	N/A
Services	N/A	N/A	N/A
Government	32.5	N/A	N/A
Per Capita GDP (USD)	6,800	6,700	6,900
Labor Force (millions)	5.1	5.3	5.4
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	4.8	5.6	N/A
Consumer Price Inflation	0.6	5.0	1.5
Exchange Rate (SR/USD—annual average)			
Official	3.75	3.75	3.75
Balance of Payments and Trade:			
Total Exports (FOB)[4]	45.6	N/A	N/A
Exports to United States[5]	7.7	8.2	8.6
Total Imports (CIF)[4]	23.3	N/A	N/A
Imports from United States[5]	6.0	6.2	7.3
Trade Balance[4]	22.3	N/A	N/A
Balance with United States[5]	1.7	2.0	1.2
Current Account Deficit/GDP (pct)	8.1	6.2	N/A
External Public Debt	1.8	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	7.3	3.9	N/A
Gold and Foreign Exchange Reserves	10.4	13.5	11.9
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

[1] 1996 figures are all estimates based on available monthly data in October 1996.
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Saudi Arabia prides itself on being a free market economy. Government policies tend to encourage commercial enterprise, but a strict interpretation of Islamic mores by the Muslim elite 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 (e.g., Saudi ARAMCO, Saudi Basic Industries Corporation (SABIC), Saudi Arabian Airlines (SAUDIA)) tend to dominate the corporate economy, and spending decisions taken by these few large companies reverberate throughout the economy. Concerned with the security challenges posed by neighbors such as Iran and Iraq, and by being the location of the two Islamic holy cities of Mecca and Medina, Saudi Arabia seeks sufficient military and security resources to protect its territory and the pilgrims who visit the holy sites. These requirements have made the Kingdom a large buyer of advanced military technology, as manpower resources are severely limited.

In 1995, oil sector revenues comprised an estimated 37 percent of GDP, and an estimated 72 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 1970's, Saudi Arabia maintained annual budget surpluses until 1983, when the decline in oil prices led to the first budget deficit. These deficits have continued for the past 13 years. Initially, the deficits were financed by a draw down 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.

After this run of budget deficits, Saudi Arabia experienced an increase in oil revenues in 1996. The 1996 budget anticipated a $4.9 billion deficit, but instead may enjoy a surplus, due to the sustained, higher than anticipated, market price for oil. These unanticipated revenues raise policy options for the government, whether to maintain austerity budget programs, or to increase spending. At the end of 1996, it appears that the fiscal conservatives in the government are in ascendancy, and budget surpluses will be used to rebuild foreign exchange reserves, to liquidate loans from Saudi Arabian financial institutions, to clear delayed payments to farmers, and to reduce the level of government arrearages.

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 amount of bonds that can be repurchased. SAMA oversees a financial sector consisting of twelve commercial banks, five specialized credit banks, and a number of nonbank financial institutions.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian riyal (SR) is SR 3.75 = $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 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 transactions with Iraq; local banks are prohibited from inviting foreign banks to participate in riyal-denominated transactions without prior SAMA approval; gold is freely traded, held, and shipped, except that gold of 14 karats or less is prohibited.

3. Structural Policies

The government maintains price controls for basic utilities, energy, and many agricultural products. Water and electricity, for most consumers, are believed to be subsidized, with consumer prices often below the cost of production (especially for potable water). Petroleum products and feedstocks for petrochemical industries are provided at below world pricing, reflecting discounts for efficiencies in production and transport. The government maintains that local petroleum prices that are below world average (e.g., a gallon of gasoline sells for $.67 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 have been reduced in the two most recent budgets, in line with the government's deficit reduction plans.

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 increases in 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 profits of less than $26,667 to a maximum rate of 45 percent for profits of more than $266,667. Many foreign investors are able to 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 range around 12 percent ad valorem (CIF), with the exception of 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 customs duties. Saudi Arabia may also levy a maximum 20 percent tariff on products that compete with local "infant" industries.

4. Debt Management Policies

Saudi Arabia is a net creditor in world financial markets. SAMA manages a portfolio of foreign investments of over $50 billion in its Issues and Banking Departments, and an estimated $15 billion for autonomous government institutions, i.e., the Saudi Pension Fund, the Saudi Fund for Development, and the General Organization for Social Insurance. Under SAMA's definitions, about $10-15 billion of the $50 billion investment portfolio is available, with the remainder designated to guarantee the Saudi riyal or letters of credit. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $15.8 billion.

Foreign debt, which stood at a level of $1.8 billion at the beginning of 1995, was retired in May of that year. The Government of Saudi Arabia continues to have no significant foreign debt. Domestic banks, Saudi ARAMCO, and other state-owned enterprises, however, have overseas liabilities.

Government 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 mainly to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, ballooned to about $90 billion in early 1995. 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. Trade

Saudi Arabia is currently in the process of accession to the World Trade Organization (WTO). A number of regulations have the potential to restrict entry of U.S. non-defense 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 fee schedule—and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

Restrictive shelf life 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. 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 Saudi Arabian government-owned companies, e.g., certain insurance and transportation services.

The "Investment of Foreign Capital Regulation" establishes 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 resolutions 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:

a. Ensuring that an investment does not violate the social or religious mores of Saudi Arabia.

b. 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.

Saudi labor law requires companies to employ Saudi nationals. 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 Arabia contends that it has no export subsidy program for industrial products. Because feedstock prices are relatively low in Saudi Arabia, industrial production in petroleum and related downstream products is comparatively attractive. The government contends that this is simply a reflection of the low cost of domestic oil production. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

The concept of intellectual property protection is relatively new to Saudi Arabia. The government has enacted adequate regulations and has joined the Universal Copyright Convention, but efforts to protect intellectual property rights are uneven. Measures to protect against audio and video piracy have been the most successful. Software companies see a need for greater protection of software products in the Kingdom. In April 1996, the U.S. Government moved Saudi Arabia to Watch List status, from the Priority Watch List, under the Special 301 program in recognition of progress made in intellectual property rights protection over the previous year.

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 fifteen years, less than the international standard. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons. The office has received several thousand patent applications, but has completed action on only about ten. The patent office lacks trained manpower to process the backlog of applications.

The Saudi trademark regulation is generally considered effective. Registration is relatively uncomplicated, although some companies have complained that registration and search fees are excessive. Saudi authorities enforce trademark regulations. Legal remedies for infringement of a trademark exist.

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, once a major problem, has seen significant reduction due to government enforcement policies. Estimates of losses to computer software companies due to illegal copying vary widely, but are generally considered significant.

8. Worker Rights

a. *The Right of Association:* Saudi regulations prohibit labor associations.

b. *The Right to Organize and Bargain Collectively:* Most skilled and 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.

d. *Minimum Age for Employment of Children:* The labor law states that "a juvenile who has not completed thirteen years of age shall not be employed." The minimum age for employment, therefore, is fourteen 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. (Women play a very small role in the Saudi work force; the law permits women to work in the education and health sectors, as long as they are segregated from men.)

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 ways be better than those found in countries from which most 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. The labor law sets a limit of 48 hours as the normal work week, with time-and-one-half for hours (up to 12) over that limit. The labor law requires employers to provide health insurance and to protect workers from job-related hazards and disease.

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. U.S. firms normally work a five to 5½-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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		5
Food & Kindred Products	0	
Chemicals and Allied Products	(2)	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		180
Banking		(1)
Finance/Insurance/Real Estate		−43
Services		42
Other Industries		86
TOTAL ALL INDUSTRIES		675

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

SYRIA

Key Economic Indicators [1]

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

	1994	1995	1996
Income, Production and Employment: [2]			
GDP (at current prices)	9.9	10.4	10.9
Real GDP Growth (pct) [3]	5	5	5
GDP by Sector:			
Agriculture	2.8	2.9	3.0
Manufacturing	1.3	1.4	1.4
Services	0.2	0.2	0.2
Government	1.0	1.1	1.1
Per Capita GDP (USD)	725	645	730
Labor Force (000s)	4,000	4,200	4,400
Unemployment Rate	N/A	N/A	N/A
Money and Prices (annual percentage change):			
Money Supply Growth (M2)	N/A	N/A	N/A
Consumer Price Inflation	15.3	15.5	16

Key Economic Indicators [1]—Continued

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

	1994	1995	1996
Exchange Rate (SP/USD)			
Official	11.20	11.20	11.20
"Neighboring Country Rate"	42.00	42.00	43.50
Offshore Market	48–52	47–51	49–51
Balance of Payments and Trade: [4]			
Total Exports (FOB)	4.0	4.0	4.5
Exports to United States (USD millions) [5]	64	56	16
Total Imports (CIF)	4.6	4.8	5.0
Imports from United States (USD millions) [5]	198	223	222
Trade Balance	−0.6	−0.8	−0.5
Balance with United States (USD millions) [5]	−134	−167	−206
Current Account Deficit/GDP (pct)	5.6	N/A	N/A
External Public Debt	20.0	20.0	20.0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	N/A	N/A	N/A
Aid from United States	0	0	0
Aid from Other Countries	1.0	1.5	1.0

[1] The Syrian Government has not published its 1995 statistics as of the completion of this report. Further, the government's 1994 economic statistics remain estimates. All figures in the preceding tables are estimates based on the government's 1994 estimates, other sources in the public domain, and Embassy calculations.

[2] Figures are calculated at the free market rate of 50 Syrian pounds (SP) per dollar.

[3] Published estimates of Syrian GDP growth vary widely. Embassy estimates that GDP growth during the past 3 years has varied between 4 to 6 percent.

[4] Official exchange rate of 11.2 SP/US$ is used to calculate balance of payments and trade.

[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

In 1996, the Syrian Government acted to reduce administrative barriers to U.S. exports. The private sector, responding to these and other reforms, has increased its imports beyond those of the public sector. However, increases of U.S. exports to Syria have lagged behind those of other countries, in part due to continued U.S. economic sanctions.

Prospects for Syrian private sector investment and imports continue to improve, spurred by economic reforms. Liberalization actions of the Syrian Government permit private exporters to retain foreign exchange export earnings to finance permitted imports for manufacturing inputs, as well as other listed products. Although retaining a monopoly on "strategic" imports such as wheat and flour, the government continued to expand the list of permitted imports during 1996, including items such as radios, telephone switch systems, fax machines, and cameras.

The United States imposed trade controls in 1979 as a response to Syria's involvement with terrorism. The U.S. Government expanded sanctions against Syria in 1986, following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow Airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S.-origin components and technology. The Syrians have sought alternate suppliers of these products. Under the 1986 sanctions, Syria is ineligible for the Export Enhancement Program (EEP) and the Commodity Credit Corporation (CCC) program for all agricultural products. The Syrian-U.S. bilateral aviation agreement expired in 1987 and has not been renewed. Finally, the Eximbank and OPIC suspended their programs in Syria, further disadvantaging U.S. exporters in meeting competition from other suppliers.

The Syrian Government uses its annual budget as its principal tool for managing the economy. Through 1992, the Syrian Government's was able to raise official prices on many consumer items (effectively reducing subsidies), improve tax collections, and increase transfers from state enterprises, while reducing commitment of Syrian resources to capital expenditures. These measures enabled it to reduce budget deficits, leading to a balanced budget in 1992. However, the last four budgets have been in deficit ($310.8 million in 1994, $294.4 million in 1995, and $208.1 million in 1996), due to Syria's maintenance of its large military establishment, both here and in Lebanon, and its continued heavy (but currently much reduced) subsidization of basic commodities and social services.

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. Interest rates are fixed by law. Most rates have not changed in the last several years. Current real interest rates are negative.

2. Exchange Rate Policies

The Syrian Government continues to maintain a multiple exchange rate system. The official exchange rate remains fixed at 11.20 Syrian pounds per U.S. dollar for certain government and public sector transactions and for valuations of some customs tariff rates. A second rate, the "Neighboring Country" rate, currently pegged at 43.5 SP per dollar, applies to most state enterprise imports except certain basic commodities and military/security items. Outside Syria, a thriving offshore market for Syrian pounds operates in Lebanon, Jordan, and the Arab Gulf countries. During 1996, the value of the pound fluctuated between 49 SP and 51 SP to the dollar in these locations.

Exchange controls are strict. Syrian currency may not be exported, although it may be imported physically. Almost all exchange transfers must be by letter of credit opened at the Commercial Bank of Syria. Outward private capital transfers are prohibited, unless approved by the Prime Minister or transacted under the investment law noted below. Prior to 1987, Syrian law required private exporters to surrender 100 percent of foreign exchange earnings to the Central Bank at the official rate. Now, private exporters may retain 75 to 100 percent of their export earnings in foreign exchange to finance imports of inputs and other items designated on a short list of basic commodities, surrendering the balance to the Commercial Bank of Syria at the "Neighboring Country" rate. Since 1991, the Commercial Bank of Syria may convert cash, travelers checks, and personal remittances at the "Neighboring Country" rate. Recently, 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 controls prices on virtually all products imported or locally produced, although enforcement in most sectors is spotty. The Ministry also sets profit margin ceilings, generally up to 20 percent, on private sector imports. Local currency prices are computed at the 43.5 SP/dollar 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. Since 1989, the government has continued to increase farm gate prices to encourage production and to enable state marketing boards to purchase larger quantities of locally produced commodities. In 1996, the Syrian Government determined that the price of wheat was significantly above the world price as computed at the free market rate.

With the surge of private industrial investment, especially in textile and clothing manufacturing, private sector capital goods imports exceeded that of the public sector in 1996. However, public sector demand remains significant. Contracts are awarded through the official tender system. These are open to international competition with no restrictions, other than language pertaining to the Arab League boycott of Israel and the requirement to post a bid bond. Syrian public sector entities will accept positive statements of origin to deal with the boycott issue.

Syrian tariffs are very high, exceeding 200 percent for passenger cars. Income taxes are highly progressive. Marginal rates in upper brackets are 64 percent. Salaried employees also pay a graduated wage tax, reaching 17 percent. Tax evasion is widespread.

4. Debt Management Policies

Syrian authorities have been unwilling to provide data on non-civilian debt, as well as accumulated obligations under bilateral clearing arrangements. Guaranteed civilian debt is officially estimated at approximately $3.4 billion. The diplomatic community estimates Syria's total external public debt at about $20 billion. Very little Syrian commercial debt is held by U.S. companies, but sovereign debt held by U.S. firms is about $250 million.

In 1992, the government established various committees to negotiate settlements of supplier credit claims against public sector importing agencies. However, progress has been slow. Debt to the former Soviet Union and Iran is estimated to be more than $12 billion. Syria suspended payments to the Russian Republic in 1992, but is negotiating a settlement. The government remains badly in arrears on payments to official export credit agencies and bilateral donors, including USAID. Syria has been in violation of the Brooke Amendment since 1985. Syria resumed interest payments to the World Bank in 1992, and, except for a brief stoppage in 1993, has been making payments to the World Bank sufficient to prevent increases in its arrears.

5. Significant Barriers to U.S. Exports

Any product legally imported into Syria requires an import license, which is issued by the Ministry of Economy and Foreign Trade according to a policy aimed at conserving foreign exchange and promoting local production. Strict standards on labeling and product specifications are nondiscriminatory and fairly enforced. Customs procedures are cumbersome and tedious because of complex regulations. In addition, duty rates are extremely high. Tariff exchange rates depend on the type of good.

Government procurement procedures pose special problems. Although foreign exchange constraints have eased, many public sector companies continue to favor barter arrangements which can be unattractive to U.S. suppliers. In addition, problems remain with the prompt return of performance bonds.

Current bid bond forms stipulate that the guarantee becomes null and void if the tender is not awarded upon its expiry date, without need for any other procedure. Some government tenders include a clause allowing the bidder to cancel his bid at 6-month intervals, provided a written notice is received within a stipulated timeframe. If such a clause is not included in the tender, it can often be negotiated.

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.

Given the centralized structure of the economy, specific "buy national" laws do not exist. Strategic goods, military equipment, sugar, and items not produced locally or in sufficient quantities, are procured by public sector importing agencies on the international market, provided foreign exchange is allocated by the Supreme Economic Council.

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 43.5 SP per dollar. Oil exploration concessions and service contracts must be explicitly negotiated. The number and position of foreign employees in a company are usually negotiated when the contract or agreement is signed. Land ownership laws are complex. The right to repatriation of capital is legally recognized. The investment law of 1991 provides for tax holidays and exemptions on duties, as well as guarantees for the remission of profits. However, the law requires that repatriated foreign exchange be generated from export company operations. Despite the new legislation, Syria's poor infrastructure, the lack of financial services, complex foreign exchange regulations, and Law No. 24 which criminalizes unauthorized foreign exchange transactions, continue to pose serious commercial barriers.

Government monopolies in banking, insurance, telecommunications and other public sector service industries preclude foreign investment. Motion pictures are distributed by a government agency and subject to censorship.

6. Export Subsidy Policies

Export financing and subsidies are not available to either the public or the private sectors. In fact, some exports are subject to special taxes. Recent government decisions allowing private firms to transact exports and imports at the "Neighboring Country" rate, instead of the unfavorable official rate, have encouraged private trade through official channels. Similar concessions to public sector companies to complete export transactions have enhanced the foreign exchange position of these companies. The government is exporting barley and wheat at the prevailing high international prices. The 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's legal system recognizes and facilitates the transfer of property rights, including intellectual property rights. There is, however, no copyright protection. Due to the unsophisticated industrial structure and existing limits on private industry, there are few major infringement problems. Local courts would likely give plaintiffs fair hearings, but any financial awards would be in Syrian pounds. Requests for payment in foreign exchange would probably be delayed indefinitely.

Most books printed in Syria are in Arabic and by Arab authors. The publishing industry is not well developed. Despite the lack of legal protection, major commercial infringements do not appear to be a problem. There are, however, individual entrepreneurs who copy records, cassettes, and videos, and sell them. In any event, enforcement and the associate litigation would be, if not impossible, extremely costly compared to any positive benefits that might result.

The U.S. motion picture industry estimates the home video market in Syria is 100 percent pirated and is also concerned with unauthorized hotel video performances, which are said to be common. However, only a few hotels have internal video systems.

8. Worker Rights

a. *The Right of Association:* The 1973 Constitution provides for the right of the "popular sectors" of society to form trade unions. Although the General Federation of Trade Unions (GFTU) is purportedly an independent popular organization, in practice the government uses it as a framework for controlling nearly all aspects of union activity. According to GFTU officials, the secretaries general of the eight professional unions, some of whom are not Ba'th Party members, are each elected by their respective union's membership.

The Syrian Government contends that there is in practice trade union pluralism. However, workers are not free to form labor unions independent of the government-prescribed structure. Legislation granting the right of any trade union to be governed by its own by-laws without those rules having to correspond to those of the GFTU remains pending.

Strikes are not prohibited (except in the agricultural sector), but in practice they are effectively discouraged. There were no reported strikes in 1996, as was also the case in 1995 and 1994. As with other organizations dominated by the Ba'th Party, the GFTU is charged with providing opinions on legislation, devising rules for workers, and organizing labor. The elected president of the GFTU is a senior member of the ruling Ba'th Party and a member of the party's highest body, its regional command. With his deputy, he participates in all meetings of the Cabinet's ministerial committees on economic affairs. While the unions are used primarily to transmit instructions and information to the labor force from the Syrian leadership, elected union leaders also act as a conduit through which worker 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 experts committee noted Syria's continuing resistance to changing a section of the labor code which allows the Minister of Labor and Social Affairs to refuse to approve a collective bargaining agreement and to annul any clause likely to harm the economic interests of the country. Unions have the right to litigate contracts with employers and the right to litigate in defense of their own interests or those of their members (individually or collectively) in cases involving labor relations. Union organizations may also claim a right to arbitration. In practice, due to the relatively small size of Syrian private sector enterprises, labor disputes are generally settled informally.

Workers are protected by law from anti-union discrimination, and there were no reports of discrimination against union members.

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 14, 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.

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 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 but are often reluctant to press claims because employees' work and residence permits may be withdrawn at any time. Moreover, many work illegally and are not covered by the government system. Some foreigners are employed illegally as domestic servants in Syria. Residence permits are legally granted only to diplomats who employ servants, but some senior officials are also able to acquire the necessary permits.

f. *Rights in Sectors with U.S. Investment:* There is little direct U.S. investment in Syria, other than oil exploration and development. 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—1995

[Millions of U.S. dollars]

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
Finance/Insurance/Real Estate	0
Services	0
Other Industries	(1)
TOTAL ALL INDUSTRIES	384

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

TUNISIA

Key Economic Indicators

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

	1994	1995	1996
Income, Production and Employment:			
Nominal GDP	15.9	18.0	19.8
Real GDP Growth (pct)	3.3	2.5	6.7
GDP by Sector:			
Agriculture	2.1	2.1	2.7
Manufacturing	2.9	3.3	3.6
Services	5.5	6.4	7.0
Government	2.1	2.4	2.5
Per Capita GDP (USD)	1,805	1,995	2,148
Labor Force (000s)	2,250	2,260	2,260
Unemployment Rate (pct)	15.8	15.5	16.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	8.0	10.8	8.0
Consumer Price Inflation	4.7	6.3	5.0
Exchange Rate (dinar/USD—annual average)			
Market	1.00	0.95	0.97
Balance of Payments and Trade: [1]			
Total Exports (FOB)	4.7	5.4	5.9
Exports to United States (USD millions) [2]	54	70	72
Total Imports (CIF)	6.6	7.9	8.3
Imports from United States (USD millions) [2]	327	215	198
Trade Balance	−2.0	−2.4	−2.4
Balance with United States (USD millions) [2]	−273	−145	−126
Current Account Deficit/GDP (pct)	−0.02	−0.04	−0.04
External Public Debt	10.4	11.1	11.7
Debt Service Payments/GDP (pct)	3.50	3.23	3.10
Fiscal Deficit/GDP (pct)	2.6	4.1	3.0
Gold and Foreign Exchange Reserves	1.5	1.6	1.7
Aid from United States	0.8	0.8	0.8
Aid from All Other Sources [3]	N/A	N/A	N/A

Sources: World Bank, Tunisian Central Bank, and other Tunisian Government sources.
[1] 1996 projections are based on 8-month actual data.
[2] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[3] The Tunisian Government does not publish official aid figures.

1. General Policy Framework

Tunisia is a country that has made impressive progress toward establishing a diversified market economy over the last 10 years. It has begun to implement significant economic reforms required by the European Union (EU)-Tunisian Free Trade Accord, which was signed in 1995. Over a 12-year period, the terms of the accord require the Tunisian Government to eliminate import tariffs, which currently provide 20 percent of government revenues, and open the market to business competition. While the government expects significant economic turmoil to result initially as domestic firms are privatized, jobs are eliminated and companies are forced to become more efficient, it hopes that, in the long run, the accord will be a boon to the country, attracting foreign investment and creating an export-oriented economy based increasingly on manufactured exports.

Tunisian fiscal policy is social-oriented, designed to raise living standards while maintaining economic and political stability. Approximately 60 percent of the government budget is allocated for social programs, providing subsidies for education, basic foodstuffs, and support for the poorest sectors of the population. The minimum wage was increased in 1996 but not enough to keep pace with inflation, which is projected to reach 5 percent. The government had to raise $820 million from foreign sources in 1996 to finance its budget deficit, which is equal to 4 percent of the 1996 projected gross domestic product (GDP) of $19.7 billion. Half of the external money raised came from the World Bank and bilateral credits, and the other half came from international capital markets. Tunisia's economic performance and low perceived commercial and political risk have been recognized in international finance markets, permitting the government to successfully float loans in the bond market. Since 1994, for example, the government has raised almost $1 billion in Japanese bonds.

Tunisia maintains significant trade barriers to reduce imports and lower its trade deficit, which increased approximately 17 percent from 1994 to 1995. Imports rose during the last 2 years as Tunisian agricultural production suffered from a severe drought, dropping GDP growth in 1995 to 2.5 percent. Imports in 1996 are expected to decline slightly as a result of a bumper agricultural harvest, but customs duties and other import taxes will remain. The United States continues to maintain a large trade surplus with Tunisia, primarily in agricultural products, although U.S. imports represent only 5 percent of total goods and services imported. While overall trade with the United States has declined slightly since 1995, there are opportunities for U.S. exports in 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. Tunisia has $1.6 billion in foreign reserves and the Tunisian dinar is not traded on international markets. Government exchange controls extend to Tunisians traveling outside the country, who are limited in the amounts they may take abroad. The Central Bank's decision in November 1996 to reduce the money market rate (unchanged since 1993) from 8.81 to 7.81 percent is expected to spur internal investment, however, and increase imports of manufacturing products and equipment.

2. Exchange Rate Policy

While the Tunisian dinar (TD) 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, and it is illegal to take the currency in or out of the country.

The value of the dinar is tied to a basket of foreign currencies, primarily those of Tunisia's major trade partners, such as the United States, Germany, France, Italy and Japan. All exchange rate transactions are done internally on an open market, and the government does not maintain or use an official rate of exchange. There is no "parallel" or black market for currency exchanges. Over the past 3 years, the dinar has stayed approximately equal to the U.S. dollar, varying from 1.0 to 0.95 dinars per dollar. U.S. exports have not been disadvantaged by the exchange rate.

3. Structural Policies

To meet the terms of the EU-Tunisian Free Trade Accord, which came into effect in 1996, the government is continuing to implement structural economic reforms initiated in 1987 with the International Monetary Fund (IMF) and the World Bank. 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, the government has accelerated its privatization program, selling 60 out of 400 companies slated to be privatized over the next 5 years, with another 40 to be sold by the end of 1996. Though no official actions have yet been taken, the government has said that it intends to sell several state banks, in the hope that they will make the financial sector more responsive.

Tax and customs policies favor Tunisian-based foreign companies which manufacture locally and export their products, enjoying 10 year tax-free status and other benefits. However, foreign companies that import materials for use or sale in the Tunisian market 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. Further, in order to make up for the decline in import duties, the government extended its value-added tax (VAT) in 1996 to large retailers, causing price increases on a wide range of products, both domestic and foreign.

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, during 1995 and 1996 procedures have not always strictly adhered to official tender policies (see below). While these may have been isolated incidents, they could deter U.S. companies from bidding on future public contracts.

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, resulting in international credit institutions financing two syndicated loans in 1996 totaling $300 million.

From 1994 to 1995, the government's outstanding debt increased from $8.5 to $9.5 billion but remained at 53.3 percent of gross available domestic revenue. Principal payments on foreign debt in 1996 were projected to be $940 million, and Tunisia's total financing requirement in 1996 will amount to $1.6 billion dollars (eight percent of GDP).

5. Significant Barriers to U.S. Exports

Significant barriers do exist to U.S. exports to Tunisia. While Tunisia is a member of the WTO and allows over 90 percent of goods to be imported without a license, import duties range from 10 to 290 percent, and products that compete with locally produced goods may have a supplemental duty on them, sometimes as high as 30 percent. In addition, certain luxury durable goods or consumer items can be assessed a consumption tax as high as 500 percent. At the retail level, a value-added tax can also be applied to certain categories of goods.

Import licenses are often required for goods that compete against locally produced products manufactured 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. or other exports are limited or prevented when they are seen to compete with them.

Tunisia is moving to embrace ISO 9000 standards and testing, which should be applicable throughout Tunisia by 1997. 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 50 percent. Stock ownership by foreigners is limited to either 10 or 30 percent, depending on the company. Foreign investors are denied national treatment in the agricultural sector and, although land may be secured for long-term leases, foreign ownership of agricultural land is prohibited. Local content provisions may apply for companies producing locally, and hiring foreign personnel is discouraged. Foreign companies cannot distribute products locally and must have a Tunisian distributor. 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 at least two 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, financing, 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.

6. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies.

7. Protection of U.S. Intellectual Property

As a member of the World Intellectual Property Organization and a party to the Berne and Universal copyright conventions and the Paris industrial property convention, Tunisia has pledged to protect foreign property rights. Foreign patents and trademarks are required to be registered 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.

The effectiveness of Tunisian intellectual property protection has not yet been adequately tested by U.S. firms. Though no egregious cases of patent or trademark abuse have been reported publicly, neither have there been publicized campaigns by the authorities to discourage its practice. Trademark pirating exists on a small scale, largely in the areas of clothes, sunglasses, shoes, cassettes, videos and computer software.

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 has not been consistent with foreign commercial expectations. Print and video media are considered particularly susceptible to copyright infringement.

Losses to U.S. trade as a result of patent and trademark abuse and piracy of copyrighted materials do not appear to be great. U.S. companies have not identified Tunisia as a major abuser of their patents, trademarks or copyrighted materials.

8. Worker Rights

a. *The Right of Association:* The Constitution and the labor code stipulate the right of workers to form unions. The Tunisian General Federation of Labor (UGTT), with 15 percent of the country's work force, is Tunisia's only labor federation. The UGTT is independent of the government but certain laws restrict its freedom of action. The current UGTT has striven to cooperate with the government and support its economic reform programs.

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 reached.

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 light work in agriculture and nonindustrial sectors is permitted at 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 nonunionized sectors of the economy. Workplace health and safety standards are enforced by the government. Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

f. *Rights in Sectors With U.S. Investment:* U.S. companies operating in Tunisia have a good reputation for observing all aspects of worker rights, and often provide salaries greater than the minimum wage. In 1996, there were no public or private reports of problems concerning worker rights with U.S. companies investing or operating in Tunisia.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		47
Total Manufacturing		(1)
Food & Kindred Products	(1)	
Chemicals and Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		0
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		64

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

UNITED ARAB EMIRATES

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP[2]	36.8	39.2	41.4
Real GDP Growth (pct)	−1.9	2.1	2.6
GDP by Sector:[3]			
Agriculture	0.9	1.0	N/A
Manufacturing	3.2	3.4	N/A
Services	11.4	12.1	N/A
Government	4.3	4.4	N/A
Per Capita GDP (USD)	16,499	16,499	N/A
Labor Force (000s)	913	955	1,000
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.9	5.5	N/A
Consumer Price Inflation (pct)	4.2	4.4	N/A
Exchange Rate (dirham/USD)			
Official	3.67	3.67	3.67
Balance of Payments and Trade:			
Total Exports (FOB)[4]	26.7	28.8	N/A
Exports to United States[5]	0.4	0.5	0.5
Total Imports (CIF)[4]	22.8	24.9	N/A
Imports from United States[5]	1.6	2.0	2.6
Trade Balance[4]	3.9	3.9	N/A
Balance with United States[5]	−1.2	−1.5	−2.1
Current Account Surplus/GDP (pct)	1.2	N/A	N/A
External Public Debt	0.0	0.0	N/A
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	7.9	9.7	N/A

Key Economic Indicators—Continued

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

	1994	1995	1996[1]
Gold and Foreign Exchange Reserves (end of period)	6.7	7.5	N/A
Aid from United States	0	0	0
Aid from All Other Sources	0	0	0

Sources: Ministry of Planning, Central Bank, Ministry of Economy and Commerce.
[1] Estimates based on available monthly data in November 1996
[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; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

The United Arab Emirates (UAE) is a federation of seven emirates. The individual emirates retain considerable power over legal and economic matters, most significantly over ownership and disposition of oil resources. The Federal budget is largely derived from transfers from the individual emirates. Abu Dhabi and Dubai, the most prosperous emirates, contribute the largest shares.

Oil production and revenues from the sale of oil constitute the largest single component of GDP, accounting in 1995 for 34 percent of GDP and roughly 75 percent of export and 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 attempts at economic diversification. Important sectors under development include tourism, 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. A 1994 law extended these requirements to service businesses for the first time. Within the emirate of Dubai, companies located in the Jebel Ali Free Zone (JAFZ) are exempted from agency/distributorship, sponsorship, and national ownership requirements. However, if they lack 51 percent national ownership, they are treated as foreign firms and subjected to these requirements if they market products in the UAE outside the JAFZ.

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; outside observers estimate that in 1995 that figure grew to 9.7 percent. IMF projections, assuming current policies remain unchanged, forecast that fiscal deficits will persist until the year 2000. 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 UAE 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. Since November 1980 the buying and selling rates for the U.S. dollar have been 3.6690 dirhams and 3.6730 dirhams, respectively.

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, and decrease costs to the UAE Government, 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. The construction and retail sectors have been particularly hard hit.

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. Following a June 1996 Gulf Cooperation Council (GCC) Foreign Ministers' meeting, the GCC states have been engaged in discussions on unifying customs tariffs. Little progress has been made on this issue so far; 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.

The UAE began issuing 10-year multiple entry visas to American passport holders in 1994. The U.S. Embassy has received numerous complaints that the UAE Embassy in Washington will not issue 10-year multiple entry visas to U.S. business travelers, even though there is a bilateral agreement on reciprocity. As many business deals involve numerous trips to the UAE over a period of several years, the unavailability of long-term multiple entry visas for U.S. business travelers makes business activities more difficult to conduct.

4. Debt Management Policies

The UAE Federal Government has no official or commercial foreign debt. Some individual emirates have foreign commercial debts, and there is private external debt. There are no reliable statistics on either, but the amounts involved are not large. The foreign assets of Abu Dhabi and Dubai Governments and their official agencies are believed to be significantly larger than the reserves of the Central Bank.

5. Significant Barriers to U.S. Exports

The UAE became a member of the WTO in April 1996. However, the UAE maintains nontariff 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 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 UAE Government does not employ subsidies to provide direct or indirect support for exports.

7. Protection of U.S. Intellectual Property

The UAE is on USTR's Special 301 Watch List for intellectual property rights (IPR) violations. In its October 1995 review, USTR cited inadequate protection of computer software and pharmaceutical patents as reasons for maintaining the UAE on the Watch List.

In 1992 the UAE passed three laws pertaining to intellectual property: a copyright law, a trademark law, and a patent law. 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.

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. The Ministry of Information is currently amending the Copyright Law to bring it up to international standards.

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 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.

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. UAE Federal Decree Number 31 of 1996 ratified the 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 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. Children under the age of 15 working as camel jockeys have still been observed. Otherwise, child labor is not permitted. UAE Federal Decree Number 32 of 1996 ratified the 1973 Minimum Age Convention.

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. The standard workday and workweek are 8 hours a day, 6 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.

Government ministries, 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 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		5
Food & Kindred Products	0	
Chemicals and Allied Products	(2)	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		180
Banking		(1)
Finance/Insurance/Real Estate		−43
Services		42
Other Industries		86
TOTAL ALL INDUSTRIES		675

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

SOUTH ASIA

BANGLADESH

Key Economic Indicators

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

	1994	1995	1996[1]
Income, Production and Employment:			
Nominal GDP	25.8	29.1	31.8
Real GDP Growth (pct)	4.2	4.4	4.7
GDP by Sector:			
Agriculture	7.6	9.0	9.8
Manufacturing	2.5	2.8	3.0
Services	13.5	15.0	15.8
Government	N/A	N/A	N/A
Per Capita GDP (USD)	217	240	253
Labor Force (000s, formal)	4,800	4,800	4,800
Unemployment Rate (pct)[2]	35.9	35.9	35.9
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	15.4	16.0	8.2
Consumer Price Inflation	1.8	5.2	4.0
Exchange Rate (taka/USD—annual average)			
Official	40	40.2	40.9
Parallel	41	41.2	41.9
Balance of Payments and Trade:			
Total Exports (FOB)	2.5	3.5	3.9
Exports to United States[3]	1.8	1.3	1.4
Total Imports (CIF)	4.2	5.9	6.8
Imports from United States[3]	0.2	0.3	0.2
Trade Balance	−1.7	−2.4	−3.0
Balance with United States[3]	1.6	1.0	1.2
Current Account Deficit/GDP (pct)	1.6	3.5	5.0
External Public Debt	15.7	16.5	17.1
Debt Service Payments/GDP (pct)	2.2	2.0	2.0
Fiscal Deficit/GDP (pct)	6.0	6.8	6.0
Gold and Foreign Exchange Reserves	2.8	3.1	2.2
Aid from United States (USD millions)[4]	88	99	65
Aid from All Other Sources[5]	1.5	1.6	1.4

[1] Except as noted, all data are for the Bangladesh fiscal year of July 1–June 30 1993/4, 1994/5 and 1995/6. Data for FY96 is mostly provisional.
[2] Includes estimated underemployment (34 percent).
[3] Source: U.S. Department of Commerce and U.S. Census Bureau; calendar year, exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.
[4] 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 1996 is estimated at $253. Most of its population of 123 million is tied directly or indirectly to agriculture, which accounts for 31 percent of Gross Domestic Product (GDP) and employs nearly three out of four Bangladeshis. Economic growth in recent years, based in large part on booming garment exports, has averaged around 4 to 4.5 percent. This rate, though positive on a per capita basis, is inadequate to relieve the poverty faced by over half the population. It is generally held that Bangladesh needs an investment/GDP ratio of 20 to 22 percent and a GDP growth rate of 7 percent or more to achieve significant poverty alleviation.

Growth has been slowed by a number of factors: low growth in the agricultural sector, a legacy of government control of productive resources, political instability, poor infrastructure, corruption, poverty, 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, over the past 6 years Bangladesh has steadily opened its economy to greater influence of the free market and private sector activity. The Awami League, the winning party in June 1996 elections, has continued the market-based economic policies of its predecessor, the Bangladesh Nationalist Party. The new government has placed a high priority on increasing the amount of foreign investment in the economy by improving the investment climate, and has made some regulatory and policy changes designed to attract more foreign direct and portfolio investment. However, implementation of new policy directives by the bureaucracy has been slow. Key sectors being opened up to private investors of particular interest to U.S. firms are power, telecommunications and natural gas exploration and production. Bangladesh had a trade surplus with the U.S. of $932 million in 1995, due mostly to large U.S. imports of Bangladeshi garments.

Despite the political changes of 1996 (the BNP Government resigned in February, a caretaker government supervised through the June general elections, and the new Awami League took over the reins of government thereafter), macroeconomic stability was generally maintained. Real GDP growth for fiscal year 1996 (July 1–June 30) was 4.7 percent, and would have been higher if not for the effects of over 50 days of general strikes. Inflation fell to 4 percent in FY96 from 5 percent in FY95, aided by good rice crops (rice accounts for a high percentage of the consumer price index). Foreign exchange reserves have stabilized since early 1996. As of October 1996, foreign exchange reserves were an estimated $2 billion (or 3.5 months of imports), down from $3.4 billion as of April 1995. This decrease in foreign exchange reserves was a result of food imports, lower foreign aid disbursements and import growth which exceeded export growth. The fall in foreign exchange reserves permitted an increase in public and private credit without increasing the money supply, which grew by only 8.2 percent in FY96 after increasing by 16 percent in FY95. To maintain Bangladesh's export competitiveness, there have been nine small devaluations of the country's currency, the taka, since September 1995; the taka was devalued by 3.9 percent against the U.S. dollar between November 1995 and November 1996. 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.

Current government expenditures exceeded the budgeted amount by 7 percent in FY96 in part due to increased election spending. However, spending on the annual development budget was reduced because of slow foreign aid disbursements, so that the overall budget deficit for FY96 is estimated to be about 6 percent of GDP, versus a deficit of 6.8 percent in FY95. FY96 domestic revenues barely met budgeted levels, but exceeded current expenditures by $977 million. This surplus provided the government contribution to the country's development budget, termed the "Annual Development Program" (ADP), estimated at a total of $2.2–2.3 billion in fiscal year 1996. While most funding for the ADP comes from donors, the Finance Ministry claimed to have maintained Bangladesh's contribution at about 40 percent in FY96; for FY97 the percentage of Bangladesh's ADP contribution is forecast to be 47 percent. The domestic portion of government debt is financed through the sale of government bonds. Tax revenues reached a level of $2.96 billion in FY96, more than double the amount collected in 1989, but stagnant over the last 2 years as a percentage of GDP. The government in its FY97 budget lowered the maximum tariff by 5 percent and added some services to the VAT system.

Although some liberal investment measures were taken by the government to foster private sector involvement in the energy, power and telecommunications sectors, poor infrastructure, bureaucratic inertia, corruption, labor militancy, political unrest and a deteriorating law and order situation continued to discourage domestic and foreign investors in FY96. A return of political stability in the first half of FY97 may lead to higher levels of investment and higher GDP growth if investors are convinced political stability will continue. Investment, which stagnated at 12 to 13 percent of GDP in the 1985–1992 period, increased slowly to around 17 percent in FY96.

2. Exchange Rate Policies

At present, the Bangladesh 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 3.5 months of imports and a black market rate close to the official rate suggest the gank has fixed the exchange rate close to the equilibrium level, although the country's loss of $1.4 billion in foreign exchange reserves between April 1995 and April 1996 highlights Bangladesh's vulnerable foreign exchange position. Foreign reserves have stabilized at around $2 billion through most of the first half of FY97. The taka's market value, however, is bolstered by the large sums of foreign exchange Bangladesh receives every year through aid transfers and by foreign exchange received as remittances from overseas workers. The official exchange rate against the dollar on November 11, 1996, was taka 42.55.

Most foreign firms are able to repatriate profits, dividends, royalty payments and technical fees without difficulty, provided the appropriate documentation is presented to the Bangladesh Bank. Outbound foreign investment by Bangladeshi nationals requires government approval and must be in support of export activities. Bangladeshi travelers are limited by law to taking no more than $3,000 out of the country per year. 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 1996.

3. Structural Policies

In 1993, Bangladesh successfully completed a 3-year International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ESAF) program, meeting all fiscal and monetary targets. In late 1996 Bangladesh began talks with the IMF regarding a possible new Enhanced Structural Adjustment Program. Bangladesh maintains good relations with the World Bank, Asian Development Bank, IMF and international donor community.

Broad money supply growth was about 15 percent in fiscal year 1994, 16 percent in fiscal year 1995, and 8 percent in FY96. The value added tax (VAT) collections were stagnant in FY95 and FY96. The government added some services under VAT for FY97 to boost revenue, and overall tax receipts are expected to increase through improved collection and administrative practices. Government current spending increased in FY96, but was offset by reduced development spending.

Bangladesh has managed to maintain a measure of macroeconomic stability since 1993, despite political instability in 1995 and early 1996. Nonetheless, its macroeconomic position in 1996 has weakened compared to 1993, with a larger current account deficit, higher fiscal deficits and inflation, and a fall in foreign exchange reserves and stagnant tax revenues. Progress on other important economic reforms has been halting, though the new 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 and highly protected domestic producers in import-competing industries. The public sector still exercises a dominant influence on industry and the economy; it accounts for only 7.5 percent of the output of large manufacturing enterprises but holds 33 percent of the fixed assets, according to a 1992 World Bank survey. Most public sector industries, including textiles, jute processing, and sugar refining, are perennial money losers, which drain the treasury. Their militant unions have succeeded in setting high wages which their private sector counterparts often feel compelled to meet out of fear of union action. Jute sector reforms under a World Bank adjustment credit are nearly moribund, although the new government has pledged action. Privatization of state-owned enterprises has been advocated by the new government, although little concrete action has occurred as of late 1996.

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 a government monopoly. 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. Private investment is also being allowed in the telecommunications and hydrocarbons sectors, and several agreements to implement private sector projects in these areas are pending as of November 1996. In addition, the government is also making changes in capital markets to encourage foreign investment, which may increase possibilities for exports of U.S. financial services. The dysfunctional banking sector, long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay loans, continues to be the subject of reform programs. The banking sector is dominated by four large nationalized commercial banks (NCBs). The privatization of one of the four NCBs is still pending as of November 1996. However, entry of foreign and domestic private banks has been permitted, and several new banks have entered the market in 1995 and 1996.

4. Debt Management Policies

Assessed on the basis of outstanding principal, Bangladesh's external public debt was $16.5 billion as of June 1996, up 3 percent from $16 billion in June 1995. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors (i.e. one or 2 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. As of late 1996, Bangladesh owed approximately $729 million to the U.S. Government, primarily from PL-480 Title I and III food loans. While Bangladesh's total external debt has increased as a share of GDP in the last decade, its ratio of debt service to exports has been falling, due to high export growth and the highly concessional nature of most of its debt. Total debt service as a percentage of current receipts has fallen from 20 percent in fiscal year 1991 to an estimated 10 percent in fiscal year 1996. Total debt service as a share of GDP was 1.9 percent in 1996.

5. Significant Barriers to U.S. Exports

Since 1991, the government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia. However, Bangladesh still continues to raise relatively high shares of its government revenues from customs duties. Tariff reform was accelerated significantly in 1994 and 1995 by the compression of customs duty rates into a range of 7.5 to 15 percent for most products and the maximum rate being set at 50 percent (with the exception of certain luxury goods, for which duties remained in excess of 100 percent). The trade-weighted average import tariff rate was 28 percent in FY94, compared to 40 percent in FY92. Changes in the FY97 budget reduced the maximum tariff rate to 45 percent, with duty on some items falling to 2.5 percent. Government estimates indicate that the weighted average tariff rate was brought down to below 25 percent by the FY97 tariff reductions.

In July 1992 the government replaced an import sales tax with a trade-neutral VAT, leaving only the 2.5 percent "advance income tax" to be removed to make the customs duty the only protective instrument for most imports. The number of products subject to an import ban or restriction was further reduced in 1996 and import procedures have been streamlined. The formerly cumbersome procedure for opening letters of credit also has been simplified. Bangladesh is a founding member of the World Trade Organization (WTO). It is not a signatory to WTO plurilateral agreements on government procurement or civil aircraft.

Some barriers to U.S. exports or direct investment exist. 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. Some lack of national treatment exists 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. Policy instability, where policies are altered at the behest of special interests, also creates difficulties for foreign companies.

Government procurement generally takes place through a tendering process, which foreign companies do not always perceive as transparent. Bangladesh has some countertrade arrangements with China and North Korea and countries in Central and Eastern Europe and Central Asia.

Customs procedures are lengthy and burdensome, and further complicated by corruption. The systems of customs valuation has been supplemented by the acceptance of preshipment 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. Customs duty revenues are scheduled to be higher in absolute terms in the FY97 budget, although they have been falling as a share of total revenue over the last several years. Attempts to reform customs practices are ongoing.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, and an uncertain law and order situation. The lack of effective commercial laws makes enforcement of business contracts difficult. Officially, private industrial investment, whether domestic or foreign, is completely deregulated, and the government has significantly streamlined the investment registration process. However, while registration has been simplified, domestic and foreign investors typically must obtain a series of approvals from various government agencies in order to implement their projects. Bureaucratic red tape, compounded by corruption, slows and distorts decisionmaking and procurement. Existing export processing zones (see below) have successfully facilitated investment but are still too small to have changed significantly the overall investment picture in the country.

U.S. investment stock in Bangladesh is very small, totaling in the neighborhood of $21 million, primarily in the assets of service companies and a few manufacturing operations. This total will rise significantly if proposed U.S. investments in the hydrocarbons, power and telecommunications sectors are approved.

6. Export Subsidies Policies

The Bangladesh Government encourages export growth through measures such as ensuring duty-free status for some imported inputs, including capital machinery, and providing easy access to financing for exporters. Readymade garments 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 readymade 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 the last 5 years. Bangladesh has established export processing zones in Chittagong and Dhaka, and has plans to open a third. The government in late 1996 gave the private sector the authority to build and operate private export processing zones.

7. Protection of U.S. Intellectual Property

Bangladesh has outdated intellectual property rights (IPR) laws, and an unwieldy system of registering and enforcing intellectual property rights. Intellectual property infringement is common, particularly of pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts.

Bangladesh has been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985. WIPO and the United Nations Development Program (UNDP) in 1995/6 funded a small project providing automation and training for the Bangladesh Government's patent office. Bangladesh has begun reforms to increase the level of IPR protection in order to meet its obligations under the WTO TRIPS (Trade-Related Aspects of Intellectual Property Rights) Agreement. In consultation with WIPO, the Bangladesh Government began drawing up IPR reforms laws in 1992 and has hired consultants to review the IPR draft laws in view of WTO TRIPS' provisions. The completion of the review and subsequent modification and vetting of the drafts are expected to take at least a year, with parliamentary passage taking further time. As a result, Bangladesh is unlikely to have effective IPR laws before mid–1997. Bangladesh is neither on the Special 301 watch list nor the priority watch list.

8. Worker Rights

a. *The Right of Association:* The Bangladesh Constitution guarantees freedom of association, the right to join unions and, with government approval, the right to form a union. With the exception of workers in the railway, postal, telegraph, and telephone sectors, 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. Bangladesh 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; hundreds were injured in labor clashes in 1996 at various large jute and textile mills, as well as in the inland water transport sector. 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. General strikes cause economic and social disruption through lost production and, more significantly, transportation delays causing missed shipping dates for exports.

The Essential Services Ordinance permits the government to bar strikes for 3 months in any sector deemed "essential." Mechanisms for conciliation, arbitration and labor court dispute resolution were established under the Industrial Relations Ordinance of 1969.

Workers in Bangladesh's two export processing zones (EPZs) are prohibited from forming unions, though some workers have skirted the ban by setting up associations. The government has stated that labor law restrictions on freedom of association and formation of unions in the EPZs will be lifted by 1997, although no action has been taken as of late 1996. In the rapidly growing garment industry, there have been numerous complaints of workers being harassed and fired in some factories for trying to organize workers.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to enforce laws against forced labor, but resources for enforcement are few, and these laws are not rigorously enforced.

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 anticipation of possible U.S. legislation prohibiting the import of products made by child labor, thousands of underage children employed in Bangladesh's garment industry were dismissed in 1993. In July 1995, Bangladesh garment exporters signed a memorandum of understanding that promises to eliminate child labor in the garment sector and set up schools and a stipend program for the displaced child workers. By late October 1996 more than 200 schools serving some 6,000 former child workers had opened. 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:* Manufacturing firms with U.S. investment have unions and bargain collectively. Worker layoffs or the threat of reductions-in-force can cause serious management-labor disputes. As far as can be determined, firms with U.S. capital investment abide by the labor laws. Similarly, these firms respect the minimum age for the employment of children. According to both the Bangladesh Government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry. In some cases, workers in these firms enjoy shorter working hours than those working in comparable indigenous firms.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

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

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995—Continued

[Millions of U.S. dollars]

Category	Amount
TOTAL ALL INDUSTRIES	(1)

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

INDIA

Key Economic Indicators

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

	1994/95	1995/96	1996/97 [1]
Income, Production and Employment:			
Nominal GDP [2]	301.2	320.9	341.9
Real GDP Growth (pct) [3]	6.2	6.6	6.3
GDP by Sector (pct estimated):			
Agriculture	29.0	29.0	N/A
Manufacturing	17.0	23.0	N/A
Services	15.0	17.0	N/A
Government	39.0	31.0	N/A
Per Capita GDP (USD)	333.0	353.0	368.0
Labor Force (millions)	340.0	348.0	370.0
Unemployment Rate (pct)	22.5	23.8	25.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.0	14.0	18.0
Consumer Price Inflation	10.0	9.5	9.0
Exchange Rate (rupee/USD—annual average)			
Official	31.40	33.45	35.80
Parallel	33.45	35.60	36.00
Balance of Payments and Trade:			
Total Exports (FOB) [4]	26.2	31.8	36.0
Exports to United States [5]	5.3	5.7	6.3
Total Imports (CIF) [4]	28.3	36.4	39.5
Imports from United States [5]	2.3	3.3	3.4
Trade Balance [4]	−2.1	−4.6	−3.5
Balance with United States [5]	3.0	2.4	3.0
Current Account Deficit/GDP (pct)	0.9	1.7	2.0
External Public Debt [6]	99.0	97.2	96.8
Debt Service Payments/GDP (pct)	3.6	3.8	3.7
Fiscal Deficit/GDP (pct)	6.1	5.9	5.3
Gold and Foreign Exchange Reserves	25.2	21.8	24.0
Aid from United States (USD million)	169	190	141
Aid from Other Countries	3.5	3.5	N/A

Sources: GOI Economic Survey, GOI budgets, Reserve Bank of India Bulletins, World Bank, and private research agencies.

[1] Data are for Indian fiscal year (April 1 to March 31) unless otherwise noted. 1996–97 figures are all embassy estimates based on data available in October 1996.

[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; 1996 figures are estimates based on data available through November 1996.

[6] Includes rupee debt of $10 billion to the former USSR.

1. General Policy Framework

Five years after launching a concerted drive to modernize its economy, India has begun to attract sustained attention from the international investment community. While the post-1991 economic reform program has set in motion the process of liberalizing India's trade and investment regime, progress has slowed in the last 2 years. With the advent of the multiparty United Front Government in June 1996, all major parties have declared their support for the overall necessity of continued economic reform. Differences remain however, on the pace and emphasis of that reform. With India's economy the fifth largest in terms of purchasing power, home to 15 percent of the world's population, and claiming a middle-class of between 160–250 million, the pace of reforms and the anticipated impact on domestic growth rates are major concerns for U.S. businesses looking to sell or invest in India.

The Indian economy continues to perform well in most respects and the long-term prospects remain encouraging, despite continuing concern about inadequate infrastructure and chronic large budget deficits. India has enjoyed consistent double-digit growth in foreign trade, both exports and imports for the past 5 years. Foreign investment, both direct and portfolio, has increased dramatically—albeit from a small base—and will contribute in fiscal year 1996–97 to industrial growth of about 10 percent and GDP growth of about 6.3 percent according to embassy projections. Tightness in credit markets should ease in the coming months as the government loosens foreign borrowing controls. The central government deficit has been hovering around 6–7 percent of GDP (with a consolidated public sector deficit of 9–11 percent of GDP), exceeding official targets (of 5 percent) for several years, resulting in a significant "crowding out" effect and putting upward pressure on interest rates and inflation.

During the first 6 months of fiscal year 1996–97, M3 rose by an estimated 16 percent. The Reserve Bank of India (RBI) hopes to peg M3 growth at this rate for the year. Frequent reductions in the cash reserve ratio by the RBI during the first half of 1996 were aimed at ensuring bank liquidity in order to soften interest rates. Government and private forecasters now predict an average retail inflation rate of about 9 percent during fiscal year 1996–97, following inflation of 9.5 percent in the previous year.

2. Exchange Rate Policy

India has utilized exchange rate policy to improve its export competitiveness. On March 1, 1993, the exchange rate was unified and 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's capital markets merge more completely with international financial markets.

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. The rupee's average annual depreciation against the dollar worked out at 8.8 percent in 1995–96 after periodic speculative pressure in the second half of the year. The rupee-dollar exchange rate in early 1995–96 was around rupees 32 per dollar and has stabilized at around rupees 35 per dollar since May 1996.

3. Structural Policies

Pricing policies: central and state governments still regulate the prices of most essential products, including foodgrains, sugar, edible oils, basic medicines, energy, fertilizers, water, and many industrial inputs. Agricultural commodity procurement prices have risen substantially during the past 5 years, while prices for nitrogenous fertilizer, rural electricity and irrigation remain well below market levels. However, acute power shortages are forcing several states to arrest the financial decline of state electricity boards by raising tariffs. The Federal Government has also begun to scrutinize more carefully the cost of its subsidies. Many basic food products are under a dual pricing system: some output is supplied at fixed prices through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices 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 sharply reduced the number of price-controlled formulations in late-1994.

Tax policies: public finances remain highly dependent on indirect taxes, particularly import tariffs. Between 1990 and 1995, indirect taxes accounted for about 68 percent of central government tax revenue. India's direct tax base is very narrow, with only 8.5 million taxpayers out of a total population of about 945 million. Marginal rates are high by international standards, although the fiscal year 1994–95 budget lowered the corporate income tax rate for foreign companies from 65 percent to 55 percent. Tax evasion is widespread, and the government has stated that future rate cuts will depend on the success of efforts to improve tax compliance. Over the last 4 years, the government has begun streamlining the nation's tax regime along the lines recommended by a government-appointed committee: increasing the revenue share from direct taxes, introducing a value-added tax (VAT), and replacing India's complex tax code with one that is simple and transparent. The Indian Government also provides tax incentives for specific sectors, such as a 5-year tax holiday for infrastructural 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, and some restrictions remain for manufacturing in areas which are reserved for the public sector or small-scale industry. Additionally, the Indian Government announced in 1994 and 1995 liberal policies for the pharmaceutical and telecommunications industries. Local sourcing requirements have also been abolished and most plant location strictures have been removed. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. As the pace of regulatory reform at the Federal level accelerates, 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 foreign and domestic 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 fiscal year 1980–81 to about $84 billion in fiscal year 1990–91. Fueled by rising debt service payments, foreign exchange reserves fell to $1.1 billion (excluding gold and SDRs) during the fiscal year 1990–91 balance of payments crisis, the equivalent of only 2 weeks of imports. By September 1996, India's reform program had succeeded in boosting reserves to $18.4 billion (excluding gold and SDRs).

External debt structure: India's total external debt (including ruble and defense-related debt) reached $7.2 billion by March 1996, making India one of the world's largest debtors. Official estimates project debt service of $12.3 billion in 1995–96 to peak at $14.5 billion in 1996–97. 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 45 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 fiscal year 1992–93 to 29.4 percent in fiscal year 1995–96.

Relationship with creditors: India has an excellent debt servicing record. U.S. and Japanese rating agencies downgraded Indian paper in 1990, as India encountered balance of payments difficulties exacerbated by the Persian Gulf conflict and a sharp downturn in trade with the former Soviet Union. The sharp growth in official reserves and the enthusiastic response of institutional and foreign direct investors to India's economic reforms are restoring creditor confidence. Standard and Poor's currently rates India's foreign currency debt at BB+, one notch below investment 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 31 percent at present. U.S. exports to India rose from $2.0 billion in 1991 to $3.3 billion in 1995, according to U.S. Department of Commerce trade data. 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-third 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.

Services barriers: the Indian Government runs many major service industries either partially or entirely, but the controls are loosening. Entry of foreign banks remains highly regulated, but approval has been granted for the operation of 17 new foreign banks or bank branches since June 1993. Furthermore, financial authorities have permitted sweeping changes in non-bank financial services during the past 3 years. India does not allow foreign nationals to practice law in its courts, however, some foreign law firms have had carefully monitored liaison offices in India. The Indian Government is now reviewing its monopoly on life and general insurance with a view to future liberalization and reform of the industry. Foreign and domestic joint ventures participate in telecommunications, advertising, accounting, car rental and a wide range of consultancy services. There is a growing awareness of India's potential as a major service exporter and increasing demand for a more open service market.

Standards, testing, labelling and certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. However, India's food safety laws are often outdated or more stringent than international norms. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestically-produced goods, except in the case of some bulk grains.

Investment barriers: the industrial policy introduced in July 1991 achieved a dramatic overhaul of regulations restricting foreign investment. Government approval for equity investments of up to 51 percent in 35 industries covering the bulk of manufacturing activities has been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes. All sectors of the Indian economy are now open to foreign investors, except those which raise security concerns such as defense, railways and atomic energy. As a result, the $12 billion in foreign investment approved between January 1991 and August 1995 exceeded the nominal dollar value of all foreign investment approved during the previous four decades, with U.S. investors taking the lead. The U.S. and India have not negotiated a bilateral investment treaty, although an agreement covering the operations of the Overseas Private Investment Corporation (OPIC) remains in force. In 1992, India announced it would join 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. However, in 1996 the government switched to the harmonized system of commodity classification, removing ambiguities and providing more transparency to the 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 also provide export financing on concessional terms.

7. Protection of U.S. Intellectual Property

The Indian Government is gradually, but steadily improving its treatment of intellectual property rights (IPR), bringing its laws and enforcement in line with international practice. The government has traditionally contended that IPR protection should balance the interests of rights holders with those of consumers and broader "social" interests. The special-301 investigation initiated by USTR in 1991 determined that Indian IPR practices—particularly inadequate patent protection—unduly burdened U.S. commerce. In response, the U.S. removed all Indian-origin chemical and pharmaceutical products from duty-free entry under the Generalized System of Preferences (GSP) in April 1992.

Under pressure from domestic industry, India strengthened its copyright law in May 1994, placing it at par with international practice. The new law entered into force in May, 1995. The copyright legislation fully reflects the Berne Convention on copyright, to which India is a party. Subsequently, India's designation as a "priority foreign country" under special-301 was revoked and India was placed on the priority watch list. Copyright enforcement is also rapidly improving. Classification of copyright infringements as "cognisable offenses" theoretically expands police search and seizure authority. While the formation of appellate boards under the new legislation should speed prosecution, local attorneys indicate that some technical flaws in the laws, which require administrative approval prior to police action, need to be corrected.

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. Passage of the trademark bill is expected in 1997. 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.

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 such products are patentable, but the patent term is limited to the shorter of 5 years from the grant of patent or 7 years from the filing date of the patent application. Product patents in other areas are granted for 14 years from the date of filing. However, as a signatory to the Uruguay Round of GATT, including its provisions on Trade-Related Intellectual Property Rights (TRIPS), India must introduce a comprehensive system of product patents no later than 2005. The Indian Government has formed an advisory committee to recommend changes in the 1970 Indian Patents Act. A temporary ordinance for patent protection implementing the mailbox provisions of the WTO TRIPS agreement and providing for exclusive marketing rights by January 1, 1995 was issued in December 1994. However, the ordinance has lapsed and the Parliament has yet to pass a new patent bill. In July 1996, the U.S. initiated WTO dispute settlement procedures over India's failure to implement its TRIPS obligations. Government officials have pledged to introduce a bill before Parliament that, if passed, will put India in compliance with its TRIPS obligations.

8. Worker Rights

a. *The Right of Association:* India's Constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are protected by law. Unions represent roughly 2 percent of the total workforce, or about 25 percent of industrial and service workers in the organized sector.

b. *The Right to Organize and Bargain Collectively:* Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited by the constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor". Despite implementation of the 1976 law, bonded labor continues in many rural areas. Efforts to eradicate the practice are complicated by extreme poverty and jurisdictional disputes between the central and state governments; legislation is a central government function, while enforcement is the responsibility of the states.

d. *Minimum Age of Employment for Children:* Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The Government of India estimated in 1985 that 17 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, tens of thousands of children are employed in the glass, pottery, carpet and fireworks industries, among others. Resource constraints and the sheer magnitude of the problem limit ability to enforce child-labor legislation.

e. *Acceptable Conditions of Work:* India has a maximum 8-hour work day and 48-hour work week. This maximum is generally observed by employers in the formal sector. Occupational safety and health measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors with U.S. Investment:* U.S. investment exists largely in manufacturing and service sectors where organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker-rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries.—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		327
Food & Kindred Products	(1)	
Chemicals and Allied Products	145	
Metals, Primary & Fabricated	(1)	
Machinery, except Electrical	106	
Electric & Electronic Equipment	−1	
Transportation Equipment	7	
Other Manufacturing	18	
Wholesale Trade		22
Banking		467
Finance/Insurance/Real Estate		(1)
Services		27
Other Industries		(2)
TOTAL ALL INDUSTRIES		836

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

PAKISTAN

Key Economic Indicators [1]

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

	1994	1995	1996 [1]
Income, Production and Employment:			
GDP (at current prices)	52.1	60.4	64.7
Real GDP Growth (pct) [3]	4.5	4.4	6.1
GDP by Sector (pct):			
Agriculture	24.0	24.7	24.8
Manufacturing	26.9	26.5	26.5
Services	49.1	48.8	48.7
Per Capita GDP (USD)	420	476	495
Labor Force (millions)	34.7	36.7	36.7
Unemployment Rate (pct)	4.7	4.7	4.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16.9	16.6	14.9

Key Economic Indicators[1]—Continued

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

	1994	1995	1996[1]
Consumer Price Inflation	11.3	13.0	10.8
Exchange Rate (RS/USD—annual average)			
Official	30.2	30.9	33.6
Parallel	30.6	32.1	36.1
Balance of Payments and Trade:			
Total Exports (FOB)[4]	6.7	7.8	8.3
Exports to United States[5]	1.0	1.2	1.3
Total Imports (FOB)[4]	8.7	10.3	12.0
Imports from United States[5]	0.7	0.9	1.1
Trade Balance[4]	−2.0	−2.5	−3.7
Balance with United States[5]	0.3	0.3	0.1
Current Account Deficit/GDP (pct)	−3.2	−3.6	−6.6
External Public Debt	24.5	27.1	28.6
Debt Service Payments/GDP (pct)	6.9	7.2	6.7
Fiscal Deficit/GDP (pct)	−5.9	−5.6	−5.8
Gold and Foreign Exchange Reserves	3.3	3.7	3.3
Aid from United States (USD millions)	200	235	350
Aid from All Sources	2.2	2.5	2.2

Source: State Bank of Pakistan Report 1995-96, Pakistan Economic Survey 1995–96.
[1] Unless otherwise stated, figures are for the Pakistan Fiscal Year ending June 30 of the year shown.
[2] GDP at factor cost.
[3] Percentage changes calculated in the local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; calendar year, exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

1. General Policy Framework

Since the late 1980's, Pakistan has pursued policies aimed at private sector-led development, macroeconomic stability and structural reforms. Implementation has been uneven because of weaknesses in demand management, and these policies have achieved only mixed success. Import tariffs have remained quite high as the government has sought to protect local industry and generate fiscal revenues.

While GDP performance through most of fiscal year 1995 was good, the government failed to meet its budget deficit target under the 1994 IMF ESAF. Worse, in June 1995, the government announced policies that backtracked on earlier commitments to reduce the fiscal deficit and import tariffs. Following the resulting suspension of the ESAF program, the economy in the second half of 1995 displayed various worrying signs: a growing trade deficit, sharply declining foreign exchange reserves, currency instability, and continued high inflation.

In response, the Bhutto Government in October 1995 announced a package of stabilization measures: it devalued the rupee by 7.5 percent, imposed a temporary import surcharge on most products, raised administered prices of petroleum products, tightened fiscal and monetary policies, and offered various export incentives. While necessary for fiscal and balance of payments purposes, some of these measures set back progress on needed trade reform. Following adoption of these stabilization measures, the government and the IMF agreed in late 1995 on a new standby arrangement.

Pakistan's real GDP grew by 6.1 percent in fiscal year 1995–96, but by June 1996 it was once again clear that the government failed to meet its budget deficit target. Excessive bank borrowing by the government for budgetary support caused it to exceed its domestic credit targets, and exerted pressure on prices, the exchange rate and the balance of payments. Exports only grew 7 percent against imports which rose 14 percent, and Pakistan's trade deficit expanded from $2.3 billion in fiscal year 94–95 to $3.6 billion in fiscal year 95–96. U.S. exports to Pakistan in 1995–96 totaled $1.1 billion, and the United States had a deficit of $301 million in our bilateral trade.

Unwilling to adopt expenditure cutting measures in the fiscal year 96–97 budget, the Bhutto Government opted to meet IMF targets with additional revenue measures but failed to implement them successfully. With the subsequent suspension of the IMF standby and continuing monthly trade deficits, market confidence weakened and reserves declined sharply in September and October, forcing the Bhutto

Government to introduce yet another stabilization package on October 22. This package included an 8.5 percent devaluation of the rupee, significant cuts in development expenditures, and additional tax measures designed to provide the basis for reactivating the standby.

Citing gross economic mismanagement, President Leghari dismissed the Bhutto Government on November 5, 1996, and it fell to the caretaker government of Miraj Khalid to implement these stabilization measures and negotiate an extended standby agreement, which was approved by the IMF on December 17. Under this agreement, Pakistan has committed to broaden the t : base by taxing agricultural income, cut Federal and provincial development and administrative expenditures and rationalize the formula for Federal/provincial revenue sharing. It is unclear what the prospects are for successful implementation of these measures, many of which cannot be adopted within the 3-month life of the interim government.

2. Exchange Rate Policy

The value of the rupee is determined ac ling to a managed float, with the State Bank of Pakistan (SBP, the central ba , making regular adjustments against a basket of major currencies. The U.S. dol. r is used as an intervention currency to determine other rates. Authorized foreign exchange dealers are allowed to trade at an open market rate that has usually varied slightly over the official rate but has varied between 6 to 10 percent over the official rate during the past 6 months. The SBP seeks to follow a policy that balances exchange rate stability with the imperatives of competitiveness. Among other things, it closely watches the currencies of regional and other trade competitors in managing the rupee's value. In the face of domestic inflation, declining exports and foreign exchange reserves, and perceived overvaluation vis-a-vis competitors' currencies, the authorities have devalued the rupee by about 14.3 percent since July 1996.

Over the past few years, foreign exchange controls have been significantly liberalized, and the rupee is now fully convertible on current account. Individuals and firms resident in Pakistan may hold foreign currency bank accounts and may freely move foreign currency into and out of the country. Foreign firms investing in Pakistan (other than banks and insurance companies) may remit profits and capital without prior SBP approval.

3. Structural Policies

The Pakistani Government under Benazir Bhutto made efforts to implement structural reforms, including tax and trade reforms and reducing the state role in the economy. Under the caretaker government, efforts are being made to revitalize the structural reform program. On the tax side, the authorities recognize the need to shift from dependence on high customs revenues, which hurts both U.S. exports to Pakistan and the long-term competitiveness of Pakistani industry, to taxes on consumption and income. The caretaker government has reduced tariffs on many products, has lifted some bans and quantitative restrictions, and intends to fulfill its Uruguay Round commitments.

The Bhutto Government in 1993–94 began a 3-year program to reduce maximum tariffs from 90 percent and above to 35 percent. But it proved unable to meet this schedule and also achieve the goals of mobilizing additional resources and reducing the overall fiscal deficit. In 1995–96 maximum tariffs were set at 65 percent, compared with the original target of 45 percent, and an additional import surcharge of from 5 to 10 percent was imposed on most imports under this ceiling. The interim government is implementing targeted tariff reductions to spur exports and is preparing a new schedule for attaining the 35 percent target level. It hopes that instituting an agricultural income tax and broadening the general sales tax on retail commerce will provide the government with fiscal room to lower import duties. Pakistan has made little progress in recent years in either increasing tax revenues as a share of GDP or shifting the tax burden away from imports.

Successive governments have made efforts to privatize some state-owned enterprises, having sold off about 107 industrial firms, power plants and three commercial banks since 1991. The interim government plans to speed up the schedule for privatization of the national commercial banks, and it will suggest that the successor government broaden the scope of privatization to include heavy industries such as Pakistan Steel, and the transportation companies like Pakistan International Airlines. The government welcomes foreign investment in these transactions. The interim government is also attempting to reduce the importance of the government's role as economic actor by shifting from administrative to market based prices of such key commodities as wheat and energy products.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs, and its total external debt has grown in recent years. According to the State Bank of Pakistan, total external debt as of June 30, 1996, was $28.6 billion. Total external debt has grown to about 43 percent of GDP in 1996 and debt service payments as a share of total foreign exchange earnings have grown from 18.8 percent in 1990 to 34 percent in 1996.

Pakistan has a historically excellent record for honoring external debt obligations, even during periods of strained financial circumstances. Nonetheless, in November 1996, as a result of a growing current account deficit, declining reserves and suspension of the IMF's Standby program, some foreign creditors lowered their rating of Pakistani exposure. However, the government has taken steps to reduce external imbalances and has actively and cooperatively sought support from the international financial institutions for its policies. The government has also striven to maintain good relations with foreign commercial creditors. The availability of financing is likely to continue to be an important determinant of export success for U.S. companies.

5. Significant Barriers to U.S. Exports

Import licenses: In recent years Pakistan has significantly reformed its restrictive import regime. Since July 1993, import licenses, formerly common, have been abolished on all "freely importable" goods, i.e. on all items not on the Negative List which consists of 68 items banned mostly for religious, health or security reasons, or in accordance with international agreements.

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. and it will remain a monopoly for 7 years after PTCL's scheduled privatization in 1997. Competition among private providers is now 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 American farm products.

Investment barriers: Pakistan has significantly liberalized its investment regime and actively encourages inward foreign investment. Foreigners may invest up to 100 percent ownership approval in all industrial sectors except the following industries: arms and ammunition, security printing (currency and mint), radioactive substances, and non-industrial alcohol. With these exceptions, statutory protection of national treatment exists for foreign investors in industrial sectors, though it does not in non-industrial sectors. Foreign investors are not allowed to own land for agriculture, forestry, irrigation, or real estate but, with the approval of the relevant provincial government, can obtain long-term leases on land for commercial and industrial purposes. Foreign ownership of land in joint venture with Pakistani citizens may be allowed. Where investment is allowed, repatriation of profits (except, as noted, for insurance companies), dividends, and (except for banks) capital is freely allowed.

The government offers investment incentives, such as tax holidays, in various sectors. Additional incentives apply to rural areas, "less developed areas," and those designated as Export Processing Zones. The government allows private, including foreign, investment in electric power production, and numerous foreign firms are now constructing new plants. It is also encouraging foreign investment in oil and gas exploration and development, and in state-owned energy utilities, banks and the phone company that are to be privatized. Local content requirements can occur in the automobile, electronics, electrical products and engineering industries under Pakistan's "deletion program," but the program is not compulsory. Investors who voluntarily undertake to increase the local content of their output enjoy lower tariffs on imported inputs but are subject to fines for non-compliance with an agreed-upon import deletion schedule. Importers of pharmaceutical raw materials and petroleum equipment which are produced locally also face higher taxes and tariffs under another deletion scheme. In the case of pharmaceutical raw materials, the tariff levels may contravene Pakistan's WTO commitments. Finally, frequent changes in tax and duty policy undermine the ability of private sector firms to carry out planning for long-term investments. Implementation of regulatory and other policies often lags behind official pronouncements.

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. Delays are also reported in administration of the "duty drawback" scheme, which refunds partial tariff charges on imported inputs once the final output they were used for is exported. Charges that customs officers demand bribes are also common.

American companies exporting various industrial and agricultural products have complained of problems with implementation of Pakistan's Preshipment Inspection (PSI) system, run by the Swiss firms SGS and Cotecna. They contend that PSI procedures result in significant overvaluation of U.S. exports to Pakistan. Problems have also arisen over the sometimes conflicting roles of the PSI firms and Pakistani Customs authorities. The US and Pakistani Governments continue efforts to resolve this matter.

6. Export Subsidies Policies

Pakistan actively promotes the export of Pakistani goods with government financing measures, the tariff rebate scheme noted above and other tariff concessions on imported inputs, tax concessions, and government-sponsored exhibitions. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. Pakistan's main export 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 with the Export Promotion Bureau, and domestic textile producers continue to call for reimposition of the tax.

7. Protection of U.S. Intellectual Property

Pakistani enforcement of intellectual property rights is weak, resulting in widespread piracy, especially of copyrighted materials. As a result, Pakistan has been on the Special 301 IPR "Watch List" since 1989. In 1995, however, the authorities took steps to strengthen enforcement, including raids on several pirated-video rental shops, but the impact of these efforts has been limited. Pakistan is subject to the terms of the World Trade Organization's Agreement on Trade-Related Intellectual Property Measures and is a member of the World Intellectual Property Organization. The U.S.-Pakistan Treaty of Friendship and Commerce guarantees national and most favored nation treatment for patents, trademarks and industrial property rights. Pakistan is not a member of the Paris Industrial Property Convention or the Berne Convention but is a member of the Universal Copyright Convention.

Patents: Current law protects only process patents, though the government has stated its commitment to eventually offering product patents in accordance with WTO obligations. As of late 1996, a draft amendment to the patent law was still under ministerial review that would allow establishment of the "mailbox" for accepting product patent applications for pharmaceuticals and agricultural chemicals. Since the National Assembly has been dismissed, the interim government is now considering issuing the revisions to the law in a Presidential Statutory Regulatory Order (SRO). The United States has requested the establishment of a WTO dispute settlement panel to ensure that Pakistan meets its obligations, effective on January 1, 1995, to establish the mailbox system, as well as to grant exclusive marketing rights to products subject to mailbox applications under certain circumstances.

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. And 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 estimates that piracy of films, sound recordings, computer programs, and books resulted in trade losses of $62 million in 1994.

8. Worker Rights

a. *The Right of Association:* The Industrial Relations Ordinance of 1969 (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. For example, there is no provision in the law granting the right of association to agricultural workers. 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. In 1996, the Cabinet decided to withdraw the exemption of the export processing zones from the IRO's provisions granting the right to workers to form trade unions.

b. *The Right to Organize and Bargain Collectively:* The right of industrial workers to organize and freely elect representatives to act as collective bargaining agents is established in law. Unions may belong to federations. There are seven major federations which are free to affiliate with international federations and confederations. The government permits trade unions of all political orientations. However, the many restrictions on forming unions discussed above preclude collective bargaining by large sections of the labor force, e.g. agricultural workers, who are not guaranteed the right to strike, bargain collectively, or make demands on employers. Legally required conciliation proceedings and cooling-off periods constrain the right to strike, as does the government's authority to ban any strike that may cause "serious hardship to the community." Strikes are rare and, when they occur, 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 recent 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. The government has made some efforts to improve enforcement of laws against child labor and is cooperating with the ILO on a range of programs with the goal of eliminating child labor. 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. But such programs have yet to be implemented. The United States partially suspended Pakistan's Generalized System of Preference (GSP) benefits in 1996, due to inadequate worker rights protections involving child labor. The suspension removed $40 million in GSP benefits from Pakistani surgical instruments, sporting goods, and handmade rugs.

e. *Acceptable Conditions of Work:* Labor regulations are governed by Federal statutes applicable throughout the country. The law provides for a monthly minimum wage of about 47 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. Many workers are unaware of the regulations protecting their rights because of their lack of education. The provinces have been ineffective in enforcing labor regulations, because of limited resources, corruption, and inadequate regulatory structures. In general, health and safety standards are poor.

f. *Rights in Sector with U.S. Investment:* Significant investment by U.S. companies has occurred in the petroleum, food, and chemicals sectors. U.S. investors in industrial sectors are all large enough to be subject to the full provisions of Pakistani law for worker protection and entitlements. 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—1995

[Millions of U.S. dollars]

Category	Amount	
Petroleum		91
Total Manufacturing		50
Food & Kindred Products	(1)	
Chemicals and Allied Products	(1)	
Metals, Primary & Fabricated	−4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		167
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		364

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