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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN AFFAIRS,
COMMITTEE ON WAYS AND MEANS
OF THE
U.S. HOUSE OF REPRESENTATIVES
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 1989

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

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FOREWORD

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

Modeled on the State Department's annual reports on individual country human rights practices, the reports are intended to provide a single, comprehensive and comparative analysis of the economic policies and trade practices of each country with which the United States has an economic or trade relationship. Because of the increasing importance and interest in trade and economic issues, these reports are printed to assist members in considering legislation in the areas of trade and economic policy.

DANTE B. FASCELL,
Chairman, Committee on Foreign Affairs.
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LETTER OF TRANSMITTAL

DEPARTMENT OF STATE,
Washington, DC, February 3, 1989.

Hon. DANTE B. FASCELL,
Chairman, Committee on Foreign Affairs.

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

Hon. JIM WRIGHT,
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Chairman, Committee on Foreign Relations.

Hon. LLOYD BENTSEN,
Chairman, Committee on Finance.

Hon. J. DANFORTH QUAYLE,
President, U.S. Senate.

DEAR SIRS: I have the distinct honor to present the report prepared in compliance with section 2202 of the Omnibus Trade and Competitiveness Act of 1988.

Sincerely,

BETSY R. WARREN,
Acting Assistant Secretary, Legislative Affairs.

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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

INTRODUCTION

This report is submitted to the Congress by the Department of State in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. The legislation requires a report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. We have included reports on all countries with which the United States has significant trade turnover or a significant aid relationship. In addition, we have included reports on other countries and entities which may be of interest to readers despite a relatively small level of economic involvement with the United States.

That Congress should ask for such a report highlights the commitment of the entire U.S. Government to maintaining the international competitive position of the United States and to free trade and the promotion of U.S. exports abroad. These reports show that many of our trading partners have made progress towards opening markets to U.S. exports of both goods and services and in increasing protection for intellectual property. Countries are also demonstrating a heightened awareness of the importance of market forces in determining distribution of resources, both domestically and internationally. Still, much remains to be done.

The reports are based on submissions by U.S. Embassies overseas amplified by further analysis and review in Washington, both within the Department of State and in consultation with other U.S. Government agencies. They are intended primarily as general guides to economic conditions in a specific country. The reports are necessarily heterogeneous, due to wide differences in availability of data. In some countries, the U.S. has no formal representation. In other cases access to reliable data is limited. Nevertheless, all the country reports incorporate the best information available.

Each country report is divided into nine sections:

- <u>Key Economic Indicators</u>: The report begins with a chart showing data for key economic indicators in the national income, monetary, and trade accounts.

- <u>General Policy Framework</u>: The first narrative section is a general sketch of macroeconomic trends.

- <u>Exchange Rate Policies</u>: The second section outlines on exchange rate policies, particularly their impact on price competitiveness of U.S. exports.

- <u>Structural Policies</u>: The third section on structural policies also emphasizes those changes with might affect U.S. exports to that country.

- <u>Debt Management Policies</u>: The fourth section describes debt management policies and implications for trade with the United States.

- Significant Barriers to U.S. Exports: The fifth section addresses significant barriers to U.S. exports.

- Export Subsidies Policies: The sixth notes any government acts, policies, and practices that provide support for 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 for intellectual property.

- Worker Rights: The eighth and final section has three parts.

  -- The first part outlines in general the country's laws and practices with respect to internationally recognized worker rights. This section draws heavily from the annual report on Human Rights prepared by the State Department.

  -- The second part 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 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 1987 for all countries for which foreign direct investment has been reported to it. (See note below)

We believe that this report more than meets with both the letter and the spirit of the Trade Act mandate. We offer this first report as a foundation upon which a better understanding of economic trends and trade policies may be built.

Eugene J. McAllister
Assistant Secretary of State
for Economic and Business Affairs

Note: This information for 1987, the most recent figures available, was published for selected countries in the August 1988 issue of Survey of Current Business. 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). 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.

TEXT OF SECTION 2202 OF THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988

"The Secretary of State shall, not later than January 31 of each year, prepare and transmit to the Committee on Foreign Affairs and the Committee on Ways and Means of the House of Representatives, to the Committee on Foreign Relations and the Committee on Finance of the Senate, and to other appropriate committees of the Congress, a detailed report regarding the economic policy and trade practices of each country with which the United States has an economic or trade relationship. The Secretary may direct the appropriate officers of the Department of State who are serving overseas, in consultation with appropriate officers or employees of other departments and agencies of the United States, including the Department of Agriculture and the Department of Commerce, to coordinate the preparation of such information in a country as is necessary to prepare the report under this section. The report shall identify and describe, with respect to each country:

1. the macroeconomic policies of the country and their impact on the overall growth in demand for United States exports;

2. the impact of macroeconomic and other policies on the exchange rate of the country and the resulting impact on price competitiveness of United States exports;

3. any change in structural policies [including tax incentives, regulation governing financial institutions, production standards, and patterns of industrial ownership] that may affect the country's growth rate and its demand for United States exports;

4. the management of the country's external debt and its implications for trade with the United States;

5. acts, policies, and practices that constitute significant trade barriers to United States exports or foreign direct investment in that country by United States persons, as identified under section 181[a][1] of the Trade Act of 1974 [19 U.S.C. 2241[a][1]];

6. acts, policies, and practices that provide direct or indirect government support for exports from that country, including exports by small businesses;

7. the extent to which the country's laws and enforcement of those laws afford adequate protection to United States intellectual property, including patents, trademarks, copyrights, and mask works; and

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

ANGOLA

Key Economic Indicators

	1986	1987	1988
Income, Production, and Employment			
Real GDP	N/A	N/A	N/A
GDP Growth Rate	N/A	N/A	N/A
GDP by Sector	N/A	N/A	N/A
Income per capita	N/A	N/A	N/A
Size of Labor Force	N/A	N/A	N/A
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	N/A	N/A	N/A
Commercial Interest Rates	N/A	N/A	N/A
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rates (Kw/US$)			
Official	29.92	29.92	29.92
Parallel	N/A	N/A	2,000
Balance of Payments and Trade (US$ million)			
Total Exports fob	1,278	2,300	N/A
Total to U.S. cif	728.9	1,372.1	N/A
Total Imports fob	1,062	1,275	N/A
Total from U.S. fas	86.4	94.6	N/A
Aid from the U.S.	13.3	9.5	7.6
Aid from Other Countries	80	N/A	N/A
External Public Debt	3,070	N/A	N/A
Annual Debt Service Payments	N/A	N/A	N/A
International Reserves	179	N/A	N/A
Balance of Payments on Current Account	448	N/A	N/A

1. General Policy Framework

Relatively underpopulated, Angola potentially could be one of Africa's richest countries. It has large hydrocarbon and mineral resources, huge hydroelectric potential, and ample arable land. However, since independence in 1975 the country has been wracked by civil and foreign war. Its economy also has been hampered by a severe lack of managerial, administrative, and technical talent, and further damaged by misguided and ineffective attempts at collectivist economic planning and centralized decision making. Only the oil sector, run jointly by foreign multinationals and Angola's oil monopoly, SONANGOL, has remained well-managed and prosperous. Accounting for around 90 percent of exports and 80 percent of budget revenues, oil has kept the rest of the economy barely afloat.

ANGOLA

War and severe infrastructural deterioration have splintered Angola into a number of mini-economies. Swollen by refugees and isolated from their natural hinterlands, urban populations subsist wholly or partly on foreign food aid or depend heavily on extensive black markets based on barter and illegal currency dealings. The bulk of the population lives in the bush, often in marginal security and barely existing by subsistence farming. Extensive administrative chaos and corruption tend to vitiate reform and normal economic activity, and usual economic indices have little relevance. Around half of Angola's foreign exchange, 40 percent of its budget, and an inordinate proportion of the country's energy and talent are being expended on the war effort.

The heavy military burden leaves the government budget perpetually in a deficit whose absolute magnitude depends on the fortunes of the oil sector. In addition ailing state enterprises (SOEs) are supported through heavy subsidies and credit facilities. The deficit is financed by the printing press, increasing the money supply without corresponding improvement in the supply of goods and services. With not enough things to buy, in 1986 about 40 percent of salaries were converted into forced savings. Shortages, artificial price controls, and erosion of confidence in the national currency have encouraged black markets and led to widespread dependence on barter.

The Marxist-Leninist single-party government has announced intentions to restructure the economy more along market lines. An Economic and Financial Reorganization Plan (SEF) is to feature new rigor in financial management, the opening of certain sectors to private enterprise (e.g. legalization of illicit parallel market activities), semi-privatization of commerce and agriculture, restructuring of large SOEs, liberalization of foreign investment, and devaluation. Several basic laws have been published and a few price controls have been eliminated. A major reform experiment is proceeding well in southwest Angola. In most of the country, however, reforms have yet to be promulgated or effectively implemented, and the non-oil economy remains moribund. In any case, economic reconstruction and revival will depend on an end to the civil war.

The government claims to welcome foreign trade and investment and eagerly is seeking western participation in development projects. Barriers to U.S. exports and capital lie not so much in deliberate government policies as in the regime's sheer ineffectiveness and incapacity, as well as in the continued hazards of war. The oil sector, the only one run in a reasonably systematic and straightforward manner and fairly isolated from battle, is the focus of U.S.-Angolan trade and U.S. investment. The United States buys about half of Angola's oil exports, while equipment for the sector accounts for the bulk of U.S. sales to Angola. The ongoing war continues to limit overall opportunities and impose high risks on potential investors. U.S. oil companies have been selling substantial stakes in their Angolan operations to

other multinationals. Given the country's huge potential, peace and genuine economic liberalization could provide substantial opportunities for U.S. trade with and investment in Angola.

2. Exchange Rate Policies

The official exchange rate for the kwanza (kz), a non-convertible currency, has been maintained since 1978 at 29.918 to the dollar. All legal foreign exchange transactions are handled by the Banco Nacional de Angola. Foreign exchange is carefully budgeted on an annual basis and allocated quarterly by quota. The rate on the parallel market can be as much as seventy times the official one, i.e. up to 2,000 kz=$1.00 in 1988. Barter has become common for consumer transactions in much of the country.

3. Structural Policies

Price controls are pervasive, but often meaningless when something is unavailable or found only on the black market. Basic commodities are rationed at officially fixed prices, and prices of many other important goods and services also are fixed. Price ceilings apply to many other products. Minimum purchase prices are established for most agricultural and livestock products and fixed commercial margins are set at various stages of transport and trading. The system is inefficient and incoherent, causing extreme price distortions. During the past several years the regime reportedly has been planning to deregulate most prices, with the first concrete step the 1988 elimination of price controls on 52 fruits and vegetables. Deregulation will have to be accompanied by heavy devaluation of the kwanza. Stringent import and foreign exchange controls, rather than pricing, form by far the greatest deterrents to imports.

The government has moved slowly in carrying out its announced economic reforms. In 1988 basic laws on privatization, management of state enterprises, and the role of private investment were published, and private butchers were allowed. Removal of price controls on some fruits and vegetables in effect legalized their parallel market prices. Guidelines for sale or liquidation of some SOEs reportedly are being drafted and a new office is being set up to coordinate foreign investment. However, except in one region in the southwest which has been allowed full autonomy to enact economic reforms, the country basically has not yet felt the winds of change.

4. Debt Management Policies

Angola began substantial foreign borrowing only in the early 1980s, principally to finance large oil sector investments. Prior to the 1986 slump in international oil prices, the government scrupulously met its foreign debt commitments, even those contracted prior to independence.

Subsequently, however, large payment arrears accumulated ($378 million by the end of 1986), and major western export credit agencies suspended cover to the country. Angola's foreign debt probably reached more than $5 billion by the end of 1988. A substantial part of the debt is owed to the Soviet Union for military purchases.

Debt rescheduling has formed a prominent part of the government's recent economic and financial strategy. It has concluded bilateral agreements with the USSR, Brazil, and Portugal. However, a 1987 attempt to reschedule other official and commercial debts outside the Paris Club and without reference to the International Monetary Fund (IMF) did not succeed. In 1988 Angola concluded bilateral rescheduling agreements with Italy and France, and some major export credit agencies resumed cover to the country. It also applied for IMF and World Bank membership, the prerequisite for a general rescheduling.

5. Significant Barriers to U.S. Exports

The potential for U.S. exports to Angola is constrained by certain U.S. laws or policies. They prohibit the sale of dual-use items, such as aircraft; extension of Export-Import Bank (EXIM) cover; or utilization by U.S. investors in Angola of tax credits or deferments.

Since the sharp decline of its coffee and diamond sectors, Angola's ability to import has depended almost entirely on oil earnings. When oil export growth halted in 1981-82, stringent import curbs were imposed. After some easing in 1984-85, they were re-imposed after 1986's oil price slump.

All imports require a license. An annual foreign exchange budget is implemented on a quarterly basis with individual quotas allocated to ministries and state, mixed, and private companies. The quotas are strictly enforced. Company applications are assessed in terms of overall ministerial quotas. Documentary requirements can be burdensome. Equipment for the oil industry, food, agricultural inputs, and consumer goods for rural marketing campaigns receive the highest priority for civilian imports, but military equipment probably accounts for about half of total purchases. In recent years the government has relied on foreign food aid for a substantial proportion (about half in 1988) of foodstuff imports.

A large part of the country's imports are handled by state trading companies. Except for foreign companies' shares of oil production, most exports are handled by state agencies or SOEs. Countertrade deals (involving the exchange of oil for imports of goods and services) have been signed with Brazil and Portugal.

Foreign investment is very large in the oil sector and significant in many other areas of the economy. However, a

1979 law bans foreign investment in defense, finance and credit, insurance, foreign trade, public services, and the media.

6. Export Subsidies Policies

No export subsidy schemes currently exist, although among the measures proposed (but not yet implemented) in the government's economic reform package was a foreign exchange retention scheme as an incentive for non-oil export industries

7. Protection of U.S. Intellectual Property

Angola joined the World Intellectual Property Organization (WIPO) in 1985, but has not adhered to any of the principal conventions on intellectual property. We are not aware of any domestic legislation on intellectual property rights nor have the trade associations flagged any specific problems regarding intellectual property.

8. Worker Rights

a. The Right of Association

Angolan workers do not have the right to form independent trade unions. The sole legally recognized trade union organization in Angola is the National Union of Angolan Workers (UNTA), which was formed in the late 1950's as an appendage of the Popular Movement for the Liberation of Angola (MPLA) and became the ruling party's official labor wing after Angolan independence in 1975. The pre-independence Portuguese-run labor centers of rival liberation organizations ceased to exist soon after the MPLA took control of the country.

The monopoly situation of the UNTA is ensured by the statutory basis of the single-union structure. Still, the activities of the labor central and its affiliates are tightly controlled by the government and the party. The UNTA participates in meetings of the International Labor Organization (ILO), to which Angola belongs, and is affiliated to the continent-wide Organization of African Trade Union Unity and the Communist-controlled World Federation of Trade Unions.

Strikes are illegal and considered to be a crime against the security of the State.

b. The Right to Organize and Bargain Collectively

Workers do not have the right to bargain collectively. The government through the Minister of Labor and Social Security controls the process of setting wages and benefits, but it coordinates with UNTA and employers. As far as is known, labor legislation is applied uniformly throughout the country.

ANGOLA

c. Prohibition of Forced or Compulsory Labor

During 1988 both sides accused each other of relying on forced conscription of young males for recruitment into the military forces. In 1984 the Angolan Government was cited by the ILO for being in violation of ILO Convention 105, which prohibits forced labor. The basis of this citation is Angolan legislation providing for compulsory labor for breaches of labor discipline and participation in strikes. The government has yet to supply the ILO with a full report on the matter. The 1988 report of the ILO Committee of Experts indicated that the cited legislation remained in force and had not been brought into conformity with ILO Convention 105, which Angola ratified in 1976.

d. Minimum Age for Employment of Children

There is no information available on this subject.

e. Acceptable Conditions of Work

There is no information available on this subject.

f. Rights in Sectors with U.S. Investment

U.S. investment in Angola is located in the petroleum industry. There is no specific information available regarding the conditions of workers in this sector.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		245
Total Manufacturing		(*)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(*)	
Wholesale Trade		6
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		251

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

BOTSWANA

Key Economic Indicators

Millions of Pula Unless Otherwise Stated

	1985/6	1986/7	1987/8
Income, Production, Employment			
Real GDP (1979-80 prices)	1,380.6	1,583.9	1,716.4
Real GDP Growth Rate (pct)	13.96	14.73	8.37
Real GDP by Sector			
Agriculture	54.6	48.8	53.1
Mining	668.1	815.7	867.1
Manufacturing	43.7	48.5	51.7
Trade, Hotels	206.6	232.8	261.0
Other (excluding government)	255.40	268.0	266.6
Real per capita Income (pula)	1,253	1,404	1,468
Formal Sector Labor Force (000s)	123.5	141.6(2)	162.84(2)
Unemployment Rate(1)	N/A	N/A	N/A
Money and Prices			
Money Supply (M1) (yr-end)	383.1	516.1	860.5
Commercial Interest Rates (pct)	11.5	10.0	8.0 (Mar88)
Savings Rate (pct of GDP)	27	N/A	N/A
Investment Rate (pct)	-15.2	N/A	N/A
Consumer Price Index (Sept) (Sept 1985 = 100)	109.4	119.6	130.5
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate ($/pula)(avg)	0.539	0.600	0.562(3)
Balance of Payments and Trade	1986	1987	1988(3)
Total Exports fob (principal commodities)	1,613.8	2,755.5	2,365.4
Total Exports to U.S.	3.7	N/A	N/A
Total Imports cif	1,325.6	1,642.0	2,036.1
Total Imports from U.S.	37.7	N/A	N/A
Aid from U.S. ($ millions)	24.7	28.1	13.1
Aid from Other Donors	79.5	163.3	262.0
External Public Debt (received)	411.0	484.1	544.3
Annual Debt Service Payments	71.0	62.4	73.5
Gold and ForEx Reserves (yr-end)	2,200.0	3,152.0	4,024.0
Balance of Payments	565.9	942.0	1,568.0

(1) Unofficial estimates are in the range of 25 percent.
(2) Estimates.
(3) January through August 1988.

Botswana's fiscal year runs April 1 to March 31.

BOTSWANA

1. General Policy Framework

A country the size of France, Botswana has a population of only 1.2 million, 75 percent of whom still live in the rural areas. Botswana's mixed economy, while struggling to increase its private sector component, is still largely dominated by the public sector. The government and various parastatals directly employ nearly half of those active in the formal sector, and indirectly contribute to the employment of a good portion of the rest. The mainstay of the economy is mining -- particularly diamonds -- which supplies over half of the country's gross domestic product (GDP). DeBeers Botswana (Debswana) is owned half by DeBeers and half by the Government of Botswana, which draws nearly three quarters of its revenues from this source. Other mining ventures include copper-nickel matte and a soon-to-be operational soda ash operation, both of which have a substantial government component.

The second largest economic sector is livestock; cattle have been the traditional center of the Botswana economy, and continue as an important economic and cultural factor. Although many families continue to depend at least in part on subsistence agriculture, the arid climate and perennial drought of Botswana make this a marginal endeavor at best.

The huge success of diamond, and to a lesser degree, beef exports, as well as the prudent and conservative management of the Botswana economy, have allowed the government to make massive strides in development areas such as education, health care, and infrastructure development. Nevertheless, major economic problems facing the country include lack of skilled manpower, an extremely high population growth rate, increased urbanization and unemployment, and increasingly uneven income distribution.

The Government of Botswana continues its cautious fiscal policy which has led to budget surpluses in the recent past. The 1988/89 budget called for a fiscal surplus of approximately $150 million, despite continued growth in export revenues and foreign exchange reserves. Of the revenue, diamonds were expected to account for well over 50 percent of the treasury receipts for the 1988/89 fiscal year. Recent indications are that revenues and surplus have both far outstripped expectations in the first half of the year, with diamond sales reported at $2.2 billion for the first half of 1988, as compared with $1.56 billion for the corresponding period of 1987.

The rapid growth of the Botswana economy in real terms, and continuously increasing export earnings from diamonds, have made it possible to expand the money stock through imports to meet increased demand in the domestic economy and yet retain a relatively low level of inflation (consistently several percentage points below that in South Africa, from which Botswana gets almost all of its imports).

Since 1982, when the huge diamond mine at Jwaneng began production, Botswana has experienced persistent and growing excess liquidity. Banks in Botswana have traditionally

preferred short term lending, and major investment projects have generally been financed through private and official capital flows rather than by domestic borrowing. By accepting deposits, the Bank of Botswana has kept large amounts of resources of both the government and private sectors out of the commercial system, but the excess liquidity persists. Recent efforts to address this situation include a lowering of the prime rate to 8.5 percent, increasing the minimum deposit threshold to 250,000 Pula, and expanding efforts to provide loan guarantees and to increase the commercial banks' lending flexibility and loan maturity periods. The government is also trying to attract more banking concerns (there are currently three commercial banks operating in Botswana) to increase competition and encourage domestic lending.

2. Exchange Rate Policies

Botswana's currency, the Pula, is based on a currency basket composed of the South African Rand and Standard Drawing Rights (SDR's). Since most of Botswana's imports are paid in rand, heavy weight is given to that currency, but the Pula has been consistently valued about 20 percent above the rand during the mid-1980s. There is no parallel exchange rate; the Pula is considered a hard currency. Foreign exchange controls are extremely liberal and constitute no barrier to free trade. The major constraint on price competitiveness is transportation costs. Given Botswana's location and the fact that it is landlocked, almost all imports can be most economically sourced from South Africa.

3. Structural Policies

There have been no changes in internal structural policies which would have an impact on demand for U.S. exports.

Purchasing decisions, both in the public and private sectors, are normally made on a strictly economic basis. Major government purchases go through a standard pre-qualification and tendering process. Government price controls exist on only a very few items, most notably on petroleum products, but the prices are set based on the actual landed cost of the products. Government subsidies are also practically unknown.

The primary taxes are income and corporate income taxes. Corporate tax levels are relatively high (40 percent), and were probably set with the large mining companies in mind rather than the still infant manufacturing sector. There are no sales or value added taxes. A law authorizing sales taxes was passed in 1987, but no regulations have yet been formulated to implement the law, and we do not expect that it will be implemented in the near future. Personal income tax levels are progressive and moderate. The Financial Assistance Policy includes a tax holiday for up to five years for qualifying investors who employ Botswana citizens. The government has no known regulatory policies which would affect the market for U.S. exports.

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In September 1988, South Africa unilaterally announced additional surcharges of from 10 to 60 percent on some imports entering the Southern African Customs Union (SACU). Botswana, as a member of SACU, is bound to apply these surcharges, which will greatly increase the landed price of some imports, such as vehicles, computers, appliances, and electronic equipment. In practice, almost all imports to Botswana enter through South Africa, so the imposition of the additional surcharges and subsequent increased prices would be unavoidable even if Botswana were not a member of the Customs Union.

4. Debt Management Policies

Botswana has large foreign exchange reserves and manages its external debt responsibly. It has numerous loans from various multilateral organizations and governments, and has no problems with its various creditors. Its level of debt service is very low in relation to exports and GDP.

5. Significant Barriers to U.S. Exports

Botswana erects no known formal barriers to U.S. exports or investment. Barriers that exist are the result of geography, history, cultural preferences, and other non-targeted factors. For example, Botswana has many historical links with the United Kingdom, resulting in U.K. dominance of banking and some other sectors. The lack of U.S. firms on the ground, particularly consulting, engineering and construction firms, makes it difficult for U.S. products or services to get in early on an upcoming project and therefore disadvantages them if they do choose to become involved later on. Other unintentional barriers include bureaucratic delays in obtaining residence and work permits, and lack of serviced land, adequate housing and schools. There are few restrictions on repatriation of profits or capital, and foreign exchange regulations are extremely lenient.

6. Export Subsidies Policies

The government does not subsidize exports directly, although the sales of beef to the European Economic Community under the Lome convention at considerably above world prices amount to subsidies for the cattle industry. The Financial Assistance Policy provides general support for manufacturing ventures, which in some cases include export of products, usually to neighboring Zimbabwe.

7. Protection of U.S. Intellectual Property

Botswana has not yet come up against problems with intellectual property, and there is therefore no known government policy in place in this area. Standard laws providing trademark and patent protection are in place, taken from South African codes which form the basis of Botswana law, but are seldom used. A knowledgeable attorney could think of

o court case involving copyright infringement or other similar activity. Botswana is not signatory to any international copyright or patent agreements. There is little doubt that minor infringement occurs, such as home taping of audio and video (almost exclusively from South African products), but the level is economically insignificant.

Given the government's usual concerned approach to official matters, we expect that when the issue does arise, Botswana will rise to the occasion and develop an appropriate policy to protect intellectual property rights.

8. Worker Rights

a. The Right of Association

Workers are free to establish or join labor unions. Unions are important in the country's large mining sector and in related industries but have not developed a substantial base in other areas of the economy. Unions freely associate with international organizations, and members regularly attend major international conferences. The Botswana Federation of Trade Unions (BFTU) is affiliated with the International Confederation of Free Trade Unions (ICFTU) and is also a member of the Organization of African Trade Union Unity and the South African Trade Union Coordination Council.

Unions have the right to strike, but that right is limited by a requirement for government arbitration. In practice, strikes are relatively rare and usually quickly settled.

Independent of government control or party affiliation, unions in Botswana actively strive to represent their members. Government regulations, however, require that all union leaders work full time in the trade their union represents, a practice criticized by the ICFTU. The ICFTU has also noted that "the dissolution of trade union organizations by government decree is possible under the law at all times."

b. The Right to Organize and Bargain Collectively

Unions have the right to organize and to bargain collectively. Collective bargaining is common in the mining sector (where workers are organized) and uncommon elsewhere as workers are not organized. The Botswana Federation of Trade Unions is working on provisions to prevent antiunion discrimination. Although workers can be dismissed with two months' pay, this tactic is rarely used.

Unions have chafed under government regulations which prohibit financial contributions to unions from outside Botswana. Labor laws apply uniformly throughout the country. There are no export processing zones in Botswana.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced in Botswana

and is specifically prohibited in the Constitution.

d. Minimum Age for Employment of Children

Botswana law prohibits the employment of children 12 years and under by anyone except members of the child's immediate family. No juvenile under the age of 15 may be employed in any industry, and only those over 16 may be employed in night work. No person 16 or younger is permitted to work in hazardous jobs, including mining. Moreover, Botswana law protects young people from recruiters for jobs outside the country. There is no evidence that child labor laws are regularly breached. Although education is not compulsory, it is almost universally available, and most children attend school at least through the primary grades.

e. Acceptable Conditions of Work

The law provides for minimum working standards, including job safety, a maximum 48-hour workweek, and a minimum wage of approximately $85 per month. Most Botswana families have more than one wage earner. Women are not permitted to work as miners because of the dangers of that occupation. For some jobs during certain seasons (such as in agriculture during the harvest season), Botswana law permits a workweek longer than 48 hours. Most major manufacturers adhere to the labor laws, including payment of overtime wages (time and a half). Some smaller employers, however, fail to pay overtime, and no action is taken against them.

f. Rights in Sectors with U.S. Investment

U.S. capital investment in goods producing sectors in Botswana is known to exist in only two sectors: Food and Related Products, and Primary and Fabricated Metals. The same laws and conditions of employment apply in all sectors of the economy of Botswana, and definitely are practiced in these two sectors. All workers have the right of association and the right to organize and bargain collectively; the miners at Selebi-Phikwe are probably the best organized of all workers in the country. There is an overall prohibition on forced or compulsory labor, and it does not in fact exist in these sectors. The minimum age for employment of children is 15; in dangerous jobs, including mining, it is 16. Acceptable conditions of work exist with respect to minimum wages, hours of work (no more than 48 hours weekly), and occupational safety and health (the mine at Selebi-Phikwe has an excellent safety record).

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-3
Total Manufacturing		
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		-3

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Birr Unless Otherwise Noted

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	9,707.6	9,898.7	10,634.4
Real GDP Growth Rate (pct)	9.0	2.0	7.4
Manufacturing	722.5	768.2	846.0
Agriculture	4,354.5	4265.6	4,578.3
Income per capita (birr)	220	220	231
Population (000s)	44,000	45,000	46,000
Size of Labor Force (000s)	19,250	19,809	20,383
Unemployment Rate (pct)*	4	4	4
Money and Prices			
Money Supply (M1)	4,138	4,614	5,145
Commercial Interest Rate	- See Chart Below -		
Saving Rates (pct)	4.2	4.3	4.4
Consumer Price Index	459.5	468.6	448.3
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (birr/$)			
Official	2.07	2.07	2.07
Parallel	3.50	4.00	4.50
Balance of Payments and Trade			
Total Export fob	969.4	820.6	950.0
Total Exports to U.S.*	157.7	134.6	51.6
Total Imports cif	1,357.0	1,368.9	1,801.7
Total Imports from U.S.*	214.3	186.3	155.8
AID from U.S.	355.0	21.0	113.0
AID from Others	541.0	92.0	430.0
External Public Debt	3,620	3,850	3,880
Annual Debt Service Payments	396.2	494.5	N/A
Gold and ForEx Reserves	250.5	142.3	117.0
Balance of Payments	-386.6	-548.3	-851.7

* World Bank estimate

Note: Estimated 1988 numbers are annualized estimates based on Ethiopian fiscal year 1987 results (July 1, 1987 - June 31,1988) except for U.S. imports/exports which are unannualized 9-month figures as of Sept. 30, 1988.

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Commercial Interest Rates

Lending rates by Commercial Bank of Ethiopia and specialized banks in percent.

Sector	Cooperatives	State	Private
Agriculture	5	6	7
Industry, Mining, Power and water resources	6	8	9
Domestic Trade	6	8	9.5
Transport and Communication	6	8	8
Export trade	6	6	6
Import trade (ag inputs)	5	6	7
Import trade (other)	6	8	9.5
Hotel and tourism	6	8	9
Construction	6	8	9
Housing (purchase)	6	6	8
(construction)	4.5	4.5	7
Central Government		3.5	
Banks & financial instit.		2.5-4	
Personal loan			10
Demand Deposits	6	6	6

1. General Policy Framework

Ethiopia's centrally planned economy has developed under a rigid Marxist-Leninist government which has ruled the country since 1974. State control is the highest priority for the government. Private ownership of land is forbidden. All manufacturing enterprises and financial institutions are state owned. Anticapitalist rhetoric as well as a joint investment declaration offering little protection against expropriation has discouraged foreign investment since 1977. The government has contributed to erratic production in the dominant agricultural sector with attempts to create a system of state farms and with pricing and distribution policies which have provided disincentives to independent farmers. Recurring drought and other natural disasters have further disrupted production and led to large scale emergency assistance programs.

Taxes have traditionally provided approximately 75 percent of government revenues with direct taxes comprising 30 percent, indirect taxes 23 percent and taxes on foreign trade approximately 20 percent. Top marginal rates for individuals are 85 percent and business is subject to a 50 percent profits tax. The traditionally fiscally conservative government has felt the budgetary pressure of continuing war in its northern provinces and the administrative costs associated with the formal institutionalization of the revolution. With the deterioration of the security situation in the north, resources have been transferred and transportation within the country is problematic. Notwithstanding the special wartime levy the government imposed on individuals and businesses in May 1988, the budgetary deficit as a percentage of gross

domestic product (GDP) has increased from 6.5 percent in 1985-86 to 10 percent in 1986-87 and estimates are as high as 20 percent for 1987-88. The government finances the budget deficit with external loans and grants ($330 million in 1987) supplemented by borrowing from the domestic banking system ($300 million in 1987)

Government borrowing from the Ethiopian National bank set against the country's abysmally low savings rate has led to an increase in the money supply and inflationary pressures. The savings rate in Ethiopia for 1986 and 1987 was just over four percent (recovering from a negative rate in 1985) well below the 86-87 averages for sub-Saharan Africa (11 percent and 14.5 percent respectively). By the end of the Ethiopian three year plan (1987-1989) the savings rate is expected to drop below its historical level of three percent. Downward pressure on the savings rate due to low per capita income, increased taxes and skyrocketing administrative and defense costs seems likely to continue in the future. Not surprisingly Ethiopia's investment ratio is below the average for sub-Saharan Africa and is expected to drop considerably before the end of the three year plan. Investment over the last three years has been focussed on infrastructure improvements; the savings rate is clearly insufficient to meet the country's priority objectives.

In short Ethiopia is presently facing an economic crisis which will require changes in policy to fend off a continuing deterioration leading to insolvency. International reserves have plummetted as the balance of trade has worsened due to a drop in agricultural production, falling coffee prices and growing debt service requirements (the debt service ratio has soared in 1988 to 50 percent). Measures taken to control foreign exchange and import levels have exacerbated the shortage of raw materials for industrial production and construction. (See section on exchange rates.) The diversion of resources to the battlefront along with the war's crippling effect on transportation has worked to limit the effect of a series of agricultural reforms initiated earlier this year (See section on structural policies.) More sweeping change is limited by the loss of political control which such liberalization could entail.

2. Exchange Rate Policies

The current official exchange rate is fixed at 2.07 Ethiopian Birr to the Dollar, unchanged since the revolution in 1974. The widely used black market rate is just over twice the official rate indicating the extent of the Birr's over evaluation. The Birr's peg to the Dollar and the Dollar's recent depreciation have made U.S. goods very competitive with respect to Japanese and other European suppliers and have helped overcome a competitive disadvantage on international tenders stemming from prohibitions on U.S. development or Eximbank assistance to Ethiopia.

Also affecting the opportunity for U.S. exports in Ethiopia has been a decrease in foreign exchange availability

due to a stagnant agricultural sector, rising defense and administrative costs and the government's recent attempt to increase its control of imports and foreign exchange. With the government's elimination of the "franco valuta" option, which had allowed individuals to import goods with foreign currency held outside the country upon payment of about 200 percent duty, consumer goods and raw materials for private businesses and construction have disappeared. The government is reportedly considering reinstituting the franco valuta option for goods deemed necessary to the economy.

3. Structural Policies

Since the onset of the revolution, transport restrictions and low prices for agricultural surpluses have negatively affected agricultural production. The People's Democratic Republic of Ethiopia (PDRE) finally responded to pressure from the World Bank and the European Communities (EC) to implement a series of structural reforms by raising farm gate prices by 7.7 percent in January 1988. Licenses were issued to about 150 new traders in one of the three provinces where private traders had been banned, road check points were reduced to permit movement of grains across regional boundaries and procedures determining agricultural quotas for the state-owned Agricultural Marketing Corporation (AMC) were revised. Although there are indications that the supply of grains at the Addis Ababa market have increased, this has not been accompanied by a decrease in prices since merchants are reported to be holding back grain in expectation of continued disruptions in the transportation system.

The government is still considering revisions in wages and employment policy, population policy and, more recently, a revision of the joint venture code that in the past has acted more as a deterrent than an attraction to joint venture investment. A 1987 proclamation of oil and gas exploration is much more liberal in its terms and may be the basis for future foreign involvement in oil exploration.

With regard to U.S. exports, government purchasing decisions are made almost entirely by government agencies or state-owned corporations. In addition, the distribution of a number cf imported finished goods, such as pharmaceuticals, is also state controlled. Cancellation of the franco valuta option has seriously curtailed the importation of finished consumer goods; for intermediate goods or raw materials, state corporations make purchasing decisions by tender bids based on the most competitive price.

As mentioned above, marginal tax rates are high discouraging private businesses and encouraging official corruption. The government also regularly imposes special levies to finance major public investment projects or in response to drought or war. In May 1988 the government passed a decree on war levies which leaves no segment of the population unscathed. Pensioners are taxed at a rate of 8.3

percent, professionals 12 percent, peasants $20, businesses between one and two percent of their annual sales, cooperatives 1 percent of their annual sales, and savings and loan associations 25 percent of their interest gains.

4. Debt Management Policies

Ethiopia's debt is to non-commercial lenders (i.e. bilateral and international financial institutions). Restructuring the debt has been hampered by Ethiopia's adherence to a series of unsuccessful economic policies. U.S. exports have been affected by the squeeze on foreign exchange resulting from the war effort.

Ethiopia's traditional commitment to living within its limited means has been strained by the effects of war, a bloated bureaucracy and a stagnant agricultural sector. Ethiopia's reserve postion has fallen to $35 million (less than one dollar per capita and several weeks worth of imports) and the debt service ratio has soared to over 50 percent. Despite its unmanageable debt service ratio, the Ethiopian government has not sought relief from the International Monetary Fund (IMF) which would impose conditionality (i.e. devaluation, and various austerity measures).

Development assistance in the form of grants and loans has been jeopardized by the country's rigid adherence to a number of unsuccessful economic policies. Following the implementation of the policy reforms discussed above, the World Bank and EC released $142 million in development assistance for the Ethiopian agricultural sector ($89 million from World Bank and $53 million from EC). Some countries including the United States continue to withhold development assistance, limiting their contributions to relief assistance directed at problems caused by natural disasters (i.e. drought, locusts, etc.).

5. Significant Barriers to U.S. Exports

Import licenses are required for all imports; application is to the National Bank of Ethiopia with approval based on the importance of the item and the availability of foreign exchange. State corporations receive preferential treatment because of their control of manufacturing and the government's political program. Import licenses are not used to discriminate against U.S. exports but do affect the overall level of imports.

Joint venture regulations require that at least 51 percent of the shares be held by Ethiopians and are limited to activities which introduce technology, which create employment, and which have a positive foreign exchange impact and/or otherwise make a positive contribution to economic and social development. Joint ventures are prohibited in precious metals, public utilities, banking, insurance, transport and domestic trade.

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The Ethiopian Standards Institute regulates all exports entering the market. Standards are consistent with international norms and do not act as a barrier to U.S. products.

Government procurement is by competitive bidding. Their are no burdensome administrative procedures or special document requirements.

6. Export Subsidies Policies

The government provides export subsidies to state corporations engaged in export activities in the form of cheap financing and price control of domestic inputs. Subsidized industries include coffee, hides, oil seeds and pulses, frozen vegetables, textiles and handicrafts, beverages, sugar, and minerals. State farms and cooperatives receive subsidized inputs not available to independent farmers.

7. Protection of U.S. Intellectual Property

Ethiopia is not a signatory to any of the principal intellectual property conventions. There is no means of protecting intellectual property in the country. Firms generally put notices in the local papers stating their trademark and warning others not to use it. Trademarks are also registered with the Ministry of Domestic Trade. We have not received complaints from U.S. companies as virtually all local manufacturing is controlled by the government.

8. Worker Rights

a. The Right of Association

The only labor organization allowed to operate is the government-controlled Ethiopian Trade Union (ETU). The ETU, one of Ethiopia's mass organizations under the party's control, is a political group used by the government to implement its policies, expand party control within the work place, and prevent work stoppages. Strikes and slowdowns are forbidden. Many of ETU's top leaders have been trained in Eastern Europe, and the organization has close ties to Soviet and Eastern European labor organizations. The 1988 Report of the International Labor Organization (ILO) Committee of Experts repeated its criticisms of the mandatory, single trade union structure in Ethiopia and renewed its request that freedom of association be granted to rural workers. The Committee noted the government's assertion that, pursuant to the Constitution of 1987, a new labor code will be submitted to the National Shengo which will reflect the right of workers and employers to establish and join organizations without previous authorization, and which will take into account the Committee's comments, with particular reference to those concerning restrictions on the right to strike.

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b. The Right to Organize and Bargain Collectively

Workers are not permitted to organize independently in Ethiopia. Labor/management negotiations do not occur in practice, although labor law does provide for it. Collective bargaining as such does not exist. Labor laws and practices are uniform throughout the country.

c. Prohibition of Forced or Compulsory Labor

There is no information that forced labor is practiced in Ethiopia. However, on the demand of the kebele officials, citizens are required to "volunteer" their services for frequent community work programs. Workers are also expected to "volunteer" to work extra hours and weekends, at no pay, so that factory quotas can be met. The proclamation of the state of emergency in May was linked to a proclamation requiring that all employees donate one month of their salary to the war effort.

d. Minimum Age for Employment of Children

The minimum age of 14 for nonfarm labor seems to be respected in practice.

e. Acceptable Conditions of Work

The new Constitution recognizes in principle the right to work and to rest. Given high unemployment, there is pressure for existing jobs in the modern economy. The maximum legal workweek of 48 hours is generally respected in practice, but as noted there is much "volunteer" labor to meet factory or office quotas, and government workers receive little of their promised time off. Health and safety codes for the workplace are rudimentary and remain unenforced.

The minimum wage in Ethiopia is about $24 per month. Additional allowances effectively raise the minimum wage of a fulltime employee to about $34. Day laborers in the agricultural sector receive almost $1 per day plus some payment in kind (shelter or a meal, for example). Day laborers in the urban areas receive almost $1.50 per day plus transportation to and from the workplace. The minimum wage has been under review for some time without decision.

f. Rights in Sectors with U.S. Investment

There is no significant U.S. investment in Ethiopia.

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ETHIOPIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category		Amount
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

GHANA

Key Economic Indicators

Millions of Cedis Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
GDP at Current Prices	511,360	742,800	N/A
GDP at Current Prices (pct chg)	5.3	4.5	4.0
GDP (constant 1984 prices)	299,470	312,950	N/A
Cocoa (000 mt)(1)	228.0	183.0	N/A
Gold (000 troy ounces)	287.1	328.0	N/A
Diamonds (000 carats)	557.3	464.8	N/A
Manganese (000 mt)	339.0	295.1	N/A
Bauxite (000 mt)	226.5	229.4	N/A
Aluminum (000 mt)	120.3	150.3	N/A
GDP per capita ($)(2)	409	350	N/A
Size of Labor Force	N/A	N/A	N/A
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply	86,400	132,300	N/A
Commercial Lending Rate (pct yr-end)	23.0	26.0	27.0(5)
Savings Growth Rate (pct)	6.6	8.5	12.2
Investment Growth Rate (pct)	10.3	17.1	21.0
Consumer Price Index (1980 = 100)	1,132.4	1,502.7	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rates (Cedi/US$)(3)			
Official Average	89.3	147.1	230
Foreign Exchange Bureau	N/A	N/A	305-320
Parallel	N/A	N/A	315
Balance of Payments and Trade (Millions of US$)			
Total Exports fob	749.3	787.0	N/A
Exports to U.S. cif	201.0	259.6	N/A
Total Imports fob	733.5	763.8	N/A
Imports from U.S. fas	84.0	114.6	N/A
Aid Flows (disbursements)(4)	358.0	484.0	N/A
Aid from U.S.	13.0	18.0	N/A
Aid from Others	88.0	155.0	N/A
Aid from Multilateral Donors	257.0	311.0	N/A
External Public Debt (yr-end)	2,663.9	2,968.0	N/A
Annual Debt Service Payments	380	432	532
Gold Reserves	N/A	N/A	N/A
Gross Int'l Reserves (yr-end)	148.7	193.6	N/A
Overall Balance of Payments	-56.7	138.7	N/A

GHANA

Notes:

(1) Crop year begins in September.
(2) Embassy estimates for per capita GDP; exchange rate distortions reduce the value of this measure.
(3) Exchange rates are noted as average annual for official rate 1986 and 1987; others are actual 11/88.
(4) Data for aid flows converted to US$ at exchange rates prevailing at time of disbursements. Data may not add up due to rounding.
(5) September 1988.

Many statistics are delayed and data may be subject to revision. Some data are projections and estimates.

1. General Policy Framework

In 1983 the Government of Ghana launched an Economic Recovery Program (ERP) which is considered one of the most stringent and generally consistent in Africa. Broad reforms have included devaluation of the cedi and liberalization of the foreign exchange regime; price adjustment in favor of production and exports; restoration of fiscal and monetary discipline; reduction and rationalization of the public sector; rehabilitation of productive bases and economic infrastructure; and encouragement of savings and investment. Foreign aid has financed essential repair and renovation and favorable weather plus producer incentives have revived farm output. During 1984-1987 real gross domestic product (GDP) grew by an average of over five percent per annum, and once-rampant inflation moderated. The economy was stabilized in the short term, productive capacity was largely restored in the medium term and increased liberalization and growth are being sought over the long term. The 1987-1989 second phase of the ERP focuses on economic restructuring and restoration of social services.

Ghana still faces major structural and financial constraints. Except for most basic foods and some building materials, the economy remains highly dependent on imports. As the country searches for domestic sources of inputs and a role for its industry, it must try to avoid uneconomic solutions. Although somewhat masked by aid flows, economic growth still is hampered by inadequate domestic savings and investment rates, insufficient incentives to the private sector and infrastructural bottlenecks. Inflation continues to be excessive, external accounts are vulnerable to adverse external developments (i.e. 1987-1988 cocoa prices) and the foreign debt, fairly large relative to GDP, imposes a heavy service burden over the medium term. The country lacks trained managers for an increasingly complex and sophisticated recovery effort. Rationalization of the public sector, only just begun, is already taking a toll in higher unemployment. However, expected annual inflows averaging $435 million should keep GDP growth around the projected five percent and by 1990 Ghana could reach the take-off point where strong external payments accounts allow sustainable economic growth.

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Although the Government of Ghana has taken active steps since 1983 to restructure expenditures and increase tax and other revenues, deficits (including externally funded capital spending) still result from failure to adequately manage public sector resources and ensuing high levels of recurrent expenditure for wages, salaries and the varied expenses incurred by state-owned enterprises. It has been difficult to increase needed capital expenditure because of resource constraints; likewise, adequate funding for other goods and services in the recurrent budget has not been possible. The government is making efforts to reduce its level of borrowing from the banking system in order to free those resources for private sector use. However, budget deficits traditionally have been financed largely by domestic borrowing.

Further, phased reduction in the share of credit to the government is needed over the next few years. Borrowing from the World Bank and the International Monetary Fund (IMF) since the 1983 inception of the ERP has formed a large portion of the external financing of budget deficits. It should be noted that by 1987 the government recorded a current account surplus (excluding foreign-funded capital spending) equal to 0.5 percent of GDP. This amount was utilized to reduce the national debt owed to the domestic banking system. Figures for 1988 are not yet available.

The inauguration of the foreign exchange auction system in 1986 and the relaxation of some import restrictions sent positive signals to potential private sector investors. However, changes in regulations, particularly regarding cedi deposit requirements for successful auction bidders, caused some initial problems. In addition, the government's method of implementing a vigorous new tax collection program meant financial strain for companies that had to pay significantly higher tax assessments or make quarterly installments up front.

Since 1986 confusion surrounding auction procedures has diminished. In the 1988 budget, the government acknowledged that previous tax rates may have been too high, functioning as disincentives to increased investment. Excessively progressive personal income tax rates were moderated significantly, although corporate tax was kept at 45 percent. Corporate tax was, however, adjusted in consonance with debt/equity ratios of companies to permit the firms to utilize more equity to improve dividend payments to shareholders and tax payments to the government. The revised personal income tax could affect consumer demand for imports, as less income will go to taxes and that balance would potentially be available for expenditure, investment and/or savings. Tax administration overall remains weak. Cocoa farmers, taxed excessively, lack sufficient incentives to boost production to desired levels.

The government has traditionally controlled the money supply through adjustment of reserve requirements and through changes in the levels of financing for cocoa producers and of credit expansion to the private sector. Precise current breakdowns are not available, as the Bank of Ghana (central bank) has not published an annual report since 1985. That report listed credit to the private sector, net capital and

other liabilities, credit for cocoa financing and credit to public institutions as key factors affecting the level of money supply. In 1987, the government established a weekly treasury bills auction that sets the discount rates and an interbank discount house was launched. Subsidies to state-owned enterprises have, in recent years, been a drain on government coffers and have encouraged growth of the money supply. Likewise, the steady improvement in the government's net foreign assets position (from stronger balance of payments performance) and government deficits have encouraged acceleration in the annual growth of broad money.

2. Exchange Rate Policies

The Bank of Ghana holds weekly foreign exchange auctions that determine the "official" exchange rate for the following seven days. Government and banking transactions occur at the official rate; public sector needs are met outside the auction but using its rate. In February 1988, the government authorized the legal operation of private foreign exchange (ForEx) bureaus. They are permitted to buy hard currency at market rates and sell it to importers or other customers with bona fide requests. This has taken many customers from the parallel market and, together with a sliding auction rate, helped narrow the differential between the two rates to about 27 percent as of November 1988. The emergence of foreign exchange bureaus has compressed the parallel market rate for large denomination bills to approximately the same rate offered by these bureaus. In recent months, the parallel market rate at its highest has risen only five to ten cedis above the bureau rate. Foreign exchange controls have been virtually eliminated, although at the auction, hard currency resources are allocated in accordance with economic priorities. The auction has eased access to foreign exchange for legitimate importers who have the cedis to bid, although at current funding levels the auction is unable to meet the full demand for hard currency. Commercial banks are allowed to operate foreign exchange bureaus and several, in effect, offer multiple rates (auction and bureau).

Progressive devaluations of the cedi have made all imports, including those from the United States, more expensive. However, the devaluations cannot be said to have harmed U.S. exports disproportionately, if at all. Before the auction, scarce foreign exchange was allocated through inefficient mechanisms that significantly restricted access to imports.

3. Structural Policies

Purchasing decisions are made by the import programming and monitoring committee, which is headed by the chairman of Provisional National Defense Council (PNDC) secretaries (equivalent of prime minister) and includes the PNDC secretaries of Finance and Economic Planning, Industries, Agriculture, Trade, and Health and the governor of the Bank of Ghana. The committee reviews import licensing and government procurement policies. In general terms, the Government of

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Ghana is moving toward increased liberalization of the market structure. During the first phase of the ERP, price controls throughout the economy were virtually dismantled. Prices of goods were permitted to reflect significant changes in the exchange rate and in administered prices. (Administered prices affect commodities such as cocoa, coffee and petroleum products.) Since 1985, the government has adjusted upward the producer prices for cocoa and coffee to reduce the distortions implicit in the previously overvalued exchange rate. Petroleum product prices are altered periodically to reflect world oil prices and exchange rate fluctuations. The government has eliminated price subsidies on hundreds of products and commodities but retains controls on about 20 items. Those still under price controls include petroleum products, fertilizers and allied agricultural inputs. The government reportedly intends to remove all price controls and subsidies by June of 1990. The impact of remaining subsidies affects cross-border trade in the West African region. Despite elimination of many subsidies and big price hikes thus far, most petroleum products and some farm inputs cost much less in Ghana than in neighboring countries, encouraging smuggling.

In the 1988 budget statement, the government announced a new structure of personal income taxes that provided relief from earlier, excessively progressive taxation. Special tax incentives were provided for the real estate and housing sectors. In addition, changes were implemented to ensure fair and adequate protection to domestic producers. Standard personal relief for single and married persons was raised. The highest marginal tax rate of 55 percent now applies to incomes of 984,000 cedis, versus the previous level of 310,000 cedis. The corporate tax rate of 45 percent remains unchanged. Tax relief for the agricultural sector was adjusted downward for persons engaged in cash crop farming (to two years) but remains at five years for those raising tree crops. The selected aliens employment tax of 50,000 cedis paid by companies employing expatriate personnel was raised to 500,000 cedis. Exemptions are limited to expatriates possessing specific technical expertise in fields designated by law.

The 1988 budget statement also rationalized sales tax rates to equalize the rate of tax payable on foreign and domestically produced goods; previously the tax rate favored imported goods. Sales tax on imports is now calculated on the cif (cost, insurance, and freight) plus import duty value (versus the previous method of calculating it just on cif value while sales tax on domestic goods was assessed on the cost of production including duties paid on imported raw materials). The change is intended to ensure equity in the determination of sales tax on both imports and locally produced goods. Special taxes are levied on imports of and locally produced textiles, tobacco, and alcoholic and non-alcoholic beverages. The government deliberately instituted the new tax measures to provide a degree of effective protection for domestic industries but emphasized that the measures were deemed temporary.

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Excise duties are restricted to tobacco, beer and alcoholic and non-alcoholic beverages. A new tariff structure and system of special taxes was introduced in 1988; its contents cannot be effectively summarized in this space. Imported vehicles are taxed at a somewhat higher rate in 1988 versus 1987, particularly those of engine size 1600-1800 cc.

4. Debt Management Policies

Ghana's Economic Recovery Program, sometimes referred to as a Structural Adjustment Program, was instituted in 1983 in close cooperation with the World Bank and the IMF. Ghana has not rescheduled official credits under the Paris Club and has not rescheduled commercial bank credits in the past ten years. At the end of 1985, the public debt outstanding and disbursed (excluding the IMF) totalled roughly one quarter of GDP. Two-fifths of that amount was debt owed to bilateral creditors; over one-half was owed to multilateral sources (World Bank and IDA loans and credits comprised 25 percent of total debt); the balance was owed in the form of suppliers credits, about 10 percent. In 1988, Ghana's debt is estimated at just over $3 billion. The highest proportion of that debt is owed to international financial institutions and individual donor countries. Several donor countries, including Canada, Denmark, the Federal Republic of Germany and the United Kingdom (U.K.), have granted limited debt forgiveness to Ghana in recent years. In 1987-1988, the bunching of payments due to the IMF created a debt service bulge and a jump in the country's debt service ratio.

Ghana's debt service burden has increased in recent years, certainly since 1982, and will remain severe over the medium term, despite its generally concessional terms. This is because of 12-month oil credits, obligations to the IMF and payments to reduce arrears (not included in the 1985 breakdown cited above). In 1986, the debt service ratio was 47 percent of exports, inclusive of IMF and reduction of arrears. Ghana's debt service ratio should decline over the next few years as the country reduces its dependence on short-term oil credits. When IMF obligations and government payments to reduce external arrears are included, total debt service will average 58 percent through 1987-1988 but begin to ease by 1989. Ghana has continued to reduce its payments arrears (to $99 million in 1987); the 1988 budget makes provisions to reduce external payments arrears by an additional 3,855 million cedis (about $16.8 million). Note: Data on debt service ratios relative to GDP are not available.

Under a scenario of continued vigorous and effective reform efforts, the anticipated external financing gap will average about $24 million in 1987-1989; the Government of Ghana will be searching for enhanced donor assistance to make up the shortfalls. The World Bank believes that external concessional assistance is essential to ensure an adequate amount of import financing in the context of the large payments obligations which face Ghana. The Bank has also recommended that the government seek a possible consolidation of existing arrears and the stretching out of terms to avoid

the need for excessive cash outlays to reduce the stock of arrears outstanding.

The Government of Ghana is working to improve the debt management capabilities of the Ministry of Finance and Economic Planning. Responsibility for debt management has been consolidated within the International Economic Relations division of the ministry. The IDA structural adjustment institutional support credit funded the installation of a debt management and financial analysis system (DMFAS) developed in 1987 by the United Nations Conference for Trade and Development (UNCTAD). It includes a program specifically designed to meet Ghana's requirements.

Relations with the international financial institutions and donor countries are good; Ghana has not strained its credibility through failure to meet scheduled obligations although external arrears are acknowledged to be a problem. Commercial banks are not yet ready to commence significant lending to Ghana but they are closely watching the progress of economic recovery efforts and maintain their contacts in the government and private sector.

5. Significant Barriers to U.S. Exports

Import restrictions have been significantly eased and liberalized in the last several years, but imports remain subject to license approval, prior deposit of the full cedi equivalent, and a winning bid at the weekly foreign exchange auction (or a costlier transaction at a foreign exchange bureau). All commercial imports are prohibited unless covered by a specific import license or special license. Specific import licenses are issued to cover imports which are paid through the transfer of foreign exchange from Ghana. Licenses are also required to cover imports financed by external resources such as loans, aid grants and supplier credits. Imports under specific license are tightly controlled within the framework of an annual import program. Licenses are also issued to cover imports which do not involve the transfer of foreign exchange from Ghana. Importers holding their own hard currency may obtain special import licenses (SIL) to bring in consumer goods not eligible for regular licenses. All items can be imported under special licenses except asbestos or fiber cement roofing sheets and pipes. In 1987 and early 1988, the government integrated the imports of consumer goods into the foreign exchange auction. Thus, there are now effectively no foreign exchange restrictions on the importation of consumer goods into Ghana.

Ghana's present investment and trade policies, laws and regulations do not discriminate against particular countries. They are applied equitably and have had identical degrees of impact on the affected businesses. The following is a list of services barriers:

--Advertising: Foreign advertising firms are not permitted to establish offices in Ghana.

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--Construction, engineering, architecture: A law was proposed in late 1987 (not yet promulgated) to compel foreign consultants to work with the government-owned Architectural and Engineering Services Corporation to operate in Ghana.

--Insurance: Denial of cross-border access including forced establishment. Marine insurance forbidden for the buyer to insure imports abroad; official imports must be insured with the government-owned State Insurance Corporation (SIC). Marine insurance is forbidden for imports on CIF basis; those on official imports as well as casualty insurance on government property are reserved to the SIC.

--Tourism, hotel/motel: Foreign travel agencies are not allowed to establish businesses in Ghana.

Other areas of significant importance reserved to Ghanaians under the Investment Code of 1985 are:

a) commercial overland passenger transportation and haulage services;
b) laundry and dry cleaning;
c) wholesale/retail operations of "employed capital" (or assets) of less than $500,000;
d) taxi and car hire services;
e) agency/distributorship franchises by firms with "employed capital" (or assets) of less than $500,000;
f) tire retreading businesses;
g) beauty and barber shops;
h) real estate agency operations;
i) agricultural commodity brokerages with "employed capital" of less than $500,000.

Ghana has its own special standards for food and drugs, and offers quality standard testing according to acceptable international practices for imports with suspicious product characteristics. Quality testing of imports emphasizes food and other ingested products (such as drugs) with validity date markings. Not only imports, but also all locally manufactured goods, are subject to Ghanaian standards, testing, labeling and certification regulations.

The government has designated a list of priority sectors for investment (agriculture, manufacturing, building and construction and international tourism) and strongly favors enterprises that will produce for export using predominantly local materials. The Investment Code (1985) encourages projects to produce agricultural equipment, machinery, spare parts and machine tools in addition to the categories listed above. For foreign investors the minimum equity is $60,000 (joint venture) or $100,000 (wholly-owned); the latter must be a net earner of hard currency. Expatriate quotas are in force and the special tax on expatriates was raised in 1988 to 500,000 cedis ($2,174) per annum. Exceptions are granted for government contract employees and persons working on projects financed by international organizations or bilateral donors.

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. Development and transfer of technology are criteria for investment approval, and the Ghana Investment Center (GIC) registers and may regulate such transfers. Foreign investors are not subject to differential treatment on taxes, prices or access to foreign exchange, imports and credit. For the most part, government policies do not restrict U.S. exports or direct investment, although some economic activities are closed to foreign investment (see section pertaining to service barriers). Land ownership by non-citizens is prohibited although expatriate companies may own property constructed on leased lands.

The investment code specifies that prospective investors must be screened in accordance with their capacity to contribute to any of nine objectives, notably utilization of local materials, supplies and services; job creation; increasing export earnings and/or savings on imports; development and transfer of technology; and geographical dispersion. The GIC may stipulate the amount and source of capital, nationality and number of shareholders, project size, training of Ghanaians, time for implementation, utilization of local raw materials and any other appropriate criteria. A tourism enterprise will only be approved if it is a net earner of foreign exchange. While the government has demonstrated considerable flexibility and pragmatism in applying them, such performance requirements are likely to remain an integral part of its economic strategy.

To encourage investment in the petroleum and mining sectors, the government has put in place special legislation authorizing separate and specific incentives and conditions for those sectors. The Ghana National Petroleum Corporation has developed a model petroleum agreement, but has been flexible in adapting its provisions to specific cases and circumstances. Mining ventures receive greatly accelerated depreciation and an investment allowance, can carry forward losses and capitalize pre-mining expenses, and are permitted other exemptions or allowances on imports, personal income taxes and remittances, and expatriate quotas. These incentives appear available equally to foreign and Ghanaian private investors.

Government purchases of machinery, equipment and supplies are usually handled by the Ghana Supply Commission, the official purchasing agency, through international bidding and sometimes through direct negotiations, depending on the volumes involved. The bank of Ghana, which monitors export receipts, does not encourage countertrade because of adverse past experiences of over- and under-invoicing. Except for aid-tied imports, Ghana does not discriminate against any particular country in its international trade. Imports from Namibia and South Africa are prohibited.

Some sensitive imports like meat, fish, yellow maize, wheat, and edible vegetable oil, as well as hospital equipment, spare parts and office equipment for government organizations, together with selected items for resale through commercial channels, are under state monopoly.

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Administrative procedures are cumbersome. Special forms of invoice and customs entry formalities are required, resulting in long delays in clearing goods from the ports.

6. Export Subsidies Policies

The Government of Ghana does not offer direct export subsidies. Exporters are entitled to 85 percent "drawback" of the duty paid on imported inputs. The number of such refunds made during the past five years is reported to be negligible. Exporters of "non-traditional" commodities (other than cocoa, coffee, timber logs and lumber, and non-fuel minerals) are allowed to retain a higher percentage -- 35 percent -- of their export receipts in off-shore hard currency accounts to finance imports of spare parts and inputs. They are also permitted to repatriate such funds for sale on the local foreign exchange market.

7. Protection of U.S. Intellectual Property

Prior to independence from the British in 1957, Ghana had offered protection to intellectual property under U.K. laws. It still does so for patents, requiring registration of patents in the U.K. and thereafter in Ghana within three months of the U.K. registration. In the early years of independence, Ghana instituted separate legislation for copyright and trademark protection (in 1961 and 1965 respectively). In addition, Ghana is a member of a number of international intellectual property rights (IPR) agreements, including the Universal Copyright Convention, the Paris Convention on Industrial Property, the World Intellectual Property Organization and the English-speaking African Regional Intellectual Property Organization. Ghana also offers protection to IPR holders of member countries under the terms of the conventions to which it belongs.

Ghana is now preparing its own legislation for patent protection, but for the present continues to operate under the patent law of the U.K. There are no official statistics on infringement cases, but legal sources indicate there were less than 20 court cases for IPR infringement during the last two to three years. Aggrieved IPR holders have easy access to courts for redress locally.

Information on counterfeiting is not readily available from official sources in Ghana. There are no problems with gaining or maintaining registration. Fees for registration by local applicants are 15,000 cedis (about $65) and $90 for foreign applicants.

There are no serious cases of book piracy and the few that have been recorded were all resolved by arbitration at the Ghanaian copyrights registry. Likewise, a minor number of cases of other forms of copyright infringement have all been resolved through arbitration. The most serious problem of copyrights infringement relates to videotapes and measures have reportedly been initiated recently to curb the incidence

of illicit reproduction and commercial screening of tapes. According to the copyright registrar, copyright violations could be treated in Ghana as both criminal and civil court cases but the ability of legal machinery available remains untested and undemonstrated. Copyright violations in the form of pirated videotapes or cassette tapes probably account for the most serious losses to U.S. firms in the form of sales and royalties foregone from lost sales to Ghana.

8. Worker Rights

a. The Right of Association

The PNDC has not interfered with the right of workers to associate in labor unions. Trade unions in Ghana and their activities are still governed by the Industrial Relations Act (IRA) of 1958, subsequently amended in 1965 and 1972. Organized labor in Ghana is represented by the independent Trades Union Congress (TUC), established in 1958. It consists of a national headquarters and 16 affiliated unions, representing a claimed total membership of over 700,000 workers in skilled and semiskilled trades. Union members elect their own leaders, and representatives of the affiliated unions elect the TUC leadership at quadrennial conferences, the most recent being in March. The TUC publishes its own newspaper. It is independent of government subventions and has publicly criticized the government at times for its economic policies as well as its failure to adequately consult the trade union movement.

The right to strike is recognized in law and in practice, although the government has on occasion taken strong action to end strikes, especially those which threaten interests it perceives as vital. Under the IRA, the government has established a system under which it seeks first to conciliate, then arbitrate, disputes. Discussions have been under way for some time to replace this system with labor tribunals to arbitrate industrial disputes certified as deadlocked, but the government has declared that establishment of labor tribunals must be part of a new, consolidated industrial relations act, which cannot be implemented piecemeal.

The TUC represents Ghanaian workers in the meetings of the International Labor Organization (ILO) and is affiliated to the Organization of African Trade Union Unity (OATUU). Consistent with OATUU guidelines, it maintains no other international affiliations, although it has friendly relations with other international labor organizations, including the International Confederation of Free Trade Unions and the World Federation of Trade Unions.

b. The Right to Organize and Bargain Collectively

The right to organize is generally respected, although civil servants are prohibited by law from joining or organizing a trade union. The TUC is a large, well-established union organization whose membership has shown little growth in recent years, largely due to a stagnant

economy which has produced few new jobs. Ghana's trade unions engage in collective bargaining for wages and benefits with both private and state-owned enterprises, though in the latter category the threat of detention (a common practice in the early 1980s) hangs over union leaders to force agreement on issues. At the end of 1988, no union leaders were under detention for union- related activities. There are no functioning export processing zones in Ghana, and labor legislation is applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Ghanaian law prohibits forced labor, and it is not known to be practiced.

d. Minimum Age for Employment of Children

Labor legislation in Ghana sets a minimum employment age of 15 and prohibits night work and certain types of hazardous labor for those under 18. In practice, child labor is prevalent, and young children of school age can often be found during the day performing menial tasks in the market or collecting fares on local buses. Enforcement of minimum age laws is uneven, especially since local custom and economic circumstances favor children working to help their families. Violators of regulations prohibiting heavy labor and night work for children are occasionally punished.

e. Acceptable Conditions of Work

Minimum standards for wages and working conditions are established through a tripartite committee composed of representatives of government, labor, and employees. It establishes a minimum wage rate, and other salaries are adjusted accordingly. Effective January 1987, the minimum wage was increased 25 percent to $0.50 per working day at current exchange rates. In early 1988, the TUC called for a "meaningful" national wage of not less than $4.00 per day. In most cases, households are supported by multiple wage earners, some family farming, and other family based commercial activities. The tripartite committee was unable to agree on a cost-of-living study, and no minimum wage increase was mandated, although the TUC was authorized to enter into collective bargaining with private and state-owned enterprises anyway. The basic workweek in Ghana is 40 hours. Occupational safety and health regulations are in effect, and sanctions are occasionally applied to violators.

f. Rights in Sectors with U.S. Investment

U.S. investment in Ghana is dominated by an operation in the primary and fabricated metals sector. However, there is also significant U.S. investment in the petroleum, chemicals and related products, and wholesale trade sectors. U.S. firms in Ghana must comply with Ghanaian labor laws, and the U.S. Embassy is unaware of any instances of noncompliance.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	2	
Chemicals & Allied Products	3	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(*)	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

IVORY COAST

Key Economic Indicators

Millions of U.S. Dollars Unless Otherwise Noted

	1986	1987
Income, Production Employment		
GDP	9,377	10,289
GDP by Sector (agriculture only)		
Coffee (000 mt)	270	266
Cocoa (000 mt)	590	608.6
Cotton (000 mt)	82.8	94.5
Rubber (000 mt)	44.1	51.9
GDP per capita (CFA)	893.0	943.9
Real GDP per capita (CFA, 1985=100)	687.4	644.8
Real GDP Growth (pct)	3.4	-2.7
Consumer Price Increases (pct)	6.6	5.3
Central Gov't Spending (pct of GDP)	19.0	21.5
Population (Millions)	10.5	10.9
Balance of Payments and Trade		
Total Exports, fob	3,668.2	3,396.3
Total to U.S., fas*	59.5	83.0
Total Imports, fob	2,543.3	2,748.1
Total from U.S., cif*	453.6	404.0
Foreign Debt (Billions US$)	7.0	8.1
Debt Service (after rescheduling)	1054	553 (est)
Debt Service Ratio	26	15 (est)
Average Exchange Rate (CFA/US$)	346	301

Source: Foreign Economic Trends Report, July 1988; 1988 statistics not available.
* IMF Statistics

1. General Policy Framework

In the late 1970's the Cote d'Ivoire (Ivory Coast), like many countries, resorted to foreign borrowing to finance ambitious investment programs when export earnings were severely limited by the end of the commodity price boom and the second oil shock. Foreign borrowing needs were inflated when the public sector enterprises developed as an integral part of the investment program generated ballooning deficits rather than revenues. By 1980, the government was in financial trouble and turned to the International Monetary Fund (IMF) for assistance. IMF programs have been in place for most of the time since, supplemented since 1981 by World Bank structural adjustment loans, and Ivorian economic policies throughout the decade have been devoted to the twin objectives of austerity and structural reform.

Thus, government budgets have been generally restrictive, with total public sector spending rising only about 4.5 percent in the five years ending 1987. Civil service salary levels and the minimum non-agricultural wage have been frozen since 1982, although promotions were unblocked in 1986. The retail prices of key consumer items were raised to eliminate subsidies, fringe benefits for teachers and other civil servants were reduced, and the number of entrants into civil service was limited. Most dramatically, investment spending was cut and limited to those projects for which financing was assured, bringing the investment/GDP ratio from 24 percent at the beginning of the decade to about 6 percent in 1987.

Together with decade-long austerity in public sector spending, the Ivorian Government has worked with the World Bank to implement structural adjustment measures. It has privatized significant public sector investments and improved the management of remaining public sector enterprises. In addition, it is working to harmonize tariffs around a level of 40 percent and has implemented an import surcharge/export subsidy scheme, which partly compensates for the government's inability to adjust the exchange rate as a member of the West African Monetary union.

To fill the large gap estimated for 1987-88, the government entered into new discussions with the IMF, the IBRD, Paris and London Club creditors and bilateral donors. In February 1988, an SDR 82.5 million compensatory financing facility (CFF) loan and a SDR 79 million standby facility were approved by the IMF board of directors. In December 1987 the Paris Club approved a new rescheduling and in April 1988 a new London Club agreement was initialed. Negotiations towards a $365 million agricultural sector loan and a $364 million energy sector loan that were intended to complete the 1987 package came to a standstill in mid-1988, as, by the second quarter of the year, it became apparent that the plunge in cocoa prices since late 1987, together with disappointing tax collections and public enterprise deficits, would place the public sector accounts in the red once again and require further remedial action and or supplementary financing. At the end of the year, the dimensions of the Cote d'Ivoire's financing problems were such that difficulties were encountered in making bank transfers and obtaining foreign exchange. In January 1989 it lost its Eximbank cover on public sector medium and long term loans.

As part of its own contribution to resolving its financing difficulties, the government adopted several new tax measures in August 1987, including an extension of the value added tax (VAT) to the retail trade sector as of January 1, 1988; an increase and extension of import duties; and increased levies on patents, licenses, tobacco, pleasure boats, etc. These changes, together with intensified revenue collection efforts, were designed to raise about CFA 56 billion.

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2. Exchange Rate Policies

Cote d'Ivoire is a member of the West African Monetary Union, whose common currency, the CFA franc, is pegged at 50 to the French franc. It is freely convertible and capital and profits may be freely repatriated.

3. Structural Policies

An agency of the Commerce Ministry regulates prices. A few products (rice, bread, gasoline, and cement) have fixed prices. Other products (mostly food) have prices approved by the government. Most imports are assigned percentage margins of profit. The importer must prove his supply cost, on which the government allows a certain mark up, depending on the type of product.

Foreign-owned firms and local business enterprises are nominally subject to the same taxes, surcharges, and contributions with only slight variance, although enforcement may be inconsistent. Withholding taxes are imposed on dividends, retained earnings, interest, licensing, technical service and management fees, and other revenues paid to a non-resident.

Imports are limited and prices are fixed for a few products. These imports include rice, wheat, palm oil, and petroleum. The domestic petroleum product distribution industry is heavily regulated, but these regulations control the way business is done, not who does the business. U.S. oil companies have large investments and operations in Cote d'Ivoire. Cote d'Ivoire has long encouraged foreign investment; the 1984 investment code added further incentives. The major incentive features are for companies which invest in agriculture, stock raising and fishing, storage and treatment of agricultural and food products, low-cost housing construction, extractive industries, power production, and manufacturing and assembling. These incentives include customs duty exemptions on materials and equipment necessary to the investment, if such materials and equipment cannot be purchased in Cote d'Ivoire at a competitive price; tax exemptions, generally for a period of five years with taxes phased in beginning in the fourth year, for business income tax, license taxes, and real estate taxes; and a partial exemption from the value added tax. The 1984 code extended many of the incentives to small and medium-sized companies. Cote d'Ivoire subscribes to the UNCTAD Shipping Code, but has agreed to allow us shipping access to the 20 percent of bilateral trade not reserved for Ivorian or other LDC fleets.

4. Debt Management Policies

Faced with a widening public sector deficit, the Cote d'Ivoire called a moratorium on its foreign debt payments in late May 1987. Recognizing the effect of the decline in commodity prices, in particular of cocoa, and that Cote

d'Ivoire was continuing to pursue austerity and structural adjustment policies, the Paris Club agreed to a new rescheduling of Ivorian debt in December 1987, its fourth. The Paris Club rescheduled over ten years and with six years grace 100% of principal and 95% of the interest on current maturities (those falling due between January 1, 1988 and April 30, 1987), on arrears as of December 31, 1987, and on previously rescheduled debt. Significant room for further structural adjustment exists, i.e. a reduction of subsidized producer prices for cocoa, the Cote d'Ivoire's primary export.

The London Club agreement put together in early 1988 reschedules all maturities originally falling due between November 1983 and the end of 1995 (except 1985 new money and voluntary loans extended after November 30, 1983) over 14 years with 5 1/2 years grace. It also extends CFA 43 billion (about $140 million) in new money. Unfortunately, reflecting persistent financing difficulties, the government did not make its initial payment under the new agreement of about $50 million in interest. The agreement, therefore, is on hold, and the envisioned new money has not been extended.

5. Significant Barriers to U.S. Exports

Most import license requirements were removed in 1987. Some remain, however, for certain food and electronic imports. Although customs restrictions and regulations have been reduced over the past few years, procedures are still burdensome. Businessmen report that customs enforcement is often inconsistent.

Investors are subject to the Investment Code of 1985. Ivorian participation in capital ownership is required in the petroleum industry and in fishing and shipping. Advertising and import insurance are limited to Ivorian nationals or companies, while local representation may be required in the building professions on non-government contracts.

Cote d'Ivoire's tariffs are moderately high but are nondiscriminatory except for preferences granted to imports from other member states of the West African Economic Community (CEAO). Except for supplies of meat and produce, imports of products from the CEAO countries do not impact adversely upon potential U.S. exporters. Lower tariffs would encourage imports and there is a trend, supported by the IMF, toward lower rates. However, there is also a definite commitment to provide tariff protection to emerging infant industries.

6. Export Subsidies Policies

Export subsidies are available to food processing, textiles and clothing, wood processing and other manufacturing industries. The subsidy is intended to offset the negative impact of import protection on export competitiveness and is calculated as the equivalent of the import taxes paid in the value added of the product.

IVORY COAST

7. Protection of U.S. Intellectual Property

Cote d'Ivoire is party to the Paris Convention and its 1958 Lisbon revision. It is also a member of the Berne Convention for the Protection of Literary and Artistic Works.

In 1962, Ivory Coast, along with most francophone African countries, adopted uniform legislation for granting patents and registering trademarks. Under the common provisions, a request for patents, trademarks, or other industrial property is filed in or from one member country. If registration is approved by the African Intellectual Property Office (OAPI), it is valid for all member countries. The validity period is 20 years from the date of filing. Trademark registrations may be renewed indefinitely. Validity of a patent requires that an annual fee be paid.

Cote d'Ivoire's civil code prohibits unfair competition including trademark imitation or infringement. Nevertheless, some pirated cassettes and clothing appear in the local markets; legitimately trademarked seconds and discontinued model clothing and footwear made in Asia also appear. Textile producers complain of counterfeit copies of their designs arriving from other West African countries.

8. Worker Rights

a. The Right of Association

Workers have the right to form unions, but almost all unions are organized within a single government-sponsored labor confederation, the General Union of Cote d'Ivoire Workers (UGTCI). Secondary, university, and primary school teachers' unions had been exceptions until 1987. In July 1987, a schism developed in the Congress of the Secondary School Teachers' Union (SSTU), and a second group elected a new leadership which won government endorsement and control of the union. Shortly after the replacement of the Secondary School Teachers' Union leadership, the Primary School Teachers' Union asked to join the UGTCI, leaving only the university teachers' union independent of the confederation.

The leader of the UGTCI occupies a senior position in the party hierarchy. Union membership is encouraged but not mandatory. The UGTCI is a relatively passive coordination mechanism rather than an active force for workers' rights.

The right to strike is protected by statute, but in practice strikes are rarely authorized by the UGTCI. Although there were no official strikes in 1988, there were several "work stoppages." For example, workers in a factory near the capital stopped work to protest a management plan to reorder production. In this case, as usually happens, the government stepped in to mediate.

In 1983 a secondary teachers' strike was broken by a presidential decree ordering teachers back to the classrooms

and threatening them with fines and prison sentences for noncompliance. In July 1987 at the Congress of the Secondary School Teachers' Union, some teachers publicly protested the Government's action and subsequently, in September and October, 16 secondary teachers, including the former Secretary General of the union, were detained. A total of 24 teachers, 20 male and 4 female, were suspended from their teaching positions. In a civil trial in December 1987, three former SSTU officials were found guilty of embezzlement of union funds, fined, and sentenced to several months each in prison. Upon their release, the three were conscripted into the military service and detained at a military camp in the north of the country. Eventually 20 male teachers, some of whom were former union officials, were detained in the camp. During the spring several international organizations, including Amnesty International, protested the detention of these former teachers. In early July, all 20 were released, though they were still, technically, under military jurisdiction. On September 14, all 24 teachers met with President Houphouet, at which time the President "pardoned" them. The next day all 24 received full back pay and were given teaching positions in Abidjan for the 1988-1989 school year.

Generally, the Government negotiates with strikers and resolves at least some of their economic grievances. Aside from the dispute with secondary school teachers and the arrest and detention of 20 of their members, there have been no other reports that professional groups have experienced persecution or harassment.

Unions, trade associations, and professional bodies are permitted to maintain relations with recognized international professional bodies in their fields. The UGTCI is a member of the continent-wide Organization of African Trade Union Unity. Cote d'Ivoire is a member-state of the International Labor Organization (ILO), and the UGTCI participates in Ivorian delegations to ILO conferences and events.

b. The Right to Organize and Bargain Collectively

Collective bargaining within each company takes place under UGTCI leadership. The UGTCI has representatives in every major business enterprise, and the UGTCI secretariat often plays a mediation or conciliation role in relations between labor and management in individual businesses. There are no export processing zones in Cote d'Ivoire, and labor legislation is applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

There have been no reports of forced labor in Cote d'Ivoire.

d. Minimum Age of Employment for Children

In most instances, the legal minimum working age is 16. However, children often work on family farms, and in Abidjan some children routinely act as vendors of consumer goods in

the informal sector.

e. Acceptable Conditions of Work

The government enforces a comprehensive labor code, the Code du Travail, governing the terms and conditions of service for wage earners and salaried workers and providing for occupational safety and health standards. Extensive safeguards protect those employed in the modern sector against unjust compensation, excessive hours, and capricious discharge from employment. Minimum wages vary according to occupation, e.g., a skilled worker would earn the equivalent of 77 cents per hour, an unskilled worker could earn as little as $110 per month. Wage levels increase for workers with more experience and skills. Month-long paid vacations and a substantial severance pay are guaranteed. Government medical insurance and retirement programs provide an element of income security for salaried employees in the modern sector. There is, however, a large informal sector of the economy, involving both urban and especially rural workers, in which many of these occupational regulations are enforced erratically at best.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the following goods-producing sectors in Ivory Coast:

- petroleum
- food and related products
- chemicals and related products
- electric and electronic equipment
- other manufacturing
- wholesale trade.

Worker rights are generally the same in all goods-producing sectors. All workers belong to the UGTCI, the official trade union. Children under the age of sixteen are not allowed to work. The government regulates working conditions, which meet international norms.

IVORY COAST

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		29
Total Manufacturing		12
Food & Kindred Products	0	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

KENYA

Key Economic Indicators

Millions of Kenya Shillings Unless Indicated

	1986	1987 (prelim)	1988 (est)
Income, Production, Employment			
Real GDP (1982 prices)	67,917	71,617	75,250
Real GDP Growth Rate (pct)	5.5	4.8	5.1
Real GDP - Agriculture	20,439	21,183	22,101
Manufacturing	8,611	9,081	9,599
Real per capita GDP(1982 prices)	3,230	3,282	3,288
Size of Labor Force (millions)	7.8	8.0	8.7
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	22,001	23,976	25,750
Commercial Interest Rate (max) (pct)	14.0	14.0	14.0
Savings Rate (pct)	11.0	11.0	11.0
Investment Rate (pct)	N/A	N/A	N/A
Consumer Price Index (base 1982)	146	156	172
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Official K$/US$	16.2	16.5	17.2
Parallel	20.0	22.0	25.0
Balance of Payments and Trade			
Total Exports fob	19,715	16,253	17,510
Exports to U.S.	2,414	1,403	1,617
Imports cif	26,714	30,789	28,311
Imports from U.S.	1,102	1,469	1,634
Aid from U.S.	2,744	2,781	2,800
Other Bilateral Aid	20,719	24,435	27,200
External Public Debt	40,580	45,613	51,400
Debt Service Payments (paid)	3,471	4,155	4,700
Gold and ForEx Reserves	7,844	5,356	7,206
Trade Balance	-3,613	-11,748	-10,802
Net Services and Transfers	6,350	9,438	10,475
Net Investment Income	-4,180	-4,340	-4,850
Current Account Balance	-1,426	-6,650	-5,194
Net Capital Account of which	2,884	5,016	-5,435
Private Long-term	340	825	241
Government Long-term	4,097	3,350	3,251
Short-term	-1,555	842	1,170
Overall Balance	1,458	-1,634	241

KENYA

1. General Policy Framework

In the 25 years since independence, Kenya has balanced central planning and free market principles. Kenya boasts one of the most open economies in the continent, with an active private sector. Features of the system include the use of pricing incentives, a liberalised investment code, export promotion, flexible exchange rate management, and flexible fiscal and monetary policies. Reforms implemented in the last few years include liberalization of imports, fertilizer marketing and pricing, devaluation, manufacturing under bond and price decontrols. Nevertheless, many serious impediments to greater free market development exist. The government is still heavily involved in key sectors of the economy and many costly and inefficient parastatal organizations divert scarce budgetary resources from more productive use. Government red tape thwarts the expansion of a liberalized export-import system.

Kenya's fiscal policies with respect to revenue generation have been adequate. Revenue reached 23.1 percent of Gross Domestic Product (GDP) in Fiscal Year (FY) 1988. There is, however, scope for mobilizing additional revenue through improvements in tax administration and greater reliance on lost recovery/user charges. In its five-year old decentralization strategy and budget rationalization program, the government has adopted an expenditure program aimed at more efficient utilization of funds. Nonetheless, the budget deficit as a percentage of GDP increased to 8.1 percent in 1987 from 5.6 percent in 1986, largely due to increased spending in education, defense, outlays for the all-Africa games, subsidies in grain marketing and rapid expansion in the size of the civil service. These will limit the government's ability to reduce the budget deficit and to hold inflation below the 10 percent achieved in the 1985-1987 period. The Government of Kenya, however, expects to reduce the deficit to a level of 3.4 percent of GDP by 1990. Its main fiscal instruments for financing the deficit are treasury bills and medium term bonds. These sources are limited, however, by relatively underdeveloped financial and capital markets.

In the recent past Kenya has experienced rapid expansion in the money supply and in domestic credit because of improvements in the balance of payments resulting from favorable terms of trade. In 1986 the money supply and domestic credit grew by 27.6 percent and 29 percent respectively. The monetary authorities are using various administrative measures rather than market forces to contain the growth of money supply and domestic credit.

2. Exchange Rate Policies

The local currency (Kenya Shilling) is pegged to the International Monetary Fund (IMF) Special Drawing Rights (SDR), a basket of currencies. Since 1984, the Shilling's exchange rates with the currencies that make up the SDR have been adjusted daily to maintain approximate parity with the latter. The real effective exchange rate depreciated by 29

percent between December 1982 and April 1988. The nominal depreciation of the Shilling against the U.S. dollar was 67 percent over the period. There is an illegal parallel market for foreign exchange. The difference between the official rate and the black market rate is volatile and averages over 35 percent for most hard currencies.

3. Structural Policies

Parastatals, cooperatives and the private sector all play an active role in the Kenyan domestic market. Procurement for all public projects and government requirements is done by the Government of Kenya's Central Tender Board on a competitive basis. Prices of most basic consumer and producer goods are controlled by the government. Cumbersome controls have stifled new investments in manufacturing. Utilities charges are underpriced and firms providing services have operated through heavy subsidies from the government. However, the government is committed to a policy of reducing price controls, increasing competitiveness by reducing protection, and boosting exports. The whole system of price controls is under review. In a significantly positive move, in the last two years, the government has removed half of the items on the price control list. The government is also making an attempt to shift costs to end-users through user fees or full cost recovery in services such as transportation, education, health care, and water. The changes toward a flexible exchange rate policy, the rationalization of the tariff structure, and the simplification of the import licensing system play a key role in providing a more competitive environment for U.S. exports and Kenyan industry.

The Kenyan Government maintains a progressive income tax structure. There are eight income tax brackets. The first income tax bracket of up to the equivalent of $2,250 per annum is taxed at a rate of 10 percent. The rate increases with successive income brackets up to the last open-ended category of $15,750 which is taxable at 65 percent. Foreign-owned companies are taxed at a rate of 52.5 percent and locally-owned ones at a rate of 45 percent. Individuals are taxed progressively up to a maximum rate of 70 percent. Income tax rates in Kenya are high but collection efficiency is low. Total direct taxes yielded a declining share of 27 percent of total current revenue during the 1980-85 period. Income taxes, which provided one-quarter of total recurrent revenue in 1985, are the largest source of government revenue, followed by sales tax. Kenyan residents are subject to a 12.5 percent withholding tax on interest and 15 percent on dividends. Non-residents rates vary from 12.5 percent to 14 percent. Rates of sales tax range from 35 percent on essential items to 400 percent on luxury items such as luxury automobiles. Rates of customs duty range from 35 percent on basic producer goods to 100 percent on most machinery and electronic equipment.

KENYA

4. Debt Management Policies

Kenya's debt service ratio is 31 percent of total export earnings. Debt servicing is highly dependent on earnings from coffee, tea and tourism. If commodity prices do not improve substantially from their 1987 low, Kenya's opportunities for increased foreign exchange earnings will be limited the rest of this decade. However, the government has maintained a good repayment record and has so far been prudent in the use of non-concessionary loans and has not sought rescheduling. The government seems aware of the extent of its problems and has indicated a willingness to impose tough demand management measures to stabilize the situation. Major aid donors include the World Bank, United States, the European Community and, lately, Japan. Kenya has regularly sought the International Monetary Fund's (IMF) structural adjustment credit facilities since 1980 and limits external commercial borrowing.

5. Significant Barriers to U.S. Exports

Due to limited foreign exchange availability, the Kenya licensing system classifies import items into three broad categories. The first category includes high priority capital goods, raw materials and intermediate inputs which can be identified easily. In principle, requests for licenses are approved automatically and demand is controlled by tariff rates. The second category contains goods subject to special import authorization such as fertilizers, cattle, live poultry, live fish, powdered milk, cheese, wheat, rice, maize, cereal flours, nuts, refined sugar, spices, petroleum products, selected motor vehicles and tractors. These are subject to special authorization of a designated government agency. The third category has three schedules: A, B and C. Schedule A lists technical items of high priority requiring time to identify for customs purposes. Such items include engineering components, spare parts, precision instruments, chemicals, special plastic, glass and metal products. Approval is usually delayed because of the length of time required for the identification process. Schedule B lists semi-essential goods, mainly consumer goods. Licensing depends on the foreign exchange reserve position. Schedule C lists lower priority items which the government considers undesirable. Approval is normally difficult to obtain. Importation of used clothing intended for sale is banned.

There are service barriers in audio and visual works, construction, engineering, architecture, insurance, leasing and foreign travel. Audio and visual works are licensed, censored and sold by the government company, Kenya Film Corporation. Foreign companies offering services in construction, engineering and architecture face some discrimination in bidding for public projects. They have to contend with high level government approval to obtain foreign exchange authorization. Local firms get 10 percent preference on quotations for tender and small projects are reserved for local companies. Kenyan buyers of foreign goods are forbidden from insuring imports abroad. A 25 percent compulsory cession is required to the Kenya Insurance Corporation and a further

compulsory cession of five percent to the Africa Reinsurance Corporation. Kenyan exchange control laws represent major impediments to international leasing. Import licensing restrictions make it difficult to import equipment for leasing if the equipment is available locally. For nongovernmental travel outside the country Kenyan residents are subject to exchange control approval.

Most commodities imported into Kenya are subject to pre-shipment inspection for quality and quantity as well as for price comparison. All foreign exporters have to obtain "Clean Report of Findings" from a government-appointed inspection firm which has offices in major trading points such as New York, Baltimore, Chicago, New Orleans and Houston. Importation of animals, plants, and seeds is subject to quarantine regulations. Importation is allowed only at designated ports of entry. Special labeling is required for condensed milk, paints, varnishes, vegetable and butter ghee. In addition, imports of prepacked paints and allied products must be sold by metric weight or metric fluid measure.

The importance of governmental action in the import sector has increased. Government procurement for ordinary supplies as well as materials and equipment requirements of public development programs is a significant factor in Kenya's total trade. Government action is also evident in programs designed to ensure citizen control of local commerce. Many imports are purchased through the Crown Agents, a British quasi-governmental organization. Most Kenyan Government departments obtain goods and services locally through a Central Tender Board.

Under the Foreign Investment Protection Act (FIPA), preference for investment is given to investors whose firms are expected to earn or save foreign exchange, increase the country's technical knowledge, increase employment in the country, utilize local resources, and are not based in Nairobi or Mombasa. Foreign investors are required to sign an agreement with the Government of Kenya stating training arrangements for phasing out expatriates. Expatriate work permits are increasingly difficult to renew or acquire. Government approval for ventures in agriculture, distributive trade, and small-scale enterprises has become more difficult to get as it seeks to indigenize these sectors. There are no legal limitations on the percentage of foreign ownership, but the government is seeking more Kenyan participation in all foreign investments. Our impression is that it prefers 51 percent local participation, an acceptable standard for preferential treatment in trading within the Preferential Trade Area of Eastern and Southern African Countries. Utilities are not open to foreign investment.

The government has drafted antitrust legislation, "The Monopolies, Prices and Trade Restriction Practices Bill". The bill proposes to: create a legal framework for dealing with restrictive and predatory practices that prevent the establishment of competitive markets; reduce concentration of economic power, control monopolies, mergers, and takeovers of enterprises; and repeal the current Price Control Act and

incorporate some of its provisions in new, cost-geared price legislation.

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

The government allows a limited number of bonded warehouses for investors producing for export. Such investors may import inputs duty free and make local purchases free of sales tax. It is expected that the government will increase the number of investors permitted to manufacture in bond for export.

Price controls are a main disincentive to foreign investment in Kenya. In the last two years, the government has reduced the number of items under price control and streamlined the system by which it reviews applications for price increases for those items still on the list, with a promise to further liberalize price legislation.

Incomes of foreign investments in Kenya are taxable at a rate of 52.5 percent, while income of locally-owned ones is taxed at a rate of 45 percent.. In addition, withholding tax ranging from 12.5 percent to 30 percent is imposed on payments such as royalties, interest, dividends, and management fees. Kenya's tax treaties normally follow the Organization for Economic Cooperation and Development (OECD) model for the prevention of double taxation of income. There is no tax treaty with the United States.

The Government of Kenya does not have any significant investment performance requirements. Recent policy statements, however, indicate that the it may soon institute export performance requirements. As stated in the government Sessional Paper No. 1 of 1986, investors who are potential or successful exporters may obtain special concessions over and above the generally available incentives.

Under FIPA, foreign investors are permitted to repatriate profits in the form of dividends or interest on loan capital. In times of foreign exchange crises delays have been experienced in dividend remittances. Permission is not normally given for the repatriation of capital profits. Loan capital, which can be denominated in local currency or in the currency in which it was brought in, is repatriable. Equity capital is acknowledged in local currency, and the amount recognized as invested under FIPA is repatriable either on the sale of shares or on the liquidation of the company. Any surplus funds whose approval is not given for repatriation are directed to a blocked account where they may be used to purchase specified government securities. Government securities carry interest rates much below the local market rates. They can be redeemed after five years, and the proceeds are then remittable. In 1982 the government changed

its policy on royalty payments. It has become increasingly difficult to obtain exchange control approval for registering royalty, technology, and management agreements.

6. Export Subsidies Policies

The Government of Kenya operates an export compensation scheme for locally manufactured products with less than 70 percent import content. Investors receive 20 percent compensation of total export value after earnings have been received. Petroleum products, chemicals, electric power and certain agricultural products are ineligible. For most products, eligibility is not automatic. Exporters have to seek approval from the Ministry of Commerce. The government has stated that it will establish a green channel to simplify and speed up current lengthy procedures for import licensing and foreign exchange allocation.

The government grants a one time 50 percent investment allowance tax deduction from the cost of industrial buildings, fixed plant, and machinery for investments outside Nairobi and Mombasa, and 10 percent for those within these towns. This has an overall effect of reducing income taxes in the early years of a project.

Exporters to the regional market covering 15 countries which are members of the Preferential Trade Area(PTA) Treaty receive advantages. Restrictive rules of origin which did not allow foreign firms to participate in the PTA market have now been suspended until 1990. Under the suspended rules, goods produced by firms with more than 51 percent local ownership received 100 percent duty free treatment, while those from firms with between 41 percent and 50 percent get 60 percent preferential treatment. Exports from firms with between 30 and 40 percent local ownership receive 30 percent preferential treatment. Kenya is a signatory of major international trade agreements such as the United Nations Conference on Trade and Development (UNCTAD), the General Agreement on Tariffs and Trade (GATT), and the Lome Convention.

7. Protection of U.S. Intellectual Property

Kenya is a party to several international agreements on intellectual property, including the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, and the Brussels Satellite Convention. U.S. businesspersons are entitled to the benefits of these conventions, such as national treatment and "priority right" recognition for their patent and trademark filing dates. However, pirated books, records, videos, and to a limited extent, computer software find their way into Kenyan markets. Government inspection and existing laws are inadequate.

U.S. film companies have recently begun to distribute videocassetes in Kenya, where the home video market has, up to now, been described as 100 percent pirated product. Representatives of the film industry place the blame for

inadequate enforcement on insufficient penalties for copyright infringement and a copyright act that does not give the police clear power to search premises or make arrests.

8. Worker Rights

a. The Right of Association

Workers in Kenya, with one significant exception, enjoy the right of association as defined by the International Labor Organization (ILO). The government, however, has a decisive role on some important labor issues. The one group which cannot organize is civil servants, whose union was disbanded by the authorities in the early 1980's. Since 1985 all civil servants have moreover been required to be members of the ruling KANU party. Other workers, according to law, can establish and join organizations of their choosing, make their own rules, elect their own leaders, join with other unions, and affiliate with international organizations. Union registration is controlled by a registrar in the Attorney General's office. In 1987, at the suggestion of a committee made up of representatives of the Ministry of Labor, the Central Organization of Trade Unions (COTU), and the Federation of Kenyan Employers (FKE), several unions were proposed for deregistration. In June 1988, the government deregistered the Kenya Timber and Furniture Workers' Union. The stated purpose of these amalgamations was to eliminate unions which were too small to be financially viable and to avoid conflicts of jurisdiction.

COTU, which is Kenya's legally mandated trade union federation, is affiliated with the Organization of African Trade Union Unity and maintains relations, though not affiliation, with the International Confederation of Free Trade Unions (ICFTU). It sends observers to ICFTU and World Federation of Trade Unions meetings. Both COTU and the FKE participate in the ILO.

There are approximately 1.3 million wage earners in Kenya, out of an estimated 8 million person work force. COTU has about 360,000 members and another 100,000 workers belong to the Kenya National Union of Teachers which is not part of COTU. COTU is strong in such areas as the docks, railroads, banking, and telecommunications, but weak in agriculture, by far Kenya's largest employment sector.

Though unions enjoy relative autonomy from the government and the ruling party, there are limits. In July-August 1988, when the head of the dockworkers' union was involved in an apparent conflict of interest between his union job and his private business interests, the government and party called for his resignation. He resigned and was replaced in new union elections. In September President Moi suggested that KANU study ways of affiliating COTU with the party.

Kenyan unions have the right to strike, but the nation's industrial relations machinery makes it almost impossible to do so legally. Unions are required to give notice of intent,

register their grievances with the industrial court, and exhaust all possible avenues of resolution before striking. Consequently, most strikes are illegal, short-lived, and local. In 1987 there were 109 strikes with 93,749 workdays lost. Kenya's industrial court has a reputation for objectivity and is strongly supported by unions as well as employers.

b. The Right to Organize and Bargain Collectively

Labor laws apply uniformly throughout the country. Except for civil servants, Kenyan workers are free to organize and bargain collectively. The government promotes voluntary negotiations between employers and workers' organizations, and the FKE actively cooperates. Both in law and in practice, union officials are protected against antiunion discrimination. There are no export processing zones in Kenya.

c. Prohibition of Forced or Compulsory Labor

Under the Chief's Act, a local authority can require the performance of limited communal activities for the benefit of the local community. While this provision is rarely invoked, the ILO Committee of Experts has called on the government to bring this Act into conformity with the ILO Conventions on forced labor and has noted that discussions are at an advanced stage for the introduction of the necessary amendments. There are, however, a number of provisions in other legislation (e.g., Penal Code, Public Order Act, Prohibited Publications Order, Merchant Shipping Act, and the Trade Disputes Act) which the Committee has found to be inconsistent with the Conventions.

d. Minimum Age for Employment of Children

The legal minimum age for employment in mines, factories, transportation, and construction is 18. Kenyan labor law permits children under 18 to be employed in these occupations if they are family-run businesses and are not dangerous. There are no legal restrictions on child labor in agriculture where many younger people help out on family farms. Some children also are employed as servants. The Ministry of Labor has difficulty enforcing minimum age laws.

e. Acceptable Conditions of Work

Kenya's population, with an average growth rate around four percent, is expected to reach 24 million by the end of 1988 and to double by the end of the century. Urbanization has accelerated rapidly, although approximately 75 percent of Kenyans continue to live in rural areas, many as subsistence farmers. There is adequate legislation in the Factories Act to provide acceptable and safe working conditions for factories, the construction industry, and the docks, but its understaffed inspectorate is often unable to enforce compliance. The law contains inadequate safeguards for agricultural workers, especially in the use of potentially carcinogenic pesticides.

KENYA

The maximum legal workweek is 52 hours, but many workers put in longer hours. As an example, security guards, an important and growing sector, often work as many as 84 hours a week. Kenyan law provides for at least one rest day a week, paid sick leave, paid annual leave, and holidays. Abuses occur, especially among temporary workers (known as "casuals"), who make up at least 13.4 percent of Kenya's wage-earning work force.

The legal minimum wage varies according to occupation, age, and location. It ranges from about $15 per month for a rural, unskilled laborer under age 18 to about $85 per month for a cashier in Nairobi or Mombasa. The government has had difficulty enforcing minimum wage requirements and many workers receive less than their due. Since most Kenyans do not receive wages for their work, they are not covered by minimum wage legislation. In many families one or more family members earns a wage while other members work as subsistence farmers.

There is a National Social Security Fund, administered jointly by the government, COTU, and the FKE, which pays lump-sum benefits to those covered when they retire.

f. Rights in Sectors with U.S. Investment

Workers have the right of association, the right to organize and bargain collectively in all sectors where U.S. capital is invested. U.S. firms operating in Kenya in such sectors as food and related products, transportation equipment, and chemicals and related products have had no major labor-related problems in recent years. American businesses find wage costs acceptable and Kenyan workers well educated and easy to train.

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KENYA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		80
Total Manufacturing		-7
Food & Kindred Products)	(*)	
Chemicals & Allied Products	(*)	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		72

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

LESOTHO

Key Economic Indicators

Millions of Maloti Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
Real GDP (1980 = 100)	329.4	344.9	N/A
Real GDP Growth Rate	5.8	4.7	N/A
Real per capita Income (GDP)	208	213	N/A
Real per capita Income (GNP)	364	358	N/A
Size of Labor Force (000s)	514	536(est)	N/A
Unemployment Rate (pct)	24	23	N/A
Money and Prices			
Money Supply (M1)	154.6	156.8	N/A
Commercial Interest Rates	13.0	11.0	N/A
Savings Rate (pct GDP)	28.4	27.9	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index (1980=100)	220.5	254.1	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (US$1=maloti)	2.21	2.014	2.38
Balance of Payments and Trade			
Total Exports fob	58.0	77.3	N/A
Total to U.S. cif (US$ mil)	3.7	5.3(1)	7.1
Total Imports cif	-810.6	-932.2	N/A
Total from U.S. fas (US$ mil)	8.2	6.9(1)	1.5
Aid from U.S. (US$ mil)	13.3	28.5	12.8
Aid from Others (US$ mil)	N/A	7.1	N/A

(1) Figures for January to June.

1. General Policy Framework

The Kingdom of Lesotho is small, landlocked, and mountainous, with a population of 1.5 million people. Its economy is sparsely endowed with natural resources; besides diamonds, which ceased to be commercially produced in 1982, the only known major natural resource is upstream water, which is being developed through the Highlands Water Project. Agriculture and animal husbandry, which are mainly subsistence activities, form the principal occupation for more than 80 percent of the resident domestic labor force; but the potential for development in this area is constrained by the availability of arable land, as only about 13 percent of the total land area is cultivable, and by the extensive soil erosion that has occurred in recent years, partly because of overgrazing. However, in terms of their contribution to the value added in the domestic economy, agriculture and livestock account for only one fifth of the total value added. In

contrast, the contribution by the tertiary sector exceeds two fifths of the gross domestic product (GDP), with the government representing nearly one half of the tertiary sector, and the remainder accounted for by the secondary sector.

Lesotho is completely encircled by South Africa with which it has close economic and financial links, including membership in the Common Monetary Area (CMA) and in the Southern African Customs Union (SACU), which provides about two thirds of government revenue. Lesotho's currency, the loti (plural "maloti"), is pegged at par to the South African rand. South Africa is the major trading partner of Lesotho, accounting for about 95 percent of Lesotho's imports and almost all of its export sales. In addition, more than half of Lesotho's male labor force is employed in South Africa, mainly in gold and coal mines and their remittances have on average equaled Lesotho's GDP.

At present, there is very little direct U.S. investment and almost all of Lesotho's trade is with South Africa. In recent years, Lesotho's imports from the United States have been between $7-9 million per annum. This is two to three percent of the total import bill. Major import items are aircraft, iron tubes and pipes, pharmaceuticals, electrical wire and cable, metal_working machinery, and office equipment. Exports to the United States have been only about $1 million. These consist mainly of textiles, textile yarn, and tapestries and rugs. Most opportunities for U.S. investment are likely to involve planning or construction aspects of the Highlands Water Project. This project may also provide spin-off opportunities in tourism, fisheries, irrigation, and agro-industry. There may also be opportunities for firms wishing to relocate from South Africa or take advantage of the SACU market.

Due to Lesotho's domination by South African markets and participation in the trilateral monetary agreement among Lesotho, South Africa and Swaziland, monetary policy decisions are mainly decided in South Africa. The Government of Lesotho has been working to encourage banks to employ some of the excess liquidity in the banking system by increasing private sector lending. On the fiscal side, the government seems committed to tighter fiscal reforms to help reduce the government deficit that has been growing in recent years.

2. Exchange Rate Policies

Lesotho forms part of the Common Monetary Area (CMA), which also includes South Africa and Swaziland, all signatories to the trilateral monetary agreement of April 1, 1986. Under this agreement, no restrictions apply to payments within the CMA, and Lesotho applies exchange controls similar to those of South Africa and Swaziland for payments to countries outside of the CMA. The currency of Lesotho is the loti (plural "maloti"), which is pegged to the South African rand at Maloti 1 = rand 1. Under the CMA agreement, the rand is also legal tender in Lesotho. Lesotho's principal

intervention currency is the U.S. dollar. Exchange rates for the dollar quoted by the central bank of Lesotho are based on the floating middle rate of the South African rand against the U.S. dollar. There are no taxes or subsidies on sales or purchases of foreign exchange. In September 1985, however, Lesotho followed South Africa in reintroducing the dual exchange rate system previously discontinued in February 1983. Under this system, local sales proceeds of CMA securities and other investments owned by non-CMA residents cannot be transferred in foreign currency, but must be retained in the form of "financial rand" balances. Such balances are transferable among nonresidents at a freely determined exchange rate. This system establishes a multiple currency practice applicable to capital transactions. However, Lesotho was not party to the suspension of foreign debt repayments imposed by South Africa in 1985.

3. Structural Policies

Lesotho is presently governed by a nine-member military council which came to power following a coup in 1986. Although the change in regime brought about many changes in government positions, attitudes toward foreign private investment have remained favorable. Lesotho is committed to a free enterprise, competitive economy. The Government of Lesotho actively seeks foreign investment to assist development of the private sector and to offset growing unemployment. It is generally recognized that local private investment, at this stage, will not be sufficient to provide the required number of jobs. The government makes it clear there is no discrimination between local and foreign investors and there is no mandatory local shareholding required. A foreign investor is allowed to have 100 percent ownership in his Lesotho based company. There are no requirements pertaining to acquisitions, takeovers or reinvestment. There are no rules or laws regarding expropriation or nationalization. Foreign investors are free to repatriate profits, capital, and interest. The same tax laws apply to both foreign and domestic businesses. However, foreign-owned firms receive various tax concessions such as tax holidays of up to 10 years (with the possibility of an additional 5 year extension or special tax allowances) that can be provided to a manufacturer, building contractor or hotel/casino keeper approved for pioneer status. Conditions under which pioneer status may be granted to a manufacturing firm are: the applicant must register as a Lesotho company or cooperative society and have a manufacturing license; the firm must undertake to establish a new factory or plant in Lesotho engaged in manufacturing; and the firm should satisfy the board that it will contribute to the economic development of Lesotho. It should be noted that the term pioneer is somewhat misleading since there is no requirement that the applicant be the first (or pioneer) industry in any sector.

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4. Debt Management Policies

After rising rapidly in the early 1980's when the government resorted to heavy short and medium term commercial borrowing for balance of payments and budgetary support, growth in external debt moderated in subsequent years. During 1983-1985, external debt rose at a much lower rate (11 percent annually) and actually declined in 1985/1986, when it amounted to 30 percent of GNP. This decline reflected the government's cautious approach to the contracting of new loans and the repayment of some of the existing nonconcessional loans during this period. Apart from a two-year bridging loan of SDR 10 million contracted in 1983/84 from a commercial bank in South Africa to finance the construction of Lesotho"s international airport, the government did not take new commercial loans. The debt profile also improved considerably, when concessional debt in relation to outstanding total external debt rose to about 86 percent by the end of March 1986, compared with 65 percent in March 1983. However, because of an increase of about SDR 10 million in nonconcessional borrowing in 1986/87, the ratio of concessional debt declined to 80 percent at the end of March 1987.

Lesotho's external debt service rose sharply to six percent of exports of goods and services in 1982/83 and remained on average at that level up to 1985/86. However, following the completion of repayments in 1985/86 of some of the nonconcessional loans contracted in the early 1980's, debt service payments fell to about four percent of exports of goods and services in 1986/87.

5. Significant Barriers to U.S. Exports

The Kingdom of Lesotho is a member of the Southern Africa Customs Union (SACU). Under this agreement, Lesotho is obliged to enact laws relating to customs, excise and sales duty in a manner that is similar to the laws that are in force in the Republic of South Africa. Currently, South Africa is in the process of implementing a number of trade restrictive tariffs designed to even their balance of trade. These high tariffs are applied to goods entering the customs union area destined for Lesotho in the same manner that they are applied to goods entering destined for South Africa.

At the present time, the South African Government has indicated that it will no longer make certain compensatory payments required by the SACU agreement to Lesotho and that additionally, it intends to begin taxing goods imported into Lesotho destined for the use of the government there. These pronouncements by South Africa are clearly in violation of the SACU agreement and have raised concerns within the Government of Lesotho about future participation in this organization.

The Government of Lesotho requires an import permit for almost all goods entering Lesotho from outside the customs union area. It is difficult to estimate the effect of this requirement on U.S. exports because of the very minimal volume

of trade between the United States and Lesotho. Currently, over 95 percent of the country's imports come from South Africa while less than one percent come from the United States.

6. Export Subsidies Policies

On October 14, the Government of Lesotho unveiled a new comprehensive export financing scheme. The plan, developed jointly by the central bank of Lesotho and the international trade center of the United Nations Development Program, has five major features. The first is the creation of an export credit facility that will guarantee loans made by commercial banks to exporters before and after the shipment of goods to market. The second is a pre-shipment credit guarantee that provides concessional financing to exporters to meet their working capital needs before they actually ship their goods to market. The third is a post-shipment credit scheme that extends credit at a concessional rate to exporters to replenish working capital invested in goods sent to foreign buyers for which payment has not yet been received. The fourth is a refinancing feature by which commercial banks which extend loans to exporters can refinance these loans with the central bank. The fifth and final part of the financing scheme is the counter guarantee facility that will stand as a guarantor for loans that commercial banks extend to exporters.

The Government of Lesotho has developed this scheme in an effort to encourage the growth of an export sector in Lesotho. They have indicated that this scheme will be available to exporters of every size with preference given to smaller exporters. Reaction to the scheme by the international donor community has been mixed.

7. Protection of U.S. Intellectual Property

Lesotho is not a party to any major intellectual property agreements. No patent or trademark laws have been enacted or are presently enforced, but drafts of the laws are currently under review. The effect of this noncompliance on U.S. trade is negligible. Lesotho is one of the world's least developed nations and currently lacks both the sophistication and resources to manufacture products of a sufficient quality to be successfully marketed as pirated goods.

8. Worker Rights

a. The Right of Association

Lesotho is a party to the 1948 International Labor Organization (ILO) Convention on Freedom of Association and has also adopted most other ILO conventions dealing with worker rights. The imposition of the State of Emergency in 1988 did not affect worker or trade union rights.

The previous government supported the formation of a new umbrella trade union confederation. Subsequently, 24 of

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Lesotho's 28 independent trade unions formed the Lesotho Confederation of Free Trade Unions (LCFTU) which held its first convention in May 1985. The military government supported non-LCFTU unions in the formation of another federation, the Lesotho Federation of Trade Unions (LFTU). In 1987 the military government designated the LFTU, the much smaller federation, to represent Lesotho at the ILO annual conference in Geneva.

The problem of which federation should represent Lesotho at international labor conferences -- the LCFTU or the LFTU -- surfaced again in 1988. After its proposal for rotational representation was rejected, the government decided that neither federation would be allowed to represent workers at the 1988 ILO conference. Since then the government has pressed for accommodation between the two rival federations to form a single national labor confederation. Results of this effort remained unclear at the end of the year.

While a legal right to strike exists for workers in nonessential services, in practice the procedure for calling a strike is so lengthy and cumbersome that it discourages legal strike actions and accounts for the prevalence of wildcat strikes. The 1964 Trade Union and Trade Disputes Law enumerates lengthy procedures which must be followed before a strike is called. The last general strike was in 1961. There were several wildcat strikes in 1987 and 1988 against foreign, export-oriented companies linked to the Lesotho National Development Corporation (LNDC) over minimum wage rates. These strikes normally ended in compromise and were generally of short duration. The latest wildcat strike took place in September. There was a subsequent wildcat strike at the Lesotho Flour Mills, a state-owned corporation, during which more than 300 employees were dismissed. The government declared the strike illegal and instructed workers and management to engage in negotiations which resulted in a five percent wage increase for workers.

The LCFTU is a member of the Southern African Trade Union Coordination Council, the Organization of African Trade Union Unity, and the International Confederation of Free Trade Unions. Lesotho authorities confiscated the passport of LCFTU Secretary General Simon Jonathan in June 1987 when he returned from the ILO conference where he challenged the credentials of the government-appointed labor representatives to the ILO annual meeting. The government's prohibition on Jonathan's travel ended in March, and he is now free to travel abroad.

b. The Right to Organize and Bargain Collectively

All trade unions in Lesotho enjoy the right to organize and bargain collectively. These rights were established in the 1964 Act and in the 1967 Employment Act, as amended in 1977. There is also an Unfair Labor Practices Tribunal whose mandate is to investigate unfair labor practices and safeguard worker rights. A government-appointed labor commission is also charged with, inter alia, monitoring wage and working conditions, and accepting, reviewing, and investigating worker complaints. Efforts are now underway, with assistance from

the ILO, to reform Lesotho's outdated industrial relations system. Lesotho has several industrial estates grouping together companies, mostly textile and apparel firms, engaged in manufacturing for export. There are no prohibitions against organized labor in these export zones, and labor laws are applied uniformly throughout the country.

c. Prohibition on Forced or Compulsory Labor

There are no forced or compulsory labor practices in Lesotho.

d. Minimum Age for Employment of Children

Sixteen is the legal minimum age for employment. In practice, however, children under 16 may be employed in family-owned businesses. There are prohibitions against the employment of working age minors in commercial, industrial, or nonfamily enterprises involving hazardous or dangerous working conditions. Basotho minors under 18 years may not be recruited for employment outside of Lesotho.

e. Acceptable Conditions of Work

Roughly 60 percent of Lesotho's active male labor force works in the Republic of South Africa, mainly in gold and coal mines. At least 70 percent of the remainder are engaged in traditional agriculture. The rest are employed mainly by the government and in small industries in Lesotho. A majority of Basotho mineworkers are members of the South African National Union of Mineworkers (NUM). Because the NUM is an extraterritorial worker organization, it is not permitted to engage in union activities in Lesotho.

Lesotho's 1967 Employment Act spells out basic worker rights, including a 45-hour workweek, a weekly rest period of least 24 hours, 11 to 12 days' paid leave per year, and pay for public holidays. Employers are required to provide adequate light, ventilation, and sanitary facilities for employees, and to install and maintain machinery to minimize the risk of injury. In practice, these regulations are generally followed only within the wage economy. Enforcement mechanisms, however, are weak. With help from the ILO, the government is in the process of revising its national occupational and health safety standards.

The government sets minimum wages for various types of work, ranging from $48 a month for light unskilled labor to $93 dollars a month for semiskilled jobs. The present wage schedule was established by a tripartite wages advisory board in 1987 as an interim measure. Government salaries were increased in 1988, and there are growing pressures for an increase in minimum wages. Many employers in Lesotho now pay more than minimum wages in an effort to attract and retain motivated employees.

In the nation's traditional society, life and working conditions for the country's young "herdboys" tend to be much more rigorous and demanding than conditions in the modern

sector. Their quasi-pastoral life, however, is considered a prerequisite to eventual manhood and is a fundamental feature of Sotho life, tradition, and culture.

f. Rights in Sectors with U.S. Investment

There is no U.S. capital above a de minimis amount currently invested in Lesotho.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-8
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		-8

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of U.S. Dollars Unless Otherwise Noted

	1986	1987	1988(est)
Income, Production, Employment			
GDP Current (1)	936.2	972.8(2)	N/A
GDP Constant (1981 US$)	906.5	922.5(2)	N/A
By Sector			
Agriculture	300.0	322.9	N/A
Mining	118.5	105.0(2)	N/A
Forestry	42.0	48.0(2)	N/A
Manufacturing	59.7	73.1(2)	N/A
Financial Institutions	115.2	119.2(2)	N/A
Government	109.7	108.5(2)	N/A
Other	191.0	196.0	N/A
GDP Growth Rate (pct)	-1.4	+1.7	N/A
Population (millions) (est)	2.22	2.30	2.36
GDP per capita (dollars)	421.0	423.0(2)	N/A
Labor Force (000s)	1,290	1,349	N/A
Unemployment Rate (pct)	21	N/A	N/A
Money and Prices			
Foreign Assets	-296.1	-262.6	N/A
Domestic Credit	549.8	638.0	N/A
Claims on Government (net)	418.3	574.3	N/A
Claims on Private Sector	131.5	64.7	N/A
Money Supply (M1)(3)	150.6	178.1	N/A
Gold and ForEx Reserves	N/A	N/A	N/A
Commercial Int. Rates (pct)	N/A	N/A	N/A
Lending Rates	N/A	N/A	NY prime plus 4
Savings Rates (pct)	N/A	N/A	6.0
Savings Rate/Investment Rate	N/A	N/A	N/A
Consumer Prices (pct change)	10.6	15.5(4)	N/A
CPI/WPI	N/A	N/A	N/A
Official Exchange Rate	1:1	1:1	N/A
Parallel Exchange Rate	N/A	N/A	2.2(Oct)
Balance of Payments and Trade			
Total Imports cif	259.0	307.8	340.0
Total Exports fob	408.4	407.5	N/A
Iron Ore (million mt)	14.4	13.5	N/A
(value)	248.4	217.8	N/A
Rubber (million kg)	90.4	110.5	N/A
(value)	80.7	89.3	N/A
Logs (mil. cubic mtrs)	248.1	444.4	N/A
Timber (value)	43.8	63.1	N/A
Trade Balance	149.4	99.7	N/A
Current Account Balance	64.7	-14.7	N/A
Imports from United States	65.0	68.9	N/A
Exports to United States	97.4	100.5	N/A

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	1986	1987	1988 (est)
U.S. share of imports (pct)	25.1	22.4	N/A
U.S. share of exports (pct)	23.8	25.0	N/A
U.S. Bilateral Assistance	53.5	41.7	N/A
Economic (5)	47.8	39.8	N/A
Military (5)	5.7	1.9	N/A
Aid from Other Countries	43.5.	N/A	N/A
External Public Debt(6)	1,262.1	1,443.6	1,668.0
Debt Service Payments	35.5	28.0	N/A
Balance of Payments	N/A	-140.0	N/A

Notes:
(1) Due to change in Liberian fiscal year, figures are for CY for 1987 and prior to that for FY July 1 to June 30.
(2) Liberian Government estimate.
(3) M1 defined as Liberian coins in circulation and demand deposits.
(4) U.S. Embassy estimate
(5) U.S. fiscal years ending September 30.
(6) Excludes arrears and interest arrears

All figures reflect official exchange rate of LDOL 1.00 equals USDOL 1.00.

1. General Policy Framework

Liberia is a low-income country with a per capita gross domestic product (GDP) of $423, a heavy rainfall climate favorable to many tropical agricultural products, and fairly significant mineral resources. The country has long had an open, market-oriented economy whose monetary sector is dominated by the export of a few basic commodities from foreign-owned concessions. Iron ore, rubber, and timber provide 85 percent of Liberia's exports and 40 percent of its GDP; most foreign investments are in these areas. The traditional agricultural sector, where the majority of Liberians still work, produces domestic foodstuffs and some coffee and cocoa for export. Manufacturing accounts for only six percent of GDP and produces only a small number of consumer and producer products. Most merchandise and industrial materials are imported, with petroleum products, foodstuffs, machinery and parts, and transportation equipment the leading items.

Liberia has long maintained an "Open Door" policy towards foreign investment, relying on the private sector for economic growth and development. Since a large proportion of its exports are produced by foreign investors operating under concession agreements, there is a clear linkage between foreign investment, trade, and economic growth. The Government of Liberia has tried to encourage the development of import substituting industries through the use of concession agreements that offer incentives such as relief from taxes and customs duties and protection from competing imports. Agreements with the major export concessions have generally been respected, and disputes have usually been

resolved without serious disruption of production. The government's attempt in the second half of 1987 to unilaterally change the terms of local manufacturers' concession agreements created some uncertainty among manufacturers. Members of the business community also continue to experience problems with the Liberian courts.

After undergoing a major decline in the 1980-86 period, the level of economic activity in Liberia has stabilized in 1987-88 with marginal growth reported. This stems from the resiliency of the private sector, particularly from a recovery in rubber and logging exports, and has occurred in spite of continued fiscal and monetary problems. A calmer political scene since 1985 has also contributed to some improvement in business confidence. The informal sector has noticably expanded and considerable economic activity does not appear in official statistics. Recorded exports were level in 1987 compared to the previous year, while imports rose 20 percent; the country continues to run a trade surplus. Iron ore, traditionally the major export, is in decline due to the gradual depletion of a key deposit and low world prices. This is being largely compensated for by higher rubber and log exports. The overall stable trend appears likely to carry through into 1989.

U.S. exports to Liberia have remained in the $60 to $70 million range, concentrated mostly in rice, elevators and transportation equipment, and consumer goods. The modest recovery in areas of the private sector offers limited possibilities for U.S. exporters dealing with well-established private firms. A large gold/diamond mining investment in final negotiation may offer potential for U.S. exporters of equipment. The decline of the U.S. dollar against the Yen and European currencies, and the U.S.A.I.D.-funded Commodity Import Program have stimulated and renewed interest in U.S. products. The Government of Liberia has promoted self-sufficiency in food production through its "Green Revolution"; however, much of the country is expected to remain dependent on imported foods, particularly rice. Liberia's large debt arrears to foreign financial institutions and vendors have caused most companies to restrict transactions with it to a fully secured basis.

The overriding problem for the economy continues to be the weaknesses in government fiscal and monetary operations. Following the 1980 coup, civil service and military employment increased and public sector salaries were raised. Meanwhile, revenue collections declined precipitously as export prices fell and domestic activity slowed. By 1985-86 the deficit had surpassed the ability of the government to finance it, causing the government to fall behind in servicing its debts to both official and private external creditors. Commitments in 1987 continued to significantly surpass revenues with financing coming mainly from an increase in domestic and external arrears and coin issuance. (The National Bank of Liberia does not engage in open market operations; it does control of the number of coins in the economy and the levels of bank reserves, but rarely uses these as monetary tools. Lending rates float at New York prime plus four.)

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The buildup of external debt arrears by the Government of Liberia sharply reduced the inflow of new capital as several major donors such as the International Monetary Fund (IMF) and the World Bank suspended disbursements. The 1987 Liberian-U.S. agreement under which U.S. financial experts assumed operational duties in the Liberian financial ministries went into effect at the start of 1988. While the program produced some improvements in fiscal operations, significant budget problems remained, and the program was terminated as of January 1, 1989.

2. Exchange Rate Policies

Prior to 1984-85, the U.S. dollar circulated as the currency of Liberia. Beginning around 1984, Liberian five-dollar coins (equivalent to US$5) were issued and used both as revenue supplement and to meet liquidity shortages. By the end of 1987, roughly $120 million in coins were in circulation, and as a result, the regular circulation of U.S. dollar notes largely ceased. The expansion of the supply of Liberian dollars undermined the long-standing parity with the U.S. dollar and led to the emergence of a parallel (and unofficial) foreign exchange market on which Liberian dollars are traded at a discount to U.S. dollars. (LDOLS 2.2 equal USDOL 1 as of October 1988).

Meanwhile, the official exchange rate has remained one to one, resulting in a de facto dual currency system. There has been considerable discussion of the possibility and advisability of the Government of Liberia moving to a full local currency and/or dropping the official parity to the U.S. dollar and legalizing the parallel market. Thus far, government policy has been to first address the fiscal problems prior to action on monetary reform.

3. Structural Policies

Since much of the strength of the Liberian economy derives from the foreign-owned export concessions, Liberia's free-market orientation and incentives to investors are not likely to change in the near future. The only significant change that has occurred in the last two years has been the introduction of an export earnings surrender requirement. Exporters must surrender 25 percent of their foreign exchange earnings to the Government of Liberia in exchange for Liberian dollars at the official rate. However, since they retain 75 percent of their foreign exchange earnings, the exporters are not significantly affected by the government's monetary problems. This detachment has been a major factor in the resiliency and strength many export industries have shown in the last two years.

Increases in consumer prices accelerated in 1987 and 1988 due mainly to the depreciation of the Liberian dollar on the parallel market. Precise price data is lacking, but the 12 to 15 percent estimate for 1987 reflects a rough order of

magnitude. The overall inflation rate has not reflected the full depreciation of the Liberian dollar because prices of key commodities - rice, gasoline, bread, cement - are strictly controlled and in some cases are imported with foreign exchange made available at the official rate. In practice, many more items are price-controlled, but enforcement of controls on items other than the essential goods listed above is irregular and ineffective and the free market sets the price for all but the few key commodities.

The Government of Liberia derives a substantial portion of its revenues from import duties as well as from taxes and royalties levied on the exports of rubber, iron ore, timber, gold, diamonds and other precious metals and minerals. Standing rules call for foreign investment projects to be entitled to the following tax benefits: profits reinvested in fixed assets may be exempt from income tax for up to five years; all remaining profits may be exempt from 50 percent of applicable income tax for up to five years; foreign concessions enjoy exemption from 90 percent of customs duties on imports. However, the amounts of these taxes can vary with each individual concession agreement.

Individuals must pay income tax, property tax, and various local taxes. A value-added tax, payable annually, is assessed on every registered business in Liberia. Non-residents must pay tax on determinable income, such as interest, dividends, royalties, rents, or compensation arising, occurring, or derived from the Republic of Liberia.

No new significant corporate or personal taxes were instituted in 1988, with the exception of the introduction of a national social security pension scheme, financed by automatic payroll deductions.

4. Debt Management Policies

In spite of a trade surplus of $100 million in 1987, the current account of the balance of payments fell slightly into deficit (estimated at $14 million) following a $47 million surplus in 1986. Capital inflows continued to decline and an estimated deficit of $120 million on capital account emerged in 1987 with an overall balance of payments deficit of $140 million. It is worth noting that almost the entire balance of payments deficit is accounted for by the buildup in external debt and interest arrears by the Liberian Government, which reached $672 million at the end of 1987 ($266 million of which is due the IMF). These arrears represent 160 percent of Liberia's annual exports.

Liberia's arrears problem has cut the country off from further IMF or World Bank funding and private foreign loans. Liberia has no current adjustment program, and has not rescheduled under the Paris Club since 1984-85.

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Because of the openess of the Liberian economy and the absence of a national currency, the government's debt situation is not having a major impact on the operation of the private domestic economy. Importers are able to obtain foreign exchange from exporters through the intermediary of the parallel market. Since exporters have direct access to their foreign exchange earnings and import transactions are overwhelmingly on a cash basis, the free market availability of foreign exchange regulates the level of imports with relatively little government involvement. The main effect of the debt problem is to sharply restrict the inflow of both new concessional aid and private loans to the government which in turn reduces the government's ability to make needed infrastructure investments.

5. Significant Barriers to U.S. Exports

There are no major barriers to foreign products. In the past, the government sometimes granted protection to new local industries by requiring importers of competing products to apply for permits from the Ministry of Commerce. As of March 1988, the Ministry no longer requires import licenses for any goods except rice. However, pre-shipment inspection certificates must be obtained for all goods imported into the country. Also, export licenses are required for all goods exported or re-exported from Liberia. These requirements have not proven to be a significant impediment to exporters or importers and in practice goods flow relatively freely into and out of Liberia.

In service industries, notably insurance and banking, some discriminatory treatment exists. In the insurance industry, the parastatal National Insurance Company of Liberia (NICOL) receives preferential treatment over private insurers. The decree establishing the National Insurance Company reserves all insurance business of public corporations to the company and requires private sector companies to pay 10 percent of all premiums to the national company.

In the banking sector, some parastatal banks are occasionally given preferred treatment through various government subventions. Nevertheless, the parastatal banks remain in noticeably weaker financial position than the foreign-owned banks which form the bulk of the banking sector.

There are no known outstanding nationalization disputes in Liberia, and the present government has reiterated that it will not expropriate property. The Investment Code provides for the use of local arbitration or the courts to resolve disputes, but individual investors could specify the use of arbitration outside Liberia in their investment proposals. Liberia is a member of the International Center for the Settlement of Investment Disputes.

Liberia has few identifiable investment barriers, and government policy is to provide liberal incentives to investors. However, bureaucratic processes can be slow and difficult, and the judicial system is perceived by investors

to be a problem area. Court cases have been known to have been decided on factors other than their merits, and awards by local juries against foreign companies often appear excessive. To encourage investment, both local and foreign, the Government of Liberia offers a variety of incentives through concession agreements, the terms of which are based on Liberia's Investment Code. An amended Investment Code has been before the Legislature for two years, but that body has taken no definitive action on it.

Foreign companies have equal access to the local banking system on an entirely competitive basis. However, local credit is extremely tight, and most investors must seek foreign financing. Foreign investors and companies may enter into joint ventures with Liberian individuals, corporations, or the government. While there are no local management requirements, the government's campaign for "Liberianization" calls for the training and maximum use of local personnel. There is no formal policy imposing performance requirements on companies that receive permission to invest.

Although Article 22A of the Liberian Constitution allows only citizens to own land in Liberia, the Interim National Assembly decreed in December, 1985 that foreigners could own land. There has to date been no court case to test this issue.

Customs procedures can be cumbersome. An importer must obtain a customs declaration at the port of entry, proceed to the Ministry of Finance to have the customs assessment confirmed, go to a commercial bank to deposit the amount of duty and obtain a receipt, then return to the port to collect the goods. However, the procedure, while inconvenient, usually proves no deterrent to the general importation of goods.

6. Export Subsidies Policies

Liberia has no export subsidy code, but does grant exporting concessions special tax and customs duty incentives. An alternative means to obtain export incentives is offered by the Liberia Industrial Free Zone Authority (LIFZA), established in 1975 to attract investments in export manufacturing industries. To qualify for LIFZA incentives, a manufacturer should export at least 80 percent of production. Exceptions have been made when export markets did not meet expectations, and might be made for import substituting industries. LIFZA offers the following incentives to investors: tax and duty free importation of machinery, raw materials and supplies; indefinite exemption from import and export duties; 100 percent exemption from corporate income tax for five years, with tax rate not to exceed 25 percent in subsequent years; and assistance in obtaining loans and finance.

LIBERIA

7. Protection of U.S. Intellectual Property

The Patent, Copyright, and Trademark Law of Liberia was enacted in 1972 and its text reportedly is similar to U.S. intellectual property law at that time. In addition, the Government of Liberia currently is considering updating its intellectual property laws. The laws currently are being collated and will be published in codified form in the near future. Although Liberia is a member of the World Intellectual Property Organization and a party to the Universal Copyright Convention, enforcement of copyright and trademark protection is weak. Instances of piracy of copyrighted materials, especially cassette tapes, are believed to occur.

8. Worker Rights

a. The Right of Association

The Constitution guarantees workers the right to associate in trade unions. Over 20 labor unions are registered with the Ministry of Labor, representing roughly 15 percent of the monetary sector work force. Ten national unions are members of the Liberian Federation of Labor Unions (LFLU), an affiliate of the International Confederation of Free Trade Unions. Although organized labor has not historically had great influence in national politics, in recent years it has begun to assert itself on issues affecting workers' interests. In 1987, for example, several labor unions joined with the opposition political parties in lobbying against a bill which would have enjoined civil servants from membership in political parties. The legislature has not yet taken final action on the bill. Labor unions are constitutionally prohibited from participation in party politics.

The Labor Ministry began an investigation into the LFLU's May elections when some labor leaders disputed the results, but the National Labor Court ordered an end to the investigation, noting that complaints about the elections must first be filed with the LFLU Executive Board, and then with the National Labor Court. The Labor Ministry appealed this ruling, but no decision had been rendered by the end of 1988.

PRC (People's Redemption Council) Decree 12 outlawing strikes and any other type of labor unrest is still in effect and is enforced. In January a special Presidential Commission recommended that the Government suspend the entire leadership of the Bong Mine Workers Union for instigating an illegal strike in December 1987. Although the government did not take direct action against the union leaders, the union's own shop stewards suspended the union leaders from office for alleged maladministration. Many observers saw the hand of the government behind the shop stewards' action. In July the government ordered that the suspended union officials also be suspended from their company jobs pending the resolution of a court case brought against them by the shop stewards. Most Bong mine workers went on strike but returned to work after

nine days in the face of a presidential deadline to resume work or be dismissed.

The International Labor Organization (ILO) Committee of Experts has noted discrepancies between various provisions of Liberian legislation and ILO conventions. The Committee has urged the Government to adopt the new labor code now before the Liberian legislature, which would repeal many of the objectionable provisions.

At present, the government does not recognize the right of civil servants or employees of public corporations to unionize or to strike. Many such employees, including teachers and port workers, are represented by employee associations which, unlike unions, have no authority to bargain collectively. These associations represent worker interests with government or management.

b. The Right to Organize and Bargain Collectively

With the exception of civil servants and employees of public corporations, all workers have the right to organize and bargain collectively. There were no reports of direct government interference in union organizing activities in 1988. The government promotes union/management negotiations and sometimes provides mediation for disputes arising out of such negotiations. An export processing zone operates in the area of the Monrovia free port. Workers and employees there are subject to the same labor laws as those employed in the rest of the economy.

The ILO Committee of Experts has noted that current labor legislation provides insufficient guarantees against antiunion discrimination.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced labor, and the practice is firmly condemned by the government. The ILO Committee of Experts has raised questions about the effective enforcement of the prohibition of forced labor, particularly on rural community development projects, and the measures taken to eliminate it. In a broader context, the government has indicated that the draft labor law will provide for penal sanctions in cases of illegal exaction of forced or compulsory labor.

d. Minimum Age for Employment of Children

The law prohibits employment of children under the age of 16 during school hours. Enforcement is difficult, though, since many children are engaged in subsistence farming and only a minority ever attend school.

e. Acceptable Conditions of Work

The Labor Law provides for a minimum wage, paid leave, severance benefits, and safety standards. The minimum wage for agricultural workers is $2 per day. Industrial workers

generally receive three or four times this amount. Many families supplement their earnings through some subsistence farming, multiple wage earners, and/or support through an extended family system. The maximum hours of work which an employer can require are 8 hours per day or 48 hours per week. Safety standards are not rigorously enforced. A new national pension scheme was implemented in 1988 in which most workers and employers will be required to participate.

f. Rights in Sectors with U.S. Investment

Workers employed by U.S.-run companies (heavily concentrated in the chemicals and related products sector) are subject to the same laws and enjoy the same rights as Liberian workers elsewhere.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-4
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(*)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		-4

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68. No. 8, Table 13

MOZAMBIQUE

Key Economic Indicators

Billions of Meticais, Unless Otherwise Noted

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1985 prices)	120.9	118.2	122.9
Real GDP Growth (pct)	-8.2	-2.2	4.0
GSP by Sector (1)			
Agriculture (1985 prices)	70.4	75.2	80.3
Industry (1985 prices)	18.6	19.7	20.8
Transport (1985 prices)	12.2	11.7	12.0
Real per capita Income (Mt)	8,300	8,100	8,400
Labor force (000s)	6,815	6,995	7,100
Unemployment Rate (pct)	25	35	40
Money and Prices			
Money Supply	111.4	178.3	285.3
Commercial Interest Rate (pct)	N/A	22.0	22.0
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
CPI (1985=100)	138.7	365.2	600.0
Wholesale Price Index	N/A	N/A	N/A
Exchange Rates (Mt/US$)			
Official	40.4	286.7	525.0
Parallel	2,300.0	1,000.0	1,200.0
Balance of Payments and Trade			
Total Exports, fob	3.2	28.2	31.0
Total Exports to U.S.	0.7	4.7	6.0
Total Imports, cif	21.9	176.6	200.0
Total Imports from U.S.	2.7	17.8	25.0
Aid from U.S.	1.9	18.9	48.8
Aid from Other Countries(2)	N/A	202.7	379.0
External Public Debt	127.6	1,031.6	1,431.9
Annual Debt Service Payments	2.4	11.5	29.3
Gold and ForEx Reserves	0.4	23.0	29.0
Balance of Payments	-19.7	-125.2	-115.8

Notes:

(1) Data for gross domestic product (GDP) by sector are not available. GSP (gross social product) by sector excludes services.
(2) Data for aid from other countries are net of debt relief.

MOZAMBIQUE

1. General Policy Framework

The structure of Mozambique's economy consists of subsistence agriculture, services of transport and labor for neighboring countries, vestiges of light industrial plants from the colonial era, and several modern plants which are idle for lack of foreign currency for raw materials. Underlying this structure are vast untapped natural resources; namely, fertile land, hydroelectric power, mineral and fuel deposits, and transport routes. Development has been frustrated by three forces: the managerial vacuum caused by the departure of the Portuguese, the destruction of infrastructure caused by anti-government insurgents, and the lack of incentive caused by centralized management. Together with several years of debilitating drought, these forces have precluded growth and performance. As a result, while the government seeks foreign investment, the economy remains dependent on foreign assistance.

Since January 1987, Mozambique has used as a comprehensive framework for its economic policy a Program for Economic Rehabilitation (PRE) which reflects conditions required by the structural adjustment facility of the International Monetary Fund (IMF). The PRE seeks to replace the machinery of central control with policies which stimulate private economic activity by improving incentives and increasing reliance on market forces. Objectives of the PRE are (1) to reverse the decline in production and restore a minimal level of income and consumption, especially in rural areas; (2) to reduce domestic financial imbalances and strengthen the external payments position; (3) to enhance efficiency and establish the basis for a return to higher levels of economic growth, once the security situation and other exogenous constraints permit; (4) to reintegrate official and parallel currency markets; and (5) to restore orderly financial relationships with trading partners and creditors. To attain these objectives, policies have been established to enhance demand management, to increase external assistance, to support the rehabilitation of economic infrastructure, to provide for the population displaced by drought and security problems, to ease the external debt burden, and to institute structural reforms in the productive sectors.

In 1987, fiscal policies such as control of spending and limitation of capital outlays to the level of external financing resulted in reduction of the current deficit from 50 percent to 25 percent of current expenditures. During the same year, domestic bank financing, which is a small part of the budget, increased very slightly. Military expenditures, as the largest single item, are typically about 40 percent of the budget. In early 1988, a fully subscribed treasury bond campaign created domestic funds sufficient to finance one-third of the 30 billion meticais current deficit, leaving the remainder to be financed by the central bank.

Monetary policy has sought to restrain the growth of credit and supply of money in order to reduce excess domestic liquidity by means of substantial increases in domestic

interest rates. These increases were directly related to the policy goal of institutionalizing the use of interest for deposits. Substantial devaluations have dramatically shrunk domestic liquidity, as 15 times more meticais were required at the end of 1988 than were required at the beginning of 1987 to purchase one dollar or one South African rand, which are the currencies of that part of the economy above subsistence.

Even more prominent than fiscal and monetary policies in the PRE has been the deregulation of prices as a means of increasing flexibility in the price structure and establishing incentives for production. The government has reduced the number of product groups subject to centrally determined fixed prices from 46 in 1986 to 28, with further reduction to 25 planned before the end of 1988. Prices which are still fixed, including rent, have been raised by several hundred percent to reflect devaluations. Managers have been given more autonomy in prices, subject only to review after the fact, and in questions of hiring and firing and salary.

2. Exchange Rate Policies

The exchange rate is set by the Bank of Mozambique in accordance with the policies of the Program for Economic Rehabilitation, which provides for successive devaluations to bring the official and parallel rates together. The central control of foreign exchange severely limits the number of potential customers for U.S. exports. The government strictly controls foreign exchange, and is expanding the category of persons who have the right to maintain foreign exchange accounts. Exporters who are allowed to retain rights to a certain percentage of their foreign exchange earnings may encounter significant delays in obtaining access to such funds. One effect of this foreign exchange management has been to cause potential investors to try to negotiate permission to use offshore banks, in order to insure access to their funds.

3. Structural Policies

In an economy so dependent on international assistance, the impact of regulatory changes on U.S. exports is not significant. Indeed, the imports of U.S. products are almost completely commodities and equipment donated to the government under assistance programs. Purchasing decisions are made by governmental officials for goods and services specified by international donors, such as various governments, and by international lenders such as the World Bank and the African Development Bank.

The impact of regulatory changes on U.S. investment, however, is significant. Although the PRE calls for the number of products which can be traded directly without the involvement of a governmental organization gradually to increase, parastatal organizations still add significant burdens to input prices. For example, a subsidiary of Crown Cork, of Philadelphia, Pennsylvania, which had been operating

in Mozambique since 1966, closed its factory in early 1988, because promised removal of the parastatal's purchasing of more costly inputs and promised price deregulation of products were not implemented. Price controls are being phased out, and the government's position has been that basic necessities must be controlled until self-sustaining growth in the economy can be achieved and until the dependence of almost half of the population on relief nutrition can be eliminated.

Taxation includes direct taxes, such as those on profits and earnings, and indirect taxes, such as those on tourism, consumption, turnover, and stamp duty. There are three taxes on profits and earnings: the industrial contribution tax on profits from commercial activity, the earned income tax, and the supplementary tax. Other direct taxes include the national reconstruction tax, the property transfer tax, the property tax, and the gift and inheritance tax.

The investment code provides numerous tax incentives. Exemption from taxes for periods of two to ten years, deduction of three times the costs of training and deduction of the costs of feasibility studies, and implementation of projects are the main features. Other tax benefits may be granted on a case-by-case basis for investments of particular value to the economy.

An important improvement in the tax structure occurred in January 1988, with the abolition of the export tax, by which exporters had been required to pay a tax of 20 percent of the value of anticipated exports. In response to complaints from the business community, the government repealed this disincentive to exporting, which effectively had required firms to pay in advance of sales. Repeal of the export tax was an example of the government's listening to the problems of the business community through the chamber of commerce.

4. Debt Management Policies

External debt was estimated to be $3.6 billion at the end of 1987. Although the exact division between public and private debt is not available, the overwhelming majority (more than 90 percent) is public debt owed to various governments, most of whom participate in the Paris Club. In June 1987, Mozambique rescheduled this debt by agreement with the Paris Club. As the June 1988 deadline for conclusion of bilateral agreements with Paris Club members approached, Mozambique succeeded in negotiating concessionary interest rates with some, but has yet to agree with others, including the United States. The position of the government is that it does not want to make an agreement it cannot keep without undermining the Program for Economic Rehabilitation. Joint statements by western creditors at the Toronto Summit have given the government hope that a consensus for concessionary rates can be developed, in view of the fact that Mozambique is considered to be one of the "poorest of the poor" indebted nations. Exports have been only a small portion of total debt service, with levels of 14.5 percent and 17.0 percent in 1986 and 1987, respectively. This indicator is projected to

improve during the period 1988-1990 and to reach 38.5 percent at the end of that period. Despite such improvement, projections of the International Monetary Fund indicate that continual reschedulings will be required at least until the end of the century.

Mozambique has a structural adjustment facility (SAF) with the IMF. Each evaluation by the IMF has shown that the performance of the government, in terms of the policies of the Program for Economic Rehabilitation, has met or surpassed each of the benchmarks for the SAF. As a result of its policies as contained in the PRE, the government enjoys an excellent relationship with the IMF, the World Bank, and its other creditors.

5. Significant Barriers to U.S. Exports

Two significant barriers to U.S. exports are import licensing procedures and governmental approval of investments. The regulation for import licenses is being finalized and will give some structure to the government's control of this area of economic activity, which has been informal. Part of the regulation will be a list of products which may not be imported. The list will be adjusted in accordance with the ability of local industry to produce and thus will provide complete protection for local producers.

The Minister of Planning, operating through the Bureau for Promotion of Foreign Investment, must approve all investments. The bureau manages the process of consideration of each proposed investment by all appropriate ministries and coordinates the process of consideration of final approval by the Council of Ministers. As the direct foreign investment law of 1984 creates a framework which is extremely flexible, with very few requirements, approval of a proposed investment is a very open negotiation, and each case is considered on its own merits. With almost no precedents and few guidelines, the potential investor must operate in a very uncertain environment and needs assistance from consultants with political connections and current knowledge of the government.

There are no unusual customs procedures or special documentation requirements. Investments in the form of joint ventures are encouraged, and the government guarantees repatriation of profits. There is an absence of the more sophisticated barriers to trade, such as restrictions on downstream services, local content requirements, and restrictions on foreign personnel. However, in view of the open and flexible nature of the governing laws and procedures, such conditions could be presented by the government during the course of the negotiations, in order to make the project more advantageous for the government.

6. Export Subsidies Policies

The government and the assistance agencies which advise it are studying the measures which might be taken to increase

exports. Regulations which would favor exports by local producers are at least a year in the future. Export commodities such as cashews and tea are controlled by the government, but cashews are being freed from the compulsory state market system, so that small producers could export them privately. Similarly, shrimp exports are a government monopoly, but in late 1988, a license to export shrimp directly to the United States, clear of the parastatal firm, was granted to a private firm with a U.S. partner.

7. Protection of U.S. Intellectual Property

Mozambique is not a signatory to any relevant international convention, nor is it a member of the World Intellectual Property Organization (WIPO).

There is no mechanism for enforcement of intellectual and industrial property rights. The registration of patents, trademarks, and licenses is not possible, and there is no institution with any responsibility for such matters. The only recourse for those whose rights are infringed is a civil action for tort. The government asserts that the powers of the ministries which supervise the various sectors of the economy are sufficient to prevent any illegal use of trademarks, patents, or licenses.

The government is studying the area of intellectual property, particularly the area of copyright protection, and new legislation is expected.

8. Worker Rights

a. The Right of Association

Workers have the right to join unions, but all trade unions in Mozambique must be affiliates of the Organization of Mozambican Workers (OTM), the country's only authorized trade union central. The OTM was established in 1983 as a mass organization of the sole political party, FRELIMO. Thirteen national unions have formally organized and joined the OTM. The OTM's membership of about 300,000 constitutes over half of the salaried workers in Mozambique. The OTM plans to organize another three national unions to complete the country's trade union network. The OTM is governed by a six-member secretariat which is elected every five years at plenary union congresses. The current leadership was elected at the first OTM congress in 1984. The OTM is prohibited by law from striking or taking other job actions to advance the interests of its members.

The OTM participates in the meetings of the Intewrnation Labor Organization (ILO), but it is not affiliated with any non-African international trade union organizations. It is a member of the Organization of African Trade Union Unity and the South African Trade Union Coordinating Council. In 1988 it sent a delegate to the International Confederation of Free Trade Union's world congress. The OTM has extensive ties with Soviet bloc trade unions, but it also has programs with a

number of unions in Western Europe. A delegation from the American Federation of Labor-Congress of Industrial Organizations visited Maputo in October. The OTM has a sizable number of assistance programs with foreign trade unions for training and development projects.

b. The Right to Organize and Bargain Collectively

Workers are only allowed to organize and bargain collectively within the OTM structure. Union membership is voluntary, but the government encourages workers to join and actively participate in unions. The government sets wage rates, and collective bargaining as such does not take place. However, the OTM is consulted by the government on labor and economic policies which affect unions, and the OTM monitors occupational safety conditions. One of the OTM's primary activities is to represent workers at disciplinary action hearings and during labor disputes. Under Mozambican law, the OTM must be consulted before a worker is dismissed from his position. The OTM sponsors a number of training programs for workers and operates a canteen service to provide low-cost meals at work sites and factories.

Until recently labor law in Mozambique placed extensive restrictions on employers' control over their employees. However, the government has enacted a comprehensive labor law that increases the autonomy of employers. Among other things, it allows both public and private firms to fire employees without obtaining governmental permission. Companies may now also reward their best workers with bonuses and penalize less productive employees. During 1988 professional associations were given the right to petition the People's Assembly for improvements in professional salaries and working conditions. Journalists won a substantial wage increase through this means. Labor legislation is applied uniformly throughout the country in the wage economy. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law, and there have been no reports of such labor in practice by the government. RENAMO guerrillas regularly kidnap civilians and force them to work in a variety of support functions, including growing food.

d. Minimum Age for Employment of Children

Child labor is controlled, and in the wage economy the minimum working age (excluding agriculture) is 16.

e. Acceptable Conditions of Work

Most of the population is engaged in subsistence agriculture and is not affected by the wage economy and government regulations concerning working conditions. In the small modern sector, the government has enacted health and environmental laws to protect workers. On occasion, the government has closed down firms for noncompliance with these laws, but enforcement is difficult in the current economic

situation. Legislation containing job-related safeguards for pregnant women and new mothers provides for the right to 60 days' maternity leave. If firms have day-care facilities, women reportedly have the right to two half-hour breaks daily for a year to feed their children.

Under the economic reform program, the government increased wages substantially after imposing drastic currency devaluations. The minimum wage for skilled workers is equivalent to $27 per month, $25 per month for other nonagricultural workers, and about $20 per month for agricultural workers. The minimum wage law is widely violated in the private sector, and actual wages are sometimes well below the legal minimum. The standard workweek is 44 hours.

f. Rights in Sectors with U.S. Investment

Levels of U.S. capital investment in goods-producing sectors of the Mozambican economy are negligible.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-2
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		-2

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

NIGERIA

Key Economic Indicators

Millions of Constant 1984 Naira

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1984 prices)	77,900	74,395	77,370
Real GDP Growth Rate (pct)	3.2	-4.5	3.5
Real GDP by Sector			
Agriculture, total	31,205	28,802	29,954
Industry, non-oil	9,363	8,923	9,191
Crude Petroleum	11,376	9,977	10,576
Services	25,956	25,852	26,369
Population (millions)(est)	103	107	110
Real per capita Income (N)	756	697	703
Labor Force (millions)(est)	N/A	N/A	36
Agriculture (pct)	N/A	N/A	68
Industry (pct)	N/A	N/A	12
Unemployment Rate (pct)(1)	5.3	7.0	5.1
Money and Prices			
Money Supply (M1)	12,728.3	14,905.9	16,877.3
Commercial Interest Rates (avg lending rate) (pct)	10.15	13.96	N/A
Savings Rate (pct)	13.2	N/A	N/A
Investment Rate (pct)	6.8	N/A	N/A
Consumer Price Index (pct)	5.4	10.2	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (N/US$)(2)	1.35	4.01	4.67
Autonomous Market(3)	N/A	4.66	6.80
Balance of Payments and Trade (millions of US $)			
Total Exports fob	6,973	7,736	7,615
Total Exports to U.S.	2,681	3,767	N/A
Total Imports cif	8,089	6,709	6,593
Total Imports from U.S.	403	295	N/A
U.S. Aid(4)	4.2	5.2	N/A
Other Donor Assistance	N/A	N/A	N/A
External Public Debt	24,710	28,233	N/A
Annual Debt Service (paid)	1,539	1,656	N/A
Gold and ForEx Reserves (foreign assets, not denominated)	1,144	642	N/A
Balance of Payments	- 851	- 491	N/A

Notes:
(1) These figures, from Nigeria's Federal Office of Statistics, are probably too low. The unemployment rate seems to refer to a very limited portion of the population, perhaps university graduates seeking work. Data are for 12/86, 12/87, and 3/88 respectively

NIGERIA

Notes:
(1) These figures, from Nigeria's Federal Office of Statistics, are probably too low. The unemployment rate seems to refer to a very limited portion of the population, perhaps university graduates seeking work. Data are for 12/86, 12/87, and 3/88 respectively

(2) Foreign Exchange Market (FEM): average rates for calendar years 1986 and 1987; average rate for January through September 1988.

(3) Autonomous market (interbank rate): December 1987 (N4.55 - N4.77 spread); August 1988 (average rate).

(4) Total USAID expenditures and net lending

1. General Policy Framework

The Nigerian Government adopted a comprehensive economic structural adjustment program (SAP) in 1986. As part of the SAP, the government established a foreign exchange auction mechanism through which the currency was allowed to depreciate by 86 percent, abolished export controls and the import licensing regime, eliminated ex-factory price controls, terminated the operations of commodity marketing boards, deregulated interest rates, revised the import tariff schedule, and reduced government subsidies. The massive devaluation of the Nigerian currency, the Naira, is providing a strong incentive to nonpetroleum exports and fostering greater reliance on domestic versus imported goods. In large part because of the adoption of the SAP, Nigeria was able to obtain agreement of external creditors to reschedule much of the country's foreign debt. Nigeria's structural adjustment program was endorsed by the International Monetary Fund (IMF), the World Bank and many friendly countries, including the United States. There have been some inadequacies, in the view of creditors and international financial institutions, in the implementation by the Nigerian Government of the SAP. However, the Nigerian Government has signed a letter of intent with the IMF. Action by the Board is expected early in 1989 with a Paris Club rescheduling to follow.

Fiscal policy in 1988 was targeted to reflate the economy in vital sectors, with special emphasis on the repair and rehabilitation of existing infrastructure. Large capital spending increases also were budgeted for improving communications and public transportation. The reflationary budget was not fully implemented with some retrenchment from the targets having taken place in the later half of 1988. New attention is being paid to environmental protection and technological research and development. States and local government authorities received larger allocations from the federal government, mostly for rural development. The government continues to give high priority to agriculture. The government is committed to encouraging the private sector to take a larger role in economic activity and has announced its intention to foster small and medium-scale industries that are looked to for innovation and employment generation. The World Bank has granted a $270 million loan to provide enhanced

credit to small and medium-size enterprises. The Nigerian Government is also in the process of privatizing or commercializing parastatals.

Certain sectors of the economy have begun to respond to the new structure of incentives. Higher agricultural commodity prices have led farmers to significantly increase the amount of land under cultivation. Industrial activity and plant utilization is slowly increasing.

The Nigerian Government's monetary and credit policy of 1987 was designed within the context of the SAP to curb excessive demand pressures and stabilize the economy. The restrictive measures moderated bank credit expansion and shrank the money supply.

The government adopted a reflationary stance in the first half of 1988. Net credit to the domestic economy expanded by 11.6 percent during the first half of 1988, versus the annual target of 8.1 percent announced in the January budget presentation. Expansion of credit to the government, which had been targeted at 2.5 percent for the entire year, grew in 1988 by 12.7 percent in the first six months alone. During January through June 1988, as in 1987, net credit to the public sector grew at a faster rate than to the private sector. The narrow measure of money, M1, increased by 13.2 percent during the first half of 1988, compared to the annual target of 15 percent. In contrast, M1 had declined by 7.9 and 7.2 percent in the corresponding periods of 1986 and 1987, respectively.

2. Exchange Rate Policies

The Central Bank of Nigeria (CBN) conducts a daily auction of foreign exchange, the Interbank Foreign Exchange Market (IFEM), and oversees foreign exchange regulations. The CBN has reduced the demand for foreign exchange by disqualifying several banks before each auction for failure to report properly on previous exchange dealings. Investors and importers can obtain foreign exchange much more readily through the IFEM than under the former import licensing system. Since January 1, 1987 non-oil exporters outside the petroleum sector have been authorized to retain 100 percent of their foreign exchange earnings.

Operation of the foreign exchange regime was the subject of ongoing consultations between the Government of Nigeria and the IMF and the World Bank. The result is greater reliance on market forces to set the exchange rate. In practice, limited availability and legal limits continue to restrict hard currency remittances. Foreign exchange operations according to the market are a condition of the World Bank's $500 million trade and policy loan which was recently approved.

NIGERIA

3. Structural Policies

Under the Structural Adjustment Program (SAP), the government has addressed the issue of subsidies by raising domestic and international air fares, railway freight rates, petroleum product prices, and charges for international telecommunications services. Air fares, however, are still low by international standards, and most public sector goods and services are still sold at heavily subsidized prices. Petroleum product prices, despite increases during the last two years, are still at only a fraction of world price levels. The government has stated its intention to scrutinize and perhaps reduce the subsidies on petroleum products, electricity, and domestic telephone service.

Nigeria's major sources of revenue are the petroleum profits tax, customs duties, and the corporate income tax. The tariff structure was reformed in January 1988. The 30 percent import levy was removed in 1987, leaving three small import surcharges (totalling 6.02 percent). Corporate income tax was reduced in 1987 from 45 to 40 percent. Double taxation agreements with the United States and seven other countries were revoked by Nigeria in 1979, but foreign tax credits are still allowed to prevent effective double taxation. The Industrial Development Act of 1971 provides tax relief to "pioneer industries" which are not yet sufficiently represented in Nigerian economic development. Oil-producing companies are exempt from income tax but pay petroleum profits tax (85 percent) and royalties. Personal income taxes are paid to the states. Although marginal tax rates are very high on upper income brackets, personal allowances are relatively generous. Consequently, the effective tax burden for low and middle income taxpayers is not onerous.

In accordance with the SAP's principles, the government abolished import and export licenses, dissolved Nigeria's six agricultural commodity boards, ended most price controls, permitted exporters in the nonpetroleum sector to retain 100 percent of foreign exchange earnings in domiciliary accounts, and announced its intention to privatize or commercialize numerous parastatals. The government also pared the list of banned imports from 74 to 14 product groups. Still banned are wheat and wheat flour, other cereal grains, and textiles.

The Companies Act stipulates that, with some exceptions, foreign enterprises can only carry on business in Nigeria through a locally established company. The Nigerian Securities and Exchange Commission regulates the Stock Exchange and supervises the securities market.

4. Debt Management Policies

Nigeria reached rescheduling agreements with its official and private external creditors (the Paris and London Clubs) in late 1986, temporarily averting a balance of payment crisis precipitated by a bulge in debt payments due in 1987 and 1988. Even with relief provided by these reschedulings, however, Nigeria has had difficulty paying unrescheduled trade arrears

and amounts due on rescheduled debt. Nigeria in early 1988 rescheduled approximately $5 billion in promissory notes (i.e. nonsecured trade debts). Agreement in principle has been reached on a second rescheduling of debts owed to commercial banks, the London Club. Nigeria has requested that the Paris Club reschedule maturities falling due in 1988-89, but the IMF Board must approve a new standby agreement before any Paris Club rescheduling. Even if Nigeria obtains all the debt relief it is requesting via rescheduling, the country will still face difficult financing gaps for at least the next several years.

5. Significant Barriers to U.S. Exports

Nigeria's nondiscriminatory tariff structure, with its generally moderate rates of duty by developing country standards, has not been a major barrier to U.S. firms in Nigeria. Under the structural adjustment program, Nigeria has reduced or eliminated several non-tariff measures. However, the government still subsidizes a wide variety of industries and enterprises which compete with U.S. exporters in the Nigerian market. The most serious non-tariff measure is the ban on imports of wheat, wheat flour, rice and most other cereals. Wheat exports formerly represented the largest U.S. export to Nigeria.

The government abolished import licenses under the Second Tier Foreign Exchange Market Decree (SFEM) of September 24, 1986. Since late September 1986, importers have not needed any special authorization or import licenses to obtain foreign exchange.

There are currently no Nigerian services barriers of any consequence. U.S. companies in Nigeria are significant in the petroleum industry, banking and financial services, and have made modest investments in the pharmaceutical and insurance sectors. U.S. engineering, architectural and construction firms have been underrepresented in Nigeria, relative both to other service sectors and to our international competitors. Opportunities for U.S. companies in the service sectors depend to a large extent on the willingness of individual firms to invest in Nigeria and meet domestic requirements. Employment of expatriates is subject to control by the Ministry of Internal Affairs. Any company wishing to employ foreign workers must first obtain an expatriate quota, which can be difficult and time-consuming. The foreign workers must obtain residence permits normally valid for only three to twelve months.

The Nigeria Enterprises Promotion Act of 1977 divides industry into three "schedules" according to the level of technology and management skills brought to the venture. Foreigners are excluded from some sectors. Schedule I allows no foreign participation; Schedule II enterprises are permitted 40 percent foreign participation; and Schedule III ventures are permited 100 percent participation. Currently, pharmaceuticals, electrical and electronics manufacturing, motion picture and television production, agricultural

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plantations, distilleries, fertilizer production, hotels, and some specialized manufacturing qualify for Schedule III treatment. A new Industrial Policy Decree, released at the beginning of 1988, raises the level of foreign equity participation to 100 percent for Schedule III enterprises. The new policy also eliminates the anomaly by which firms with only 40 percent foreign ownership were characterized as foreign firms and were therefore ineligible for certain incentives reserved for "Nigerian" firms.

Since September 1986, businesses have been permitted in principal to remit 100 percent of their net profits and dividends (after corporate taxes) by purchasing foreign exchange in the IFEM, although it appears there are some limits on the amount of foreign exchange that may be repatriated by the foreign partner of a joint venture. In practice, firms wishing t purchase hard currency for remittances feel disadvantaged because the amount of foreign exchange available in the IFEM is inadequate to meet demand. Share sale proceeds up to 300 thousand Naira can be repatriated at once; sums in excess of this amount may be transferred at the rate of 300 thousand Naira every six months. Contracts which call for a payment in foreign currency require the approval of the Federal Ministry of Finance before funds can be remitted by the central bank.

The Nigerian Government currently uses three methods of procurement for goods and services: 1) Open competition (for standardized, generally available goods and services and for World Bank projects); 2) negotiated contracts (for specialized goods and services; contracts are opened to a select number of firms known to the tendering body through prior experience); and 3) selective tender (the dominant form of government procurement; a registration or pre-qualification statement must be filed with the tendering ministry or agency).

Nigeria imposes three import duty surcharges totaling 6.02 percent on all goods coming into the country. The government formerly required advance payment of 25 percent of the assessed duty but ended this requirement in 1987.

6. Export Subsidies Policies

The Nigerian Government provides subsidies for many domestic public sector companies. It also subsidizes domestic fuel, energy and fertilizer costs. Efforts are underway to reduce or phase out domestic subsidies. The government does not provide export subsidies. A single tariff schedule exists for specific Nigerian exports. Unless specifically listed under the Export Prohibition Order of 1980, goods to be exported are exempt from payment of export duties. A special duty may be imposed on goods dumped on the Nigerian market or subsidized by a foreign government. The duty may be imposed if the Nigerian government feels that material injury will be caused or that there is a threat to a potential or established industry. Nigeria has implemented a duty drawback scheme whereby exporters of manufactured goods are reimbursed on the imported content of their manufactures.

union. Nigeria has an active trade union movement, and one which has been, within limits, relatively free. However, this movement has been subject to government oversight which reached extraordinary proportions during 1988.

Despite provisions in the 1979 Constitution and Nigeria's ratification of 28 International Labor Organization (ILO) conventions, government decrees and policy continue to restrict labor freedoms. A 1978 decree created a single central labor body, the Nigeria Labour Congress (NLC), forcibly merged a number of unions into 42 industrial unions, and deregistered all other unions. The government has not acted upon the ILO Committee of Experts' finding, first enunciated in 1979 and subsequently repeated, that this decree violates ILO Convention 87 on freedom of association and protection of the right to organize, to which Nigeria is a party. Nor has the government accepted the Committee of Experts' recommendation that the decree be amended.

Since 1978 the NLC has been subject to close government oversight. In February 1988, the government dissolved the national and state executive councils of the NLC, appointed a temporary administrator, and in September announced that it would merge the present 42 unions into 19 prior to holding new NLC elections in December; the plan was abandoned prior to the elections.

The 1978 decree also created senior staff associations for white collar workers, which a 1986 decree explicitly excluded from NLC membership, forcing two such associations to withdraw.

Since 1975 government policy has permitted international labor affiliation only with the ILO and the Organization of African Trade Union Unity and associated pan-African labor federations. Government policy does permit, however, informal "fraternal relations" with foreign unions and international trade secretariats as long as there is no formal affiliation.

The right to strike is recognized by law, again except in the case of essential services. The definition of essential services varies; in 1988 nurses struck and were allowed to negotiate their grievances. On the other hand, during the April-May labor unrest, the Federal Military Government made it clear that strikes by utility workers would not be tolerated.

Work stoppages, strikes, and protests during 1988 focused primarily upon worker and trade union opposition to the Structural Adjustment Program (SAP) and pay issues. The NLC organized a campaign in November 1987 to protest against the government's announced intent to remove or reduce oil subsidies as a part of the SAP. A series of nationwide strikes, focused in the north, took place in April when the government raised petroleum product prices by amounts varying from 6 percent to 300 percent. The government detained an estimated 140 workers and trade union leaders in the wake of these strikes. They were eventually released as part of an agreement between the unions and the government to end the

NIGERIA

7. Protection of U.S. Intellectual Property

Nigeria is a party to the Universal Copyright Convention and the Paris Convention for the Protection of Industrial Property. Nevertheless, Nigeria is thought to be Africa's largest market for pirated recordings. Foreign copyright proprietors have been unable to enforce their rights because Nigeria's law is cumbersome and enforcement is inadequate. Most manufacturers of brand name products have registered their trademarks in Nigeria, but trademark thievery is common and there is little effective recourse for trademark holders.

The Nigerian government has indicated a willingness to stamp out piracy as a part of its "War Against Indiscipline." While adequate civil remedies including injunctive relief are available, the judicial system is slow and cumbersome, significantly hindering enforcement.

The Patents and Designs Decree of 1970 governs the registration of patents. Once conferred, a patent gives the patentee the exclusive right to make, import, sell, or use the products or apply the process. Few companies have bothered to secure patent protection because it is generally considered ineffective.

There have been informal attempts by local manufacturers of trademark-branded goods to curtail infringement from smuggled imports of bogus products primarily originating in Far Eastern countries. This and other copyright or trademark infringement is due more to inadequate facilities and agencies for enforcement of existing law than to a lack of statutory protection.

Despite Nigeria's adherence to the Universal Copyright Convention, piracy of sound recordings and video cassettes is a severe problem. There is significant piracy of textbooks. Pirated works, both copied in Nigeria and imported from the Far East, flood the large Nigerian market. The motion picture (videocassete) market, according to U.S. industry, is 100 percent pirated product.

In 1985, U.S. copyright industries (excluding motion picture and software industires for which estimates were not available) estimated copyright losses in Nigeria at $131 million annually.

8. Worker Rights

a. The Right of Association

In 1981 organized labor claimed 3 million members out of a total work force of 30 million. All Nigerian workers 16 years or older may join trade unions, with the exception of members of the armed forces and designated employees of essential government services as defined by the Federal Military Government, which it may vary by decree. Employers are obliged to recognize trade unions and must pay a dues checkoff for employees who are members of a registered trade

strikes and to undertake extended discussion between government and labor representatives over the issues involved. Those discussions continued at year's end.

University lecturers went on strike in June to demand payment of salary increases promised them since January, and bank workers were also on strike in July demanding payment of new salary increases. In October some senior employees of the National Electric Power Authority (NEPA) disrupted power in the north and elsewhere, demanding NEPA's commercialization, removal of employees from the civil service structure, and increased salaries. In November railway workers struck for one day to press their demand for three months' back salaries. Dockworkers went on strike in December, protesting the delayed payment of salary step increases to which they were entitled.

In response to the June strike by professors and staff, the government proscribed the Academic Staff Union of Universities (ASUU), which has not been replaced by another organization. Government officials claimed the strike continued illegally after the dispute had been referred to the industrial arbitration panel. The 1978 Trade Disputes Decree forbids strikes and lockouts while disputes are under mediation by this body. In December, 11 senior NEPA employees were sentenced to life imprisonment, subject to confirmation by the AFRC, for conspiracy and inducing certain employees to disrupt electrical power service. Also in December, the government released three bank union officials, who had been detained since July. The release of the bank officials was believed to be a good will gesture toward the newly elected President of the NLC, Paschal Bafyau.

b. The Right to Organize and Bargain Collectively

The labor laws of Nigeria permit collective bargaining between management and trade unions. However, a series of restrictive measures imposed by the government during the last two years significantly reduced the range of issues left for bargaining. In February 1987, the National Economic Emergency Decree of 1985, which granted the Federal Military Government broad authority over labor matters, was extended for two more years. The Federal Military Government transferred to state governments the power involuntarily to deduct special levies from the salaries of workers for financing state development projects. A national wage freeze, imposed in 1984, was lifted in January, allowing a return to collective bargaining on basic salary levels. Collective bargaining is common in the industrial sector of the economy which, however, is relatively small. Nigerian law protects workers against retaliation by employers for labor activity. Labor legislation is applied uniformly throughout Nigeria.

c. Prohibition of Forced or Compulsory Labor

Nigeria's 1979 Constitution provides that "no person shall be required to perform forced or compulsory labor." While this provision is generally observed, two exceptions have been made. The first is the National Youth Service Corps (NYSC) begun under the Gowon regime (1966-1975). All Nigerian

youths or young adults who have completed college or university training and are under the age of 30 must complete 1 year of work in the NYSC. Jobs range from agriculture to office work and teaching, and some effort is made to match jobs with previous training or post-NYSC occupational goals. The government also attempts to use the NYSC to build "federal character" by sending individuals to work in parts of the country away from their area of upbringing or ethnic affiliation. The other exception is the environmental clean-up campaign, begun under the Shagari regime and continued by the present government. All citizens are required to spend the morning of the final Saturday of each month tidying their house, yard, and neighborhood. All movement during this period is suspended, and persons may be a: .ested for violating this rule. This does not include emergencies or official travel. At the end of the morning, full freedom of movement is restored.

The ILO Committee of Experts has noted that various provisions of the Labor Decree of 1974, the Merchant Shipping Act, and the Trade Disputes Decree of 1976 impose sanctions that obligate work for breaches of labor discipline or for taking part in a strike. The Committee has urged the government to adopt the necessary measures to bring these laws into compliance with ILO Convention 105.

d. Minimum Age of Employment of Children

Nigeria's 1974 Labor Decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The Labor Decree does allow the apprenticeship of youths aged 13 to 15, but only under specific conditions. Apprenticeship exists in a wide range of crafts, trades and state enterprises; with respect to apprentices over the age of 15, their activity is not specifically regulated by the government. As most of Nigeria's large population lives in rural areas, the government's ability to enforce these laws is limited.

e. Acceptable Conditions of Work

Nigeria's 1974 Labor Decree also established a 40-hour workweek, prescribes two to four weeks of annual leave, and sets a minimum hourly wage for commerce and industry which amounts to about $25 a month. The 1974 Decree contains general health and safety provisions, some aimed specifically at young and female workers, enforceable by the Ministry of Employment, Labour, and Productivity. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents. The ineffectiveness of the Ministry in enforcing these laws in the workplace is regularly criticized by labor unions.

f. Rights in Sectors with U.S. Investment

U.S. firms have invested in Nigeria in the petroleum, chemicals and related products, electric and electronic equipment, food and related products, and other manufacturing

(cosmetics and toiletries) sectors.

The Nigerian Labour Act of 1974 defines the right of employers and employees to enter freely into binding contracts of employment, with certain exceptions. Conditions of employment are left to collective or other bargaining between employers and employees. Nigerian law prohibits strike actions in essential services sectors such as petroleum. Banks and petroleum companies tend to offer the best salaries and benefits in Nigeria. It is common practice in the petroleum sector and other industries in Nigeria for a company to sub-contract for casual unskilled labor. This allows the company to reduce its own staff and overhead costs. However, the Nigerian subcontractors which provide the workers are usually not inclined to cooperate with organized labor. The unions, therefore, try to gain recognition by and negotiate directly with the contracting firms for wages and working conditions. In November 1987, an oil drilling company's refusal to recognize a union and deal directly with workers contributed to the seizure of its offshore rig at Port Harcourt in a wildcat strike.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1,120
Total Manufacturing		40
Food & Kindred Products	0	
Chemicals & Allied Products	32	
Metals, Primary & Fabricated	-2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		28
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,188

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, <u>Survey of Current Business</u> August 1988, Vol. 68, No. 8, Table 13

SENEGAL

Key Economic Indicators

Millions of U.S. Dollars Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	1,684	2,018	2,231
Real GDP Growth Rate	4.2	4.2	4.4
GDP by Sector			
Primary	368	436	484
Secondary	418	519	576
Tertiary	665	784	874
Other (includes govt)	234	279	296
Population (millions)	6.8	7.0	7.2
Real per capita Income ($)	248	288	310
Money and Prices			
Money Supply (M1)(billions CFA)	227	214	225
Commercial Interest Rates (pct)	15.5	13.5	13.5
Savings Rate (pct)	4.2	9.3	10.2
Investment Rate (pct)	14.2	15.0	14.9
Consumer Price Index (1967 = 100)	520.6	499.1	606.7
Exchange Rate (CFA/US$, pd avg)	346.3	300.5	285.0
Balance of Payments and Trade			
Total Exports fob	582.9	748.9	828.9
Total Exports to U.S.	7.1	7.4	11.0
Total Imports fob	841.6	983.3	1,038.1
Total Imports from U.S. cif	49.5	49.0	75.0
Aid from U.S.	65.7	45.3	42.8
External Public Debt (US$ Bil.)	2.9	3.5	3.7
Annual Debt Service (paid)	213	267	301
Gold and ForEx Reserves	16.9	21.5	19.7
Current Account Balance	-275.4	-239.9	-200.7

Sources: IMF; World Bank; Government of Senegal; USAID; USDOC.

1. General Policy Framework

The Government of Senegal, with the support of the International Monetary Fund (IMF), World Bank and other donors, continues aggressive implementation of its long-term economic reform program launched in 1983. The program, whose major thrust is to reduce the state's economic role and create an incentive framework which will render the private sector the locomotive of the economy, has produced positive results, particularly in terms of macro-economic indicators. Growth in real gross domestic product (GDP) has been restored to approximately four percent. Although rains have been favorable over the past two years and producer prices have been increased, agricultural production this year has been

adversely affected by localized drought, flooding and locust invasions. Demand management policies and fiscal restraint have stabilized prices and reduced both the massive budget and trade deficits of earlier years. Quantitative import restrictions are being gradually eliminated and the final phase of tariff reduction took place in July 1988. A timetable for the liquidation, privatization, or rehabilitation of some 60 parastatals has begun. Companies remaining in the government portfolio will have their subsidies reduced and will operate under stricter performance criteria. Special agreements granting tax exemptions and monopoly situations to certain industrial enterprises are to be renegotiated.

Senegal is continuing to struggle with stagnation in the industrial sector, a debt burden equal to nearly 35 percent of export revenues and an unstable revenue base. If Senegal can make it through this critical period of the structural adjustment program, with its emphasis on parastatal reform and reduction of controls on the private sector, the stage could be set for sustainable, long-term growth.

In recent years, the Government of Senegal's approach to fiscal policy has been to increase revenues and cut costs. Through tax reforms and procedural changes, budgetary revenue grew by about 10 percent annually between 1983-84 and 1986-87. By clamping a lid on spending, current and capital expenditures declined in real terms during the same period. As a result of these revenue and expenditure measures, the overall fiscal deficit for 1987-88 is expected to decline to less than two percent of GDP, compared with almost nine percent in 1982-83.

The improvements in the budgetary position allowed the Government of Senegal to pursue a balanced monetary policy. The rate of growth of domestic credit dropped from over 17 percent to less than 6 percent between 1982-83 and 1986-87. The rate of growth of domestic liquidity fell over the same period from 12 percent to just over 3 percent. To enhance financial intermediation, the Government of Senegal has taken several steps to restructure some banks and has completed a study of the banking system. A reform program aimed at rehabilitating and streamlining the banking system is now underway.

2. Exchange Rate Policies

As a member of the West African Monetary Union, Senegal's exchange system is free of restrictions; it shares a common currency, the CFA franc, with six other West African countries. The CFA franc is issued by a common central bank, the Banque Centrale des Etats de l'Afrique de l'Ouest. The value is pegged to the French franc at a fixed rate of CFA50=FF1.

Declines in world price levels and the value of the U.S. Dollar have had mixed effects on Senegal's balance of payments. On the positive side, declines in petroleum, rice and wheat prices, and in the U.S. dollar/CFA exchange rate

reduced Senegal's import bill in 1986-87. These price declines helped to improve the current account balance, and also helped the Government of Senegal budget position through improved domestic revenues from implicit taxes on rice and wheat. Negatively, world prices for two of Senegal's main exports, peanuts and phosphates, continued to slide, reducing export earnings.

3. Structural Policies

Over the past few years there have been major adjustments in the tax and pricing policies pursued by the Government of Senegal. Under the New Agricultural Policy launched in 1984, producer prices of maize, millet/sorghum and rice have been raised to increase domestic food production. Steps have been taken to liquidate inefficient rural public enterprises, reduce fertilizer subsidies and liberalize the importation and marketing of agricultural products. Under the new industrial policy the Government of Senegal has eliminated quantitative restrictions on imports and reduced the scope of price controls except for a limited number of goods and services considered to be of strategic importance.

The government is also undertaking a major reform of the tax system in the framework of the structural adjustment measures urged by the World Bank, the IMF, the French and the United States. These reforms focus essentially on simplification of the tax system, reductions in tax rates, and elimination of wide-spread tax exonerations. Between 1980 and 1985 the policy of increased tax rates had a perverse effect on tax receipts and intensified distortions in the economy by increasing the incentives for tax evasion and for investment in real estate as opposed to investment in the production of goods and services. The tax reform package includes a revamping of the customs tariff code and schedules, a parallel reform of the Investment Code, and a reform of the direct tax system including property taxes.

4. Debt Management Policies

Since 1983, the Government of Senegal has followed a cautious external debt management policy in trying to ease Senegal's heavy debt service burden. According to IMF figures, the policy has led to a decline in the stock of public and publicly guaranteed debt to 73 percent of GDP in 1986-87 and 1987-88, compared with 90.5 percent in 1984-1985. On the other hand, the debt service ratio as a percentage of exports of goods, services, and private transfers has gone from 25.2 percent to 28.9 percent over the same period. According to the government debt service figures for 1988-89, the largest block of their debt (56.7 percent) is owed to official bilateral creditors. The next largest is multilateral debt (33.4 percent). Private debt outstanding accounts for the remainder (9.9 percent).

SENEGAL

5. Significant Barriers to U.S. Exports

When the Government of Senegal implemented the new investment code, most of the legal restrictions on foreign investment were abolished. Senegal is hoping to attract new foreign investment to help develop its economy. To date, high energy and labor costs and the small domestic market have tended to discourage new investments in the industrial sector.

Government procurement is done on a competitive bid basis. However, there are strong commercial and cultural ties with France which tend to sway procurement decisions in favor of French-based companies. As a result, many U.S. firms operating in Senegal do so through their French subsidiary or affiliate.

The Senegalese requirements for testing, labeling and certification are no more complex than those of the United States. However, some U.S. firms have found that the lack of French language translations of their U.S. certifications has delayed the introduction of products in the Senegalese market. This is particularly true in areas such as pharmaceuticals, where the Ministry of Health must certify that the drug is safe to use.

6. Export Subsidies Policies

Peanuts and phosphates have traditionally been the leading foreign currency earners of the Senegalese economy. In 1982 the Government of Senegal abolished the export tax on both these products in order to stimulate exports. Peanut exports are further subsidized by two direct and one indirect subsidy. The price stabilization fund pays the oil-crushing firms the difference between the international price for peanuts and the farm-gate price (established by the Government of Senegal) which they have to pay to the growers. The "break even" fund pays the oil-crushers to cover their fixed costs during bad crop years. Until 1985 these funds covered both domestic production and production for export. Since then, however, only the export activities are covered. The indirect subsidy for peanuts is in the form of preferential interest rates for seasonal crop credits. This subsidy can also be applied towards other crops, such as cotton or cowpeas.

Since 1982 the Government of Senegal has also tried to enhance non-traditional exports, such as canned fish and fish products, via subsidization. This subsidy took the form of credits on the import duties for inputs to production. These credits can be used by the firm to offset other taxes for which they may be liable.

7. Protection of U.S. Intellectual Property

Senegal has been a member of the World Intellectual Property Organization since its inception. The country is a signatory of the Paris and Berne Conventions, the Universal Copyright Convention, and the Patent Cooperation Treaty. Local

statutes also recognize reciprocal protection for authors or artists who are nationals of signatories to the Paris Convention on Industrial Property Rights. U.S. citizens are entitled to treatment equivalent to that granted to Senegalese nationals with respect to maintaining their patent and trademark rights. They are also entitled to certain special advantages, such as a one year preservation of patent filing rights after first filing in the United States (six months for trademarks). Protection against arbitrary cancellation of patents as well as trademarks is valid for 20 years.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Senegal.

8. Worker Rights

a. Right of Association

There is no comprehensive census of the economically active population in Senegal, and data concerning the labor force are incomplete. The working population (15 to 59 years old inclusive) is estimated at 50 percent of Senegal's nearly 7 million citizens. Of these, at least 75 percent are engaged in rural activities such as cultivation, herding, fishing. At least 85 percent of the remaining 800,000 are engaged in small, privately owned and operated businesses. Approximately 100,000 are government workers or employees of state-owned business enterprises.

A minimum of seven people, each having worked within their profession for at least one year, may form a union by submitting a list of members and a charter to the Ministry of Interior. A union can be disbanded by the Ministry if the union's activities deviate from the charter. Even though they represent a small percentage of the overall population, unions wield a significant amount of political influence, primarily because of their ability to disrupt essential services.

Unions have the right to strike, and during 1988 there were frequent strikes by the teacher/professor, electrical, and health worker unions which were resolved in bargaining with the government. Senegalese unions are represented in international labor organizations, such as the International Labor Organization (ILO) and the Organization of African Trade Union Unity. Almost all the unions are based in the capital city of Dakar.

The National Confederation of Senegalese Workers (CNTS) was formed in 1969, and while ostensibly an independent umbrella organization, it follows government policy closely. It has come under fire recently by opposition parties who believe the CNTS puts government needs before those of the workers. Several small unions, usually of leftist/Communist orientation, have broken away from the CNTS and attempted to form a parallel umbrella organization. Members of these breakaway unions are concentrated within a few specialized areas, including teachers, university professors, and health

workers. Although these defections have eroded the CNTS' prestige and influence somewhat, it remains Senegal's largest and most powerful labor organization.

b. The Right to Organize and Bargain Collectively

Senegalese unions have the right to organize and to bargain collectively, and these rights are protected in practice. There are no known instances of workers being forcibly discouraged from exercising these rights. In recent years, as the economic situation worsened and factories and businesses closed down, collective bargaining has succeeded in several instances in guaranteeing extended benefits for laid-off workers. For example, the union representing workers at the recently closed Bata shoe factory secured from management a generous severance package. Subsequently, agreement was reached between Bata, the government, and the union to reopen a restructured Bata facility with a reduced labor force. The CNTS has been a major force in establishing, through collective bargaining, regulations and guidelines for the well-being of workers. Government policy is to let the CNTS handle labor union problems, but the government has in the past intervened when requested. For example, a government financial consultant was tasked to verify a company's claim of bankruptcy due to high labor costs.

A free zone exists in Dakar into which goods may be imported for manufacture and reexported without payment of duty. Senegalese labor laws apply in this zone.

c. Prohibition on Forced or Compulsory Labor

There is no forced labor in Senegal. The ILO Committee of Experts, however, has noted that under sections of the Merchant Navy Code seafarers can be punished for breaches of labor discipline with sentences of imprisonment involving compulsory labor. The government has stated that in practice no such sentences have been passed by judges; nevertheless, the Committee has urged that the provisions be brought into conformity with Convention 105.

d. Minimum Age for the Employment of Children

The minimum age for employment in Senegal is 16 for apprenticeships and 18 for all other types of work. These restrictions are closely monitored and strictly enforced within the formal wage sector, that is, the area of the economy over which the government can exercise some supervision such as state agencies, large private enterprises, or farmers gathered into cooperatives. On the other hand, minimum age and other workplace regulations on family farms in rural areas and in privately owned businesses are much less well enforced. Children under 16 are employed in this informal work sector, but there were no reported incidents of "sweat shops" or work-related abuses of children in Senegal.

SENEGAL

e. Acceptable Conditions of Work

The CNTS has been very successful, within the wage sector, in forcing implementation of acceptable conditions of work, including standard workweeks (40 hours per week for most professions), holiday/annual leave benefits (usually one month per year), and a variety of health and safety regulations. These regulations are incorporated into the labor code approved by the National Assembly. Recent CNTS efforts have concentrated on raising the minimum wage, currently approximately $0.70 an hour.

f. Rights in Sectors with U.S. Investment

There is very little direct U.S. investment in the goods-producing sectors of the Senegalese economy. The sectors which have some U.S. investment are petroleum, food and related products, chemicals and related products, and other manufacturing. Worker rights in each of these sectors are covered by the local labor laws.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

SOMALIA

Key Economic Indicators

Millions of U.S. Dollars Unless Otherwise Stated

	1985	1986	1987(1)
Income, Production Employment			
GDP (current factor cost)	1,383	1,452	1,525
GDP per capita (US$)	261	264	267
Population (millions)	5.3	5.5	5.7
Labor Force (millions)	2.5	2.6	2.7
Money and Prices			
Money Supply(2)	11,902	16,052	N/A
Inflation in Mogadishu (pct)	38	34	28
Interest Rates (pct)			
Discount Rate	12.0	12.0	12.0
Commercial Loans	15 - 20	15 - 20	15 - 20
Exchange Rate (yr-end) (Shillings=US$)	42.5	89.6	100
Balance of Payments and Trade			
Total Exports	93	84	95
Total to U.S.	2.1	0.5	4.2
Total Imports	394	402	418
Total from U.S.	51	57	37
Private Transfers (net)	20	37	20
Current Account Balance	-131	30	20
Overall Balance	-50	-50	-51
External Debt	1,677	1,796	1,900
Debt Service Payments (accrual basis)	110	158	N/A

Sources: U.S. Embassy Mogadishu Estimates, Somali Central Bank, World Bank, Somali Ministry of Finance and Revenue, U.S. Department of Commerce, Somali Ministry of planning, and International Monetary Fund.

N/A - Not Available

(1) Figures for 1988 not available.
(2) Money plus quasi-money in millions of Somali Shillings.

SOMALIA

1. General Policy Framework

Somalia is one of the world's least developed countries; economic conditions are deteriorating, and exports have declined in the last fiscal year. Inflation is high and the country's debt servicing requirements exceed the supply of hard currency.

Somali industries are primarily public sector, controlled by government monopolies or partnership administration. The largest local export sectors are livestock, unprocessed hides and skins, and produce, primarily bananas.

Economic difficulties in Somalia are aggravated by a business environment which allows, and to some extent fosters, corruption and nepotism. Business is done through family connections or bribes. Local goverrment officials are poorly paid and customarily supplement income by extracting service charges and other kickbacks. These factors take a toll on the private and public sector. Officials' general level of competence and efficiency is low.

In conjunction with an interim economic reform program with the International Monetary Fund (IMF), the Government of Somalia has agreed to implement a series of reforms geared toward controlling inflation and reducing the fiscal deficit -- estimated at 19 percent of gross domestic product(GDP) for 1988. These include both expenditure rationalization and revenue enhancement measures. The government fiscal deficit is financed primarily by external assistance.

In agreements with the IMF the Somali Government has agreed to take the following monetary policy actions:

--raise the discount rate to 45 percent;
--raise the minimum lending rate to 50 percent;
--establish positive real deposit rates;
--limit domestic credit;
--limit credit available to the government;
--allow auditing of commercial and savings banks of Somalia by an external accounting firm.

2. Exchange Rate Policies

Somalia has a multiple exchange rate system. The official exchange rate, currently at 263 Somali Shillings (SOSH) per U.S. Dollar, is established by the Central Bank of Somalia (CBS). Since June 20, 1988 the official rate has been pegged to a basket of currencies of Somalia's major trading partners. The central bank conducts weekly adjustments of the official exchange rate to reflect movements in cross exchange rates of currencies in the basket and the inflation differential between Somalia and its major trading partners. The official rate is announced daily. On the parallel foreign exchange market, the SOSH is currently trading at 440-460 SOSH per U.S. Dollar. Exporters are permitted to retain 40 percent

of hard currency export proceeds to be used for their own imports or sold to other importers at the parallel market rate.

As part of its interim program with the IMF, the Somali Government devalued the official rate from 100 to 180 SOSH per U.S. Dollar on June 20, 1988. The SOSH was further devalued to 215 SOSH per U.S. Dollar on August 7, 1988. Moreover, since then through its weekly adjustment mechanism the central bank has devalued the SOSH an additional 22 percent.

3. Structural Policies

Previous controls on prices of all commodities were lifted as of June 1988. Since that time all prices have been determined by the market.

Taxes are levied according to the following chart. Taxes made up 80 percent of government non-grant income in fiscal 1987.

Taxes Levied

Property transfer tax	1 - 11 percent of assessed value
Corporate income tax	35 percent of net taxable income
Personal income tax	19 percent of net taxable income
Inheritance tax	progressive: varies between 4 and 12 percent of assessed value
Sales tax on goods	10 percent of value
Rental income tax	35 percent
Sales tax on services	5 percent
Airport tax	20.00 U.S. Dollars (1,000 SOSH for local residents)
Excise tax	variable: 5 - 100 percent

Duties are levied on all imports. The duty ranges from a low of 4 percent on small vehicles to a high of 700 percent on spirits. The Ministry of Finance is authorized by law to waive duties and taxes for enterprises deemed deserving by the government. Guidelines for these waivers are not clear.

4. Debt Management Policies

As of December 1988 Somalia's external debt was estimated at $1.9 billion, about 21 times export earnings. Debt servicing requirements amount to nearly $200 million annually.

The Somali Government has made a commitment to meeting these obligations and appears to be serious about doing so within its limited capacity. The government has expressed the desire to enter into rescheduling/refinancing negotiations with its non-Paris Club creditors.

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5. Significant Barriers to U.S. Exports

Import licenses are issued by the Ministry of Industry. There are no limitations on the sectors of endeavor in which licenses may be required. The licensing process can be slow and selection of applications arbitrary.

The Somali Development Bank is the only bank providing commercial services to foreign businessmen.

The procedures for clearing Somali customs require that two ministries, Finance and Foreign Affairs, take action. This procedure is time consuming. During this process goods can wait unprotected in holding areas subject to the elements and theft.

6. Export Subsidies Policies

Principal exports are controlled by the government either in monopolies or partnership enterprises with private firms. The government has expressed its desire to dismantle these monopolies and allow private sector investors to participate in the trade.

7. Protection of U.S. Intellectual Property

Somalia is a member of the World Intellectual Property Organization (WIPO) but is not a party to any of the principal intellectual property accords.

Legal structures exist to protect trademarks and brand names. There are no local producers of counterfeit goods, but a significant smuggling trade brings in such merchandise from the Near and Far East. This trade is strictly illegal and is actively combatted by the government.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Somalia.

8. Worker Rights

a. The Right of Association

Workers are not free to form independent unions. There is a single labor confederation, the General Federation of Somali Trade Unions (GFSTU), which is government-controlled, with government-appointed officials. The GFSTU's main function is to monitor the work force and provide a conduit for worker grievances. The GFSTU is a member of the Organization of African Trade Union Unity and the International Confederation of Arab Trade Unions. It participates in the International Labor Organization (ILO).

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Strikes are outlawed, and organizing a strike is legally punishable by death. Nevertheless, there was a short transportation strike in 1987, and the government took no action against the striking workers.

b. The Right to Organize and Bargain Collectively

The right to organize does not appear to be infringed by employers. Because the GFSTU speaks for the government, its dealings with employers on wages, hours, and working conditions tend to resemble binding arbitration rather than collective bargaining. Some negotiation between employers and employees goes on outside the union framework. There seem to be no acts of antiunion discrimination. Labor laws and regulations are applied uniformly throughout the country. There are no export processing zones.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law. Nevertheless, the government and party occasionally organize campaigns of "voluntary labor" to clean streets or boost production of state-owned factories.

d. Minimum Age for Employment of Children

The minimum age for the employment of children is 15, and persons under 18 are not permitted to work at night or in certain hazardous occupations. The legislation, however, is not effectively implemented, and there is considerable child labor on the margins of the economy. Children sell cigarettes on the street, carry bags in the market, and watch and clean cars to support themselves and to supplement family incomes.

e. Acceptable Conditions of Work

Somalia has comprehensive labor legislation setting minimum safety and health standards for the workplace. These are applicable to the small modern sector of an economy that is predominantly pastoral and agricultural and are not normally enforced. In theory the workday is eight hours per day, six days per week, with limits on overtime hours. There is no legal minimum wage. Workers are entitled to paid holidays, annual leave, holiday bonuses, and a variety of fringe benefits. In reality, however, the salary scale is extremely low, especially in the public sector. The average salary of a civil servant is about $10 per month. Productivity in the public sector is correspondingly low, and many civil servants make only minimal appearances in their offices. Workers resort to second jobs, corruption, assistance from other family members, and remittances from abroad. A program of civil service reform has made little headway because inflation has nullified salary increases.

f. Rights in Sectors with U.S. Investment

Most of the total direct U.S. investment in Somalia is in the petroleum sector (exploration, oil field supplies and servicing). Labor laws and regulations are enforced uniformly

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across all sectors of the economy. Workers, however, are not free to organize independent unions. They must all be members of the government-controlled GFSTU.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		-10
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		-10

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Billions of Rand Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1985 prices)	121.3	124.4	N/A
Real GDP Growth Rate (pct)	1	2.6	2.7
Real GDP by Sector (1985 prices)			
Agriculture	6.9	7.0	N/A
Mining	17.2	16.6	N/A
Manufacturing	24.6	25.6	N/A
Electricity	4.6	4.8	N/A
Construction	3.8	3.9	N/A
Wholesale Retail Trade	12.0	12.6	N/A
Transport and Communication	9.3	9.3	N/A
Finance/Business Services	16.9	17.6	N/A
Community Services	1.9	2.0	N/A
GDP per capita (1) (est. 1985 rand)	3,467	3,457	N/A
Labor Force (millions)(1)	10.3	10.5	N/A
Unemployment Rate (1)	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	25.3	34.08	N/A
Prime Overdraft Rate (pct) (yr-end)	12.0	12.5	18.0
Gross Savings/GDP (pct)	24.9	23.3	22.2
Gross Domestic Fixed Investment/GDP (pct)	19.5	18.7	19.2
Consumer Price Index (pct change)	18.3	15.0	14.5
Exchange Rate (US$/rand, yr-end)	.42	.49	.43
Balance of Payments and Trade			
Total Exports fob	43.6	42.5	52.1
Total Exports to U.S.	5.9	2.6	N/A
Total Imports fob	26.7	27.9	36.5
Total Imports from U.S.	3.1	2.5	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	20.2	N/A	N/A
Annual Public Debt Service (paid)	3.8	N/A	N/A
Gold and ForEx Reserves	4.5	6.1	N/A
Balance of Payments on Current Account	7.22	6.2	2.0

(1) Statistics depending on population data often are unreliable. Official black population and unemployment rates are understated. Most economists believe that black unemployment is in excess of 20 percent, compared to government estimates closer to 15 percent. Rates among other racial groups are lower.

SOUTH AFRICA

1. General Policy Framework

South Africa is an advanced developing country with a modern industrial sector, well developed infrastructure and rich natural resources. Economists agree that South Africa has the potential to grow at an annual rate in excess of five percent. Yet economic growth over the past six years has averaged less than one percent in real terms and unemployment in the black community is estimated at more than 20 percent. This relatively poor performance can be explained by several structural factors:

- apartheid, past and present, has led to the inefficient use of human resources with under-investment in human capital, labor rigidities, and large budgetary outlays for duplicative layers of government and facilities;

- unrest and rapidly growing government consumption expenditures have contributed to six consecutive years of decline in real gross fixed investment;

- sanctions and the perception that South Africa is a poor long term risk have limited access to international credit markets; and

- negative real interest rates, heavy reliance on government business enterprises, and investments in strategic industries and stockpiles have distorted investment decisions and reduced the efficiency of scarce capital resources.

The South African Government has taken some steps to reduce these structural problems. While there is a long way to go in eliminating apartheid and meeting the aspirations of the black community, some progress has been made in reducing the economic distortions caused by racial policies. Many restrictions which made it difficult or impossible for black South African citizens to own businesses, obtain skilled jobs, or maintain permanent residence in urban areas have been lifted. Spending on black education has increased substantially in recent years and black trade unions have been recognized. Still, much remains to be done, and the effects of past policies will be felt for many years.

Progress on a more market-oriented monetary policy has been rapid. Since 1978, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African reserve bank now operates more like other western central banks. It influences interest rates and controls liquidity through its control of rates at the discount window, and to a much smaller degree through the placement of government paper. The reserve bank establishes targets for the growth of the money supply (M3), although in recent months these targets have been exceeded by a large margin.

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Traditionally, South Africa has run a conservative fiscal policy. In recent years, however, revenues have lagged behind expenditures, leaving a substantial deficit. Excessive government financing requirements have put pressure on private financial markets. Central government revenues amount to 22.2 percent of GDP, more or less comparable with other countries in South Africa's stage of development. The government budget deficit equaled about 5 percent of GDP in budget year 1986/87 and 5.7 percent of GDP in 1987/88. It is expected to remain over 5 percent of GDP in the current year. Nationalized industries include substantial portions of the energy sector, transportation, armaments, electric power, communications, steel, aluminum, and chemicals. In early 1988, State President P.W. Botha announced a program of widespread privatization of public enterprises to correct this imbalance. A major step is set for April 1990 when the bulk of the public transportation sector is to be privatized.

2. Exchange Rate Policies

South Africa has not liberalized exchange controls. Faced with large scale capital outflows in 1985, the reserve bank reimposed comprehensive capital controls and re-introduced a dual exchange rate. This latter mechanism maintains one exchange rate (the financial rand) for all foreign investment transactions, including both capital inflows and outflows, and another exchange rate (the commercial rand) for all other transactions. This effectively cushions the economy from the effects of international capital flows.

Under South African exchange regulations, the reserve bank has substantial control of foreign currency receipts. The reserve bank is the sole marketing agent for gold (which constitutes about 40 percent of export earnings). This provides the bank with wide latitude in influencing short term exchange rates. Except for a period in 1987 when the bank followed an implicit policy of fixing the rand against the dollar, monetary authorities normally allow the rand to adjust periodically with an aim to stabilize the external accounts. Since 1984, the rand has depreciated sharply against all the major western currencies, making imports expensive.

3. Structural Policies

Purchases by government agencies are by competitive tender for project or supply contracts. Bidders must pre-qualify, with some preferences allowed for local content. Parastatals and major private buyers such as mining houses follow similar practices, usually inviting only approved suppliers to bid.

The primary tax in South Africa is the income tax. The maximum rate of 45 percent is reached at a net income level of $33,000 for married and $22,000 for single taxpayers. Corporate income is taxed at a flat rate of 50 percent, although mining enterprises are taxed at over 56 percent.

Significant revenues are also raised by the general sales tax, which is currently at 12 percent. There are plans to replace the sales tax with a value added tax in 1989. South Africa raises additional revenue through estate duties, transfer duties, and stamp duties. There are no export taxes, but import duties protect local industry, rising to 100 percent in the case of some luxury goods.

Compliance with the norms of the South African Bureau of Standards is not generally required, although it is obviously a marketing advantage. Industrial standards are high. Metric and electrical configurations can be an obstacle to some U.S. exports. Input price controls primarily affect local agricultural producers.

4. Debt Management Policies

South Africa's external debt at the end of 1987 is estimated to have stood at $22.6 billion, with the private sector accounting for approximately $14 billion of this total. About 72 percent of this debt was short term. The debt to GDP ratio in 1987 was 26.5 percent. Debt service in 1986 (the latest year for which data is available) was $4.4 billion, divided roughly evenly between interest and amortization payments. The debt service to exports ratio in 1986 was 21.5 percent. In 1985, faced with large scale capital outflows and intense pressure against the rand, the South African government declared a unilateral standstill on amortization payments. Interest payments were continued, and amortization payments due to international organizations and foreign governments were not included in the standstill net, which obviated the need for a Paris Club rescheduling. The standstill was regularized in meetings with private creditors in 1986. In 1987, South Africa and its private creditors negotiated a 3-year rescheduling agreement. This agreement is to be re-negotiated in 1990. South Africa is a member of the International Monetary Fund (IMF) and continues Article IV consultations on a regular basis. U.S. law requires the U.S. executive director at the IMF to actively oppose any extension of IMF credit to South Africa unless the U.S. Treasury Secretary certifies to the U.S. Congress that such credit would have a number of specified favorable effects.

5. Significant Barriers to U.S. Exports

South Africa's Minister of Trade and Industry may, in the national interest, prohibit, ration or regulate imports under the terms of the import and export control act of 1963. Current regulations require import permits for a wide variety of goods. Of most significance are the existing surcharges on imported goods which range as high as 100 percent on some items. As part of the government's attempts to address its debt repayment and other macroeconomic problems, there is some talk that direct import controls may be put in place in the

future. Local content requirements apply in certain industries, notably motor vehicle manufacturing, but no other significant barriers exist.

The United States essentially banned all new investment (except in black-owned firms) with the comprehensive Anti-apartheid Act of 1986.

6. Export Subsidies Policies

Government incentives to export are divided into four categories: compensation of part of import duties; a proportion (10 percent) of value added during manufacture; financial assistance for activities such as market research and trade fairs; and income tax allowances. Other direct and indirect export subsidies are available to local manufacturers, particularly for factories located in designated development areas. Subsidies include electricity and transport rebates, export finance and credit guarantees and marketing allowances. It is likely that this scheme will be overhauled in 1989 following the report of a government commission now reviewing export policies.

7. Protection of U.S. Intellectual Property Rights

South Africa's attendance at meetings of the World Intellectual Property Organization (WIPO) has been barred by a resolution of that organization. The country also is a signatory of the Paris and Berne conventions.

South Africa's intellectual property laws and practices are generally in conformity with those of the industrialized nations, including the United States. There is no discrimination between domestic and international holders of intellectual property rights (IPR).

We are not aware of any positions taken by South Africa in other international fora that would have a negative impact on U.S. intellectual property rights or trade and investment opportunities based on those rights. The basic objective of South African Government policy with respect to foreign IPR holders is to maintain access to foreign technology and information.

The motion picture industry seeks improved product protection in South Africa. They claim that unauthorized public performance of their product has become a major problem in hotels and apartments in South Africa. Videocassette piracy is also of great concern to the U.S. motion picture industry, which estimates that 20 percent of total videocassette sales in South Africa are of pirated material. Also, the industry is concerned with "parallel imports", the unauthorized importation of their product from other countries.

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8. Worker Rights

a. The Right of Association

The Labor Relations Act gives private sector employees the right to join labor unions, although the government places considerable restrictions on trade union activities. In 1988 more than 2 million workers were union members in a labor force of 12 million. Well over a million of these union members were black, compared to about 100,000 black union members in 1979 when major reform legislation, in the wake of the Soweto riots and the recommendations of a subsequent commission of inquiry, granted blacks full status as employees and the right to form trade unions independent of direct government control. Migrant workers from other countries also are permitted to join unions and hold office. In addition to representing the workplace interests of their members, black trade unions have increasingly assumed the role of voicing black worker demands for political rights. In February, however, the government issued Order no. 335 which prohibited the Congress of South African Trade Unions (COSATU), the largest union federation, from engaging in political activities, including publicity campaigns which make political demands on government. The state permitted a special COSATU congress called in May to develop responses to the restrictions, but a COSATU-organized conference of antiapartheid groups was banned in September. Four COSATU officials and two top officials of the Postal and Telecommunications Workers Association (POTWA) were restricted to the Johannesburg magisterial district and were required to be in their homes from 6 p.m. to 6 a.m. for a period of approximately 12 days.

Except for public sector employees, the right to strike, long enjoyed by white workers, was extended to all workers regardless of race in 1979. Work stoppages triggered by collective disputes or occasionally political issues have been a commonplace occurrence in the 1980's. The wave of strikes which characterized 1987 abated sharply in 1988. Acts of violence against unions also declined, but several union offices were vandalized and the headquarters of the Transport and General Workers Union destroyed by a firebomb. No arrests were made in connection with the incidents. POTWA and the South African Railway and Harbour Workers union (SAWHWU), which waged lengthy strikes in 1987, appear to have been targeted for state harassment. Several of their officials were detained in late 1987 and 1988.

In September the Labor Relations Amendment Act of 1988, the government's response to the widespread strikes during 1987, was enacted and came into effect. The Act places further limitations on the right to strike, weakens the Industrial Court, and is widely viewed as favoring employers over unions. In June COSATU and the smaller National Council of Trade Unions (NACTU) organized a 3-day work stayaway, one of the most effective in South Africa's history, to protest the legislation. There is a pending freedom of association complaint regarding this Act filed by COSATU which, because

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South Africa is not a member of the International Labor Organization (ILO), has been referred to the U.N. Economic and Social Council.

There are no legal restrictions on union affiliations with regional or international labor organizations; both COSATU and NACTU, by choice, have decided not to seek such affiliations. However, numerous affiliates of COSATU and NACTU, as well as independent unions are affiliates of trade secretariats such as the International Metalworkers' Federation and the Miners' International Federation.

b. The Right to Organize and Bargain Collectively

The South African Labor Relations Act gives private sector employees the right to organize labor unions and to engage in collective bargaining. During 1988 significant sets of negotiations involved the National Union of Mineworkers and the Chamber of Mines and the National Union of Metal Workers and the Steel and Engineering Industries Federation. The state does not interfere with union organizing in the private sector and has generally not intervened in the collective bargaining process. Industrial Court decisions in labor-management disputes appear balanced.

The Labor Relations Act does not cover the approximately two million farm workers and domestic servants, or, with the partial exception of municipal employees, public servants. Most public sector employees do not have the right of collective bargaining, and none have the right to strike.

South African labor relations law does not cover the homelands, which with the qualified exception of KwaZulu, do not have labor legislation to match the post-1979 reforms passed by the South African Parliament. With the partial exception of KwaZulu, there have been reported efforts by the authorities to discourage workers from organizing trade unions in the homelands.

The Mines and Works Act, which became effective in 1988, repealed job reservation for whites in certain skilled mining occupations, removing the last statutory authorization of racially based job discrimination. However, the implementing regulations providing for eligibility standards for applicants may still limit black advancement. The Industrial Court ruled during the year that racial wage discrimination is an unfair labor practice.

Export processing zones do not exist, and labor legislation is applied uniformly throughout nonhomeland South Africa.

c. Prohibition of Forced or Compulsory Labor

There is no constitutional or statutory prohibition against forced labor in South Africa; however, Dutch-Roman common law does not permit forced labor.

d. Minimum Age for Employment of Children

The Basic Conditions of Employment Act prohibits the employment of minors under the age of 15 in most industries, shops, and offices. The Mines and Works Act prohibits minors under 16 from working underground. Trade unions, however, allege that child labor is common. There is no restriction on the age at which a person may work in agriculture.

e. Acceptable Conditions of Work

The Labor Relations Act of 1956 provides a mechanism for negotiation between labor and management to set minimum wage standards industry by industry. At present, some 101 industries come under the provisions of the Act. There is no legal minimum wage in South Africa. The Institute for Industrial Relations' survey found an average minimum monthly wage in negotiated settlements with unions in 1988 to be approximately $250. Various surveys estimated the minimum household subsistence level for a black family of six in the Johannesburg area to be $211 to $316 depending on survey assumptions. (It should be noted that the official exchange rate, upon which these figures are based, understates the domestic purchasing power of the rand.) The Occupational Safety Act sets forth minimum standards for working conditions and employment, including a standard workweek of 46 hours in most industries, as well as vacation and sick leave. The Machinery and Occupational Safety Act mandates minimum standards for the design and use of certain types of industrial machinery, and the standards are enforced.

Attention to health and safety issues has increased in recent years, in part due to pressure from black trade unions. Throughout 1987 and 1988, regulations setting standards under the Machinery and Occupational Safety Act of 1983 were issued, including regulations for workplace environmental standards, asbestos, and general and electrical machinery. The regulations are administered by inspectors of the Department of Manpower. According to Department statistics, there were 400 fatalities in industrial accidents in 1987, compared to 421 deaths in 1986. Building and construction was the most dangerous industry.

Safety issues are particularly contentious in the mining industry, which is governed by regulations under the Mines and Works Act. Regulations providing for management-appointed safety officers and representatives in mines were issued in September.

f. Rights in Sectors with U.S. Investment

The South African Labor Relations Act (LRA) includes provisions meeting minimum international standards on those worker rights recognized in the U.S. Trade and Tariff Act of 1974. All sectors in which there is U.S. investment remaining in South Africa fall under the provisions of the LRA. Worker rights are, therefore, substantially the same for each sector where there is U.S. investment.

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Conditions of work, however, are better than the required minimums in essentially all U.S. firms in South Africa. For example, given the lack of a national minimum wage, wages are arrived at by collective bargaining, which is permitted under the LRA. While there is no official published information on minimum wage rates actually paid, a private survey indicates that negotiations in the chemical and metal sectors have yielded the highest minimum rates. These are sectors with significant foreign (including U.S.) investment.

The Comprehensive Anti-Apartheid Act of 1986 requires U.S. companies in South Africa to establish a minimum wage and salary structure based on the appropriate local minimum economic level, taking into account the needs of employees and their families. Both the U.S. Department of State and the "signatory companies to the statement of principles for South Africa" (formerly the "Sullivan Principles" companies) define this as a base pay at least 30 percent above the minimum level determined in two South African university surveys. In the signatories' report of November 5, 1987, only one of 97 companies failed to meet or exceed the standard. Overall, the signatories reported that their lowest paid employees received wages that were 64 percent above the minimum level. A separate State Department review of 31 U.S. firms that had not signed the statement of principles found only three which did not meet or exceed the standard.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		707
Food & Kindred Products	133	
Chemicals & Allied Products	97	
Metals, Primary & Fabricated	169	
Machinery, except Electrical	131	
Electric & Electronic Equipment	10	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		186
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

SUDAN

Key Economic Indicators

Millions of Sudanese Pounds (Ls) Unless Otherwise Noted

	1985/1986	1985/1986	1987/88 (proj)
Income, Production, Employment			
GDP (current prices)	17,598	21,957	27,975
GDP in 1981/82 Prices	5,937	6,244	6,119
Real GDP Growth Rate (pct)	N/A	5.1	-2.0
Sectoral GDP (Ls)			
Agriculture	2,090,836	2,143,857	1,929,428
Industry	877,351	911,364	889,224
Services	2,254,902	2,445,978	2,500,625
Government	719,286	745,298	791,197
GDP per capita (Ls)	745	866	1,256
Labor Force	N/A	N/A	N/A
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply	12,022	16,865	N/A
Commercial Interest Rate	N/A	N/A	N/A
Savings Rate	N/A	N/A	N/A
Investment Rate (pct)	14.2	12.0	8.6
CPI (1970 = 100)	5,534	6,891	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rates (Ls/$)			
Official	2.5	2.5	4.5
Parallel (est)	5	6	8
Commercial	N/A	N/A	11.5
Balance of Payments and Trade			
Total Exports	1,242.5	1,212.5	2,259.0
Exports to U.S.	45.0	130.5	N/A
Total Imports	2,487.5	2,050.0	5,679.0
Aid from U.S. (mils $)(1)	114.0	86.2	67.0
Total Foreign Aid	N/A	N/A	N/A
External Public Debt	2,629.3	5,516.8	16,450.2
Debt Service Paid	46	143	306
Gold and ForEx Reserves	156.43	67.20	56.4
Trade Deficit	1,245.0	837.5	3,420.0

(1) Including Development Assistance, Economic Support Funds, Titles I and II, and Sec. 416 assistance. Given in millions of U.S. dollars for U.S. fiscal years 1986, 1987, and 1988. The 1986 figure includes substantial emergency food aid which was also approved for subsequent years, but blocked by the Brooke amendment requiring certain payments on outstanding debt. Source: USAID.

Sudan's fiscal year runs from July to June. "Real" GDP figures can not be accurately reported due to unavailability of inflation statistics.

Sources: 1988 Foreign Economic Trends report; Bank of Sudan.

1987, and 1988. The 1986 figure includes substantial emergency food aid which was also approved for subsequent years, but blocked by the Brooke amendment requiring certain payments on outstanding debt. Source: USAID

1. General Policy Framework

The Sudanese economy is dominated by governmental entities which contribute more than 70 percent of new investment. The official private sector's main areas of activity are trading and mechanized, rain-fed agriculture with most private sector industrial investment pre-dating 1980. Other Arab countries have become the predominant sources of foreign investment in Sudan. In recent years, U.S. private investment has been limited to oil exploration and agribusinesses such as hybrid seed production. Much of Sudan's economic activity is removed from official channels due to underdevelopment of infrastructure, the civil war, the black markets, and the refusal of most Sudanese expatriates to repatriate a significant portion of their earnings.

The Government of Sudan uses a system of price controls to subsidize the Sudanese consumer, especially in the politically sensitive tri-city capital area. These controls also include large subsidies to the government-run agricultural schemes which produce many of Sudan's consumer goods, as well as export products. The agricultural schemes absorb a large part of the available government resources, and most could not operate without this government assistance. Prices of key consumer goods are controlled, often resulting in shortages and black marketeering. In addition, expenditures and revenue losses due to the civil war are an enormous burden on the government. Since imports far exceed exports and government expenditures are almost double revenues, the government must borrow a large percentage of its operating budget in order to afford these expensive programs. Current policy allows the Government of Sudan to legally borrow up to 20 percent of its needs from the central bank -- the Bank of Sudan. In recent years, the government has had to spend and borrow beyond these limits, and will probably have to do so again this year.

Excessive government spending and borrowing have saddled Sudan with an enormous debt problem. New money must be printed to cover the government's needs. Inflation is supposed to be managed through the system of price controls, but inflation's impact can be seen in the unofficial markets where most Sudanese make at least some purchases. Sudanese banking practices have replaced interest rates with a "compensatory return system" which has prevented the government from using interest rates as a tool of monetary policy and has discouraged savings. The recently announced dual exchange rate policy is intended to attract foreign currency from expatriate accounts and to encourage exports. A new credit policy provides incentive to certain priority sectors of the economy by allowing them more access to

credit. Foreign exchange reserves have been severely depleted. Even with a better than average harvest and increased exports, hard currencies will be difficult to obtain.

2. Exchange Rate Policy

The Sudanese Pound (Ls) is officially pegged to the U.S. Dollar at Ls 4.5-$1.00. This overvalued official rate is used to price 70 percent of Sudan's imports including the imports of all commodities which the government deems strategic such as wheat, petroleum, medicine, and 25 other products. Foreign missions and some foreign companies must also conduct their business using the official rate. The Sudanese Government announced a second official rate -- the commercial rate (currently around Ls 11.65-US$1.00) -- which is set daily by an independent board of bankers. The commercial rate more accurately reflects the real value of the Sudanese pound. Banks can buy hard currencies at the commercial rate and sell these currencies to finance the remaining 30 percent of Sudanese imports. It should be noted that no licenses to import under this new program have been issued, and we have been told that it will likely be several months before the first such license is issued.

The new exchange policy will only affect the import prices of 30 percent of Sudan's imports. Most U.S. exports to Sudan and U.S. investment in Sudan will still be based on the official rate (Ls 4.5-$1.00), and most of the imports which may now be financed at the commercial rate were already being financed with hard currencies purchased on the black market. The new dual exchange rate policy will not change the price competitiveness of U.S. exports to Sudan.

3. Structural Policies

Government regulations and price controls affect all facets of the Sudanese economy. Prices of all major consumer goods are established by government agencies. Government corporations set the prices of most Sudanese export goods. Even under the new dual exchange rate system the prices of 70 percent of Sudan's imports are based on the overvalued official rate for the Pound. In effect, the government subsidizes the consumer by keeping prices below the real value of the commodities. The Sudanese government tries to enforce these fixed prices by various policing measures including anti-hoarding campaigns. However, the artificially low prices have led to periodic shortages of important consumer items and to an active black market. Government pricing policies have increased demand for U.S. wheat. The artificially low wheat and wheat flour prices encourage the trend to replace sorghum in the traditional Sudanese diet with wheat. At the same time, however, the debt problem, which also results from Sudan's economic structural policies, has made financing of all imports difficult.

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4. Debt Management Policies

At the beginning of 1988, Sudan's international debt was nearing $11 billion, 150 percent of its gross domestic product. Debt to commercial banks stands at $1.9 billion. Sudan's arrearages to the International Monetary Fund (IMF) amounted to about one billion dollars as of November 30, 1988. In fact, Sudan's arrearages to the IMF constitute one-third of the fund's worldwide late payments. Sudan's relations with the IMF have suffered as a result of its large arrearages. When Sudan's payment status continued to deteriorate after the post-Nimeiri government came to power, the government opened discussions with the IMF, supported by the World Bank, on an economic reform and stabilization program.

In August 1987, the government reached a one-year understanding with the IMF, which included a modest devaluation and unification of the exchange rate; limitation on the growth of the money supply; price increases on some strategic commodities; an increase in taxes; a commitment to make explicit, within the budget process, subsidies for government-owned companies; and changes in Islamic banking practices. The government also undertook to develop a four-year comprehensive plan which would decrease regulation of and enhance opportunities for the private sector; reform public sector companies by reducing subsidies and making them profitable; and to continue to close the gap between government revenue and expenditures. Although some of these measures were taken, the Sudanese Government failed to comply with the IMF "shadow" agreement. Sudan is re-opening negotiations with the IMF aiming to reach another shadow agreement. Most of the same issues would be discussed in this round of negotiations as in last year's.

5. Significant Barriers to U.S. Exports

Lack of available financing is the major barrier to U.S. exports to Sudan. The large government deficit has depleted Sudan's foreign exchange reserves making payment for imports difficult. Even U.S. exports in the form of economic assistance have been hindered due to payment problems. An import license must be obtained in order to receive financing at a Sudanese bank. Before the introduction of the commercial rate in October, importers were allowed to import certain goods using hard currencies purchased on the black market. Some industrial inputs from the U.S. were financed by this method. Now the new dual exchange rate policy is intended to supply the banks with enough hard currency for all imports whether they enter at the official rate or the commercial rate. However, hard currency shortages will continue to plague Sudan.

Sudan enforces the Arab League boycott of certain foreign goods. The boycott has hurt the exports of specific U.S. companies. For instance, the Coca-Cola bottler in Sudan was forced to switch production to Pepsi-Cola when the boycott was imposed.

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6. Export Subsidy Policies

Most Sudanese exports have traditionally been managed by product-specific government corporations such as the Sudan Cotton Company, the Sudan Oil Seeds Company, and the Gum Arabic Company. Inefficiencies of these parastatals, together with government pricing policies which have discouraged production (or encouraged smuggling) of export goods, have hindered rather than encouraged Sudanese exports. A new trade policy announced in early November will attempt to remove some of these inefficiencies in a few product categories. About $7 million in export commodities will be fully decontrolled, but many export barriers will remain. For example, the export of oil seeds will no longer be monopolized by the Sudan Oil Seeds Company, but minimum export prices will continue to be imposed. The law also will simplify export procedures and provide exporters with favorable financing. Most of Sudan's government-run agricultural schemes which produce export goods are heavily subsidized.

7. Protection of U.S. Intellectual Property

Sudan is party to the World Intellectual Property Organization, the African Regional Industrial Property Organization, the Patent Cooperation Treaty, the Madrid agreement on trademarks, and the Paris Convention on industrial property.

The Government of Sudan enacted most of its current intellectual property legislation during the 1970's. These laws cover patents, copyrights, and trademarks for Sudanese citizens and for foreign nationals.

Sudanese law requires compulsory licensing of foreign patents, with the commercial registrar's office assigning a Sudanese licensee if one is not chosen by the patent holder within four years of registration. Patents last for twenty years.

Violation of Sudan's copyright protection act is considered a criminal offense. Copyright legislation covers computer software as well as other printed and recorded materials, but software can also be patented if it is a new and industrially-applicable product. Copyrights last for the authors life plus 50 years.

8. Worker Rights

a. The Right of Association

The Sudanese labor movement played an active role in the overthrow of Nimeiri in 1985 and in the formation of the Transitional Military Government leading to restoration of democracy in 1986. Unions have become a strong institution in Sudan. The 1985 Transitional Constitution, amended in March 1987, provides for the right of workers to form and join unions. Unions elect their own leaders without interference

from the government, although all political parties, both within and without the government, take a keen interest in the outcome. The unions' leaders are generally responsive to members' concerns.

The primary labor organizations are the Sudanese Workers Trade Union Federation (SWTUF) and the Sudanese Employees and Clerks Federation (SFETU). The SWTUF, which represents blue-collar workers, has been a stable organization since 1985. Its white-collar counterpart, the SFETU, underwent major changes in December 1987, when the government required it to split into three separate federations: employees, professionals, and teachers. (However, this division, intended to limit the power of the Communists by isolating them in the smallest of the three new federations, was generally supported by the rank and file.) In addition, a Trade Union Alliance composed mostly of white-collar workers and professionals serves as an informal lobbying group. Sudanese unions actively participate in Arab and African labor organizations and the International Labor Organization (ILO). Several small Sudanese unions are affiliated with the Communist-controlled World Federation of Trade Unions. The invited guests and observers at the 1988 General Congress of the SWTUF included officials of the Arab and African regional bodies with which it was affiliated and representatives of counterpart African and Arab federations and of more distant national labor centers such as the American Federation of Labor/Congress of Industrial Organizations.

There is no "labor party" in Sudan. Individual unions tend to support the party adhered to by the union's own elected leadership. The blue-collar unions tend to be more Islamic and traditional and the white-collar ones more secular, although there are exceptions. One important noneconomic issue on which most unions opposed the government in 1988 was the imposition of a new Shari'a (Islamic) legal code.

Strikes are ordinarily legally permissible, except in the judiciary, armed forces, and police. The State of Emergency imposed in August 1988 temporarily banned all strikes. The law stipulates that the process of negotiations and arbitration must run its course before a union may strike. There were, however, a number of strikes in 1988 which did not pursue this process. Although these strikes were technically illegal, the government generally tolerated these strikes and took no legal action against participants. Reacting to a plan of bank employees to strike in protest against the government's plan to privatize publicly owned banks, the Finance Minister in July charged union leaders with manipulating the debate over privatization for their own personal and political goals. The Minister said the Sudanese Government might draft new labor laws to prevent strikes in vital industries, such as finance, water, and electricity. Most strikes in 1988 were motivated primarily by economic considerations, such as demands for pay raises and improved working conditions. Some strikes, particularly after the formation of the government coalition in May, also had political goals.

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b. The Right To Organize and Bargain Collectively

The Transitional Constitution of 1985 provides for the right to organize and to bargain collectively. In 1988 unions representing water and electrical workers, railroad workers, agricultural workers, bank employees, and teachers, among others, bargained with management (in all these cases the government) for better salaries and working conditions for their workers. There are no official constraints on union organization. The catastrophic condition of the Sudanese economy is the primary constraint on the creation of jobs and expansion of union membership. Many observers believe that state-owned enterprises maintain unnecessarily inflated employment rolls and are unwilling or unable to challenge the unions and reduce the rolls. There were no instances in 1988 of any form of intimidation of union officials. This type of activity has been absent since the overthrow of the Nimeiri dictatorship in 1985. Labor legislation is applied uniformly throughout the country, although at present it has limited applicability in the war areas. There are no export processing zones in Sudan.

c. Prohibition of Forced or Compulsory Labor

Government law strictly forbids forced or compulsory labor. There were, however, continued allegations of slavery in Sudan in 1988, and the issue remained controversial in the country. The government has denied that slavery exists. According to some reports, the civil war, particularly the government's practice of arming tribal militia, and economic pressures revived slavery. There have been allegations of persons working without pay as cattle boys and domestic servants.

d. Minimum Age for Employment of Children

The legal minimum age for workers is 16. This law is enforced in the official or wage economy. Cases of child labor are widespread in the parallel economy due to the depressed condition of the Sudanese economy. In rural areas, children assist their families with agricultural work.

e. Acceptable Conditions of Work

Sudanese laws prescribe health and safety standards, but in general, working conditions are poor. Enforcement of environmental standards is minimal. Unemployment and underemployment are major problems in Sudan, particularly among youth. Graduates, even of such prestigious schools as Khartoum University, face severe difficulties in finding any type of employment after completing their education. Sudanese labor laws and practices, by and large, conform to international standards.

The workweek is limited to six days and 48 hours, with a one-day rest period on Friday. Laborers are given an extra month's pay for each year's labor. Most workers receive allowances for transportation and some for housing. These standards are effectively enforced in the official economy,

in both the public and private sectors. However, in rural areas and in the parallel economy, these standards are not enforced. The minimum wage was raised in December to about $67 per month at the official exchange rate, or $26 per month at a new, legal parallel rate which closely reflects the free market. In urban areas workers rely on supplementary means such as some farming, second jobs, or help from the extended family. Salaries in private industry are generally higher than those in the public sector.

f. Rights in Sectors with U.S. Investment

The only sector with more than a minimal level of U.S. investment is the petroleum industry. U.S. firms rigorously abide by the extensive labor laws which have been legislated in Sudan. Workers in U.S. firms in this sector have the right of association, and belong to trade and professional unions, as do most workers in the country. Workers freely organize without company or government interference, and representatives of workers' unions regularly meet and practice collective bargaining with management.

U.S. firms in this sector do not practice any form of compulsory labor. The minimum age for workers is 16, and U.S. companies do not employ persons below the minimum age. Indeed, the U.S. Embassy in Khartoum believes that these firms have not hired anyone under the age of 18. U.S. firms in this sector pay well above the minimum wage and are among the most sought after employers in the country. This income is sufficient to provide a decent living for workers and their families. Because resources of U.S. petroleum companies exceed those of most businesses in the country, they also are able to provide work benefits that exceed legal requirements. Working hours do not exceed 48 hours and workers receive generous paid annual and sick leave.

Sudan has an extensive set of laws relating to health and safety standards at the workplace. These standards are rigidly enforced by U.S. firms and, in the opinion of most observers, are maintained at a level considerably higher than those in the average commercial establishment in Sudan.

There is a much smaller amount of U.S. capital invested in the food and related products sector. Conditions for workers in U.S. firms in this sector mirror those of the petroleum sector, although their wages are marginally less.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		187
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Emalengeni, Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
Real GDP	463.30	467.9(*)	N/A
Real GDP Growth Rate (pct)	8.8	1.0(*)	N/A
GDP by Sector			
Manufacturing	104.7(*)	N/A	N/A
Agriculture	107.0(*)	N/A	N/A
Government Spending	82.5(*)	N/A	N/A
Other	160.1(*)	N/A	N/A
Real per capita Income (E)	685	670(*)	N/A
Labor Force			
Formal Sector	79,121	82,237	N/A
Informal Sector	12,500	12,500	N/A
Unemployment	N/A	N/A	N/A
Money and Prices			
Money Supply	91.5	117.5	156.2
Commercial Interest Rate (pct)	14.3	11.9	13.1
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index (pct)	10.6	13.0	13.7
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (E/US$)	2.50	2.02	2.26
Balance of Payments and Trade			
Total Exports fob	610.0	759.2	844.4(*)
Total Exports to U.S.	32.3	38.0	42.2(*)
Total Imports cif	809.2	876.5	843.6(*)
Total Imports from U.S.	6.5	8.8	8.4(*)
Aid from U.S. (US$ mil)	9.8	10.6	11.5
Other Aid (US$ mil)	12.5	14.7	N/A
External Public Debt	471.8	507.5	532.5
Annual Debt Service	54.0	71.8	102.1
Gold and ForEx Reserves	167.3	206.4	245.4
Balance of Payments	15.4	42.9	16.7(*)

* = Estimate.

Notes: Real figures are based on 1980 prices. Interest Rate, exchange rate, foreign exchange and money supply figures are second quarter figures for each year. Debt figures reflect March to March period. U.S. aid figures for FY87 and FY88 include section 416 funds from the sugar quota offset program.

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1. General Policy Framework

Swaziland has a relatively diversified economy, characterized by a high degree of openness. Approximately 80 percent of the population is engaged in subsistence agriculture, although there is a growing industrial sector based primarily on agribusiness and forestry. Swaziland's economy is highly dependent on South Africa, from which about 90 percent of its imports come and to which it is institutionally linked via the South African Customs Union (SACU) and the Common Monetary Area (CMA).

The Swaziland Government limits its involvement in business to formulating legislation concerning incorporation, taxation, and health and safety rules. The government has partial ownership in a number of private concerns, though it plays a basically passive equity-provision role. There are several parastatal organizations (i.e. television, the airline), but no major business enterprises are state owned.

Swaziland's conservative fiscal policy has traditionally led to small, manageable budget deficits, with the 1987 deficit provisionally estimated at only 1.2 million emalengeni. Financing of deficits has usually been split between foreign and domestic bank borrowing. Social services (health, education) constitute the lion's share of recurrent government expenditure, while capital expenditures fall primarily in the transport and communications sectors.

The Swaziland Industrial Development Company is a parastatal development organization aimed at providing financial and technical assistance to investors. While its services are available to local investors, it has been used primarily by foreign businesses investing in the country. There are tax benefits (i.e. a five year tax holiday) accorded to new investors in Swaziland. Swaziland does not have a monetary policy, as such. As a member of the Common Monetary Area (CMA), it has ceded monetary decision making to the South African Central Bank. While the rand is no longer legal tender in Swaziland, it is accepted everywhere. The Swaziland Central Bank does issue its own currency, but, due to the pervasive use of the rand, it cannot effectively control money supply. Because of freedom of capital flows within the CMA, interest rates in Swaziland follow South African rates. The Swaziland Central Bank has maintained a reserve requirement for local banks of 6 percent since 1976.

2. Exchange Rate Policies

Although the 1986 conversion of the Rand Monetary Area into the CMA resulted in a delinking of the lilangeni/rand one-to-one exchange, the Swaziland Central Bank has continued to maintain the parity. There is no parallel rate -- South Africa's financial rand has no Swazi equivalent (although the financial rand mechanism can be used by investors to invest in Swaziland).

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Exchange controls in effect in South Africa also hold in Swaziland. However, these controls serve more as a monitor of foreign exchange movements than as an enforcement mechanism. The Swazi Central Bank must approve transfer of capital and dividends to and from Swaziland and non-CMA countries. Central Bank approval is also required for raising capital in Swaziland through share or bond issuance, when the aggregate amount exceeds E100,000 over any 12 month period. Such approval is routinely granted.

3. Structural Policies

The Swazi economy is free-market oriented, and the government is reluctant to introduce policies which interfere with its operation. There are no government subsidies or controls that have any discernible impact on U.S. exports to the country.

The key tax factor influencing U.S. exports to Swaziland is the common external tariff imposed by the SACU. This tariff is determined by the South African authorities. The recent introduction of significant import surcharges (up to 60 percent) on many goods means imported goods coming into Swaziland will be more expensive. This tariff is general and is applied on a most-favored-nation basis.

To encourage industrial development in Swaziland, the government offers industrial rebates and drawbacks of customs duty in some cases. Specified imported materials and components used in manufacturing are eligible for 100 percent rebates of the tariff. Also, certain raw materials imported to produce goods for export also are eligible for refund of duty. Neither policy has a noticeable effect on U.S. imports to Swaziland.

Government tenders are subject to a local price preference of 10 percent for all goods and services.

4. Debt Management Policies

Swaziland's external debt is relatively small and manageable, though it has grown over the last several years. Total external debt in March 1988 stood at E532.5 million, and the debt service ratio as a percentage of exports of goods and services stood at 9.8. Debt is split fairly evenly between international organizations and foreign governments, with negligible private sector debt. Swaziland has not rescheduled debt, has no structural adjustment programs in operation, and has good relations with international financial institutions. Swaziland's external debt has no effect on U.S. trade.

5. Significant Barriers to U.S. Exports

The most significant barrier to U.S. exports is Swaziland's membership in SACU. The recent imposition of higher import surcharges makes all imported goods more

expensive and less competitive than those produced in South Africa. Also, the SACU regulation that goods must clear customs at the point of entry into the Union means that almost all goods destined for Swaziland clear customs in South Africa. Given the current political climate, this could make U.S. exporters reluctant to ship goods to Swaziland. Other than the SACU connection, there are no significant barriers to U.S. exports to Swaziland.

6. Export Subsidies Policies

Swaziland's only special export program is duty rebates on certain raw materials to be used in production of export goods and on specified goods re-exported in the same condition as originally imported. This is a general policy, not aimed specifically at small businesses.

7. Protection of U.S. Intellectual Property

The issue of intellectual property is not central in Swaziland. Laws covering patents, trademarks and copyrights derive from the colonial period. Swaziland is not a party to any of the major intellectual property conventions. To a large extent, the country has no real control over patent, copyright and trademark activities. Under current legislation, patents in the United Kingdom or South Africa are generally covered in Swaziland. Swaziland does not have the resources to develop its own patent office, and has resorted to a regional approach, using the African Region Industrial Property Association (ARIPA) in Zimbabwe to determine eligibility of patents.

Despite the government's lack of authority over patents, copyrights and trademarks, there have been few problems in the intellectual property realm. Patents are granted for 20 years. There is little to no piracy of music, videos and the like. There have been no recent challenges of patent or copyright infringement.

Swaziland's Ministry of Justice anticipates that a new Trademarks Act will come into force within the next six months. The Act, which has already been written, will give Swaziland more control over the granting of trademark rights than it currently enjoys. The new Act is not expected to cause delays or problems in the trademark area.

8. Worker Rights

a. The Right of Association

The Industrial Relations Act (IRA) of 1980 reaffirms the right of trade unions to exist, organize, and associate freely. Trade unions have widened the scope of their activities since 1981 but, since most Swazis are subsistence farmers, they play a small role in the economy and have little political influence. They are able, within limits, to operate independently of government or political control.

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Unions are free to draw up their own constitutions within the framework of the IRA. The Act specifies a number of provisions which must be addressed in a constitution. These include provisions for election of officers by secret ballot, annual meetings (at a minimum) open to all members, fees, grounds for suspension of members, paying out of union funds, and other rules. A constitution must be approved by the Labor Commissioner, who can strike out or amend provisions which violate requirements of the law. Union representatives are freely elected by secret ballot. Unions cannot be dissolved as long as they adhere to the regulations of the Industrial Relations Act. Unions which fail to maintain proper registration with the Labor Commissioner can be dissolved.

The IRA details the steps to be followed when disputes arise, including what determines the legality of a strike. The Act provides for an Industrial Court, presided over by a High Court judge, for the settlement of employment disputes. The Industrial Court is empowered to hear and give judgment on disputes and grievances and to enjoin any organizations from striking or continuing to strike.

Strikes are rare in Swaziland and are generally considered to be "unSwazi" by the government and most of the population. When disputes arise, the government tries to intervene to reduce the likelihood of a strike, which may not be legally called until all avenues of negotiation have been exhausted. The Labor Commission may then issue a 14-day postponement of any strike which may be extended upon presentation of additional documentation. Where the national interest or welfare is concerned, the Minister of Labor may forbid a strike or may refer the dispute to the Industrial Court. In June 180 striking workers at a furniture factory lost their jobs after refusing to return to work when the government declared the strike illegal on the ground that the strikers had not followed the dispute resolution channel prescribed by law.

The Swaziland Federation of Trade Unions, the union umbrella organization, participates in the International Labor Organization and is a member of the Organization for African Trade Union Unity. Two international union conferences were held in Swaziland in 1988. In March the Southern African Trade Union Coordination Council held a transport union workshop in Mbabane. In July the International Confederation of Free Trade Unions and the African Regional Organization held their 10th regional conference in Swaziland. This willingness to host labor conferences constitutes a change in government attitude in the last two years. In 1986 it refused to allow an international meeting of trade unionists to take place in Swaziland.

b. The Right to Organize and Bargain Collectively

The Industrial Relations Act of 1980 provides for the right to organize and bargain collectively. The Industrial Court is empowered to register collective agreements. The Industrial Relations Act has provisions which outlaw interference and antiunion discrimination by employers.

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Disputes in this area are referred to the Labor Commissioner and then the Industrial Court, if necessary. Employers can prohibit employees from attending union functions when the union does not have the 40 percent membership in the workplace required for recognition. However, members of a legally recognized union must be allowed to attend union activities. There are no off-shore manufacturing facilities in Swaziland, and labor legislation is applied uniformly throughout the country.

While collective bargaining does occur, it is generally on a low scale and in specific sectors. The right of unions to organize is codified, and there is little overt antiunion discrimination. The government constantly works to avoid labor confrontation, encouraging voluntary negotiations between employers and unions. The government, while not openly antiunion, frequently refers to labor unrest as threatening to Swaziland's image as a fruitful and stable place for foreign investment.

c. Prohibition of Forced or Compulsory Labor

There is no forced labor in Swaziland, and such labor is legally prohibited.

d. Minimum Age for Employment of Children

The Employment Act of 1980 prohibits the hiring of a child below the age of 15 in an industrial undertaking, except in cases where only family members are employed in the firm, or in technical schools where children are working under the supervision of a teacher or other authorized person. Legislation limits the number of night hours which can be worked on school days and limits such work overall to 6 hours per day or 33 hours per week. However, such provisions are difficult to enforce due to the small size of enforcement staff.

e. Acceptable Conditions of Work

There is extensive legislation, notably in the Employment Act of 1980, protecting worker health and safety in Swaziland. There is a 48-hour workweek in the modern sector. Swaziland does not have a single minimum wage but rather has a sliding scale of minimum wages depending on the type of job. For a clerk, the level is about $22 per week. This salary places the clerk above the average per capita income. A casual laborer earns about $10 per week. Most Swazi families also cultivate and graze cattle on Swazi national land on which their homesteads are erected and from which family income is also derived.

In 1987 the Ministry of Labor and Public Services conducted a safety survey of 28 industrial establishments. The average yearly accident rate for the companies was 5.2, deemed by the government to be too high. Consequently, the Ministry of Labor and Public Services directed employers to introduce accident prevention programs and reminded them of their responsibility, under the Workmen's Compensation Act of

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1983, to report all accidents to the Swazi labor office within seven days of occurrence.

f. Rights in Sectors with U.S. Investment

There are only two companies with U.S. capital operating in Swaziland, one in the food and related products sector and one in other manufacturing (textiles). Although right of association, organization and collective bargaining are potentially available in both industries, neither company has recognized a union because no union has achieved the 40 percent membership of the workforce required by law for recognition. There is no forced or child labor in either company. Both companies stick to Swazi regulations regarding working hours, and both pay minimum wages or higher. Occupational safety and health are not problems in either industry.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-3
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-3
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

TANZANIA

Key Economic Indicators

Millions of Tanzanian Shillings Unless Otherwise Stated

	1986	1987	1988 (est)
Income, Production, Employment			
Real GDP (base=1976)	25,158	26,142	27,188
Real GDP Growth (pct)	3.6	3.9	4.0
Real GDP by Sector (1976)			
Agriculture, Forestry, Fishing, Hunting	11,557	12,066	N/A
Mining and Quarrying	167	165	N/A
Manufacturing	1,991	2,075	N/A
Electricity and Water	544	585	N/A
Construction	752	774	N/A
Wholesale/Retail Trade, Hotels and Restaurants	2,953	3,086	N/A
Transport/Communications	1,514	1,582	N/A
Financial Services	3,283	3,362	N/A
Public Administration and other services	3,283	3,309	N/A
Real per capita Income	1,149	1,157	1,203
Size of Labor Force	692,789	721,038	757,089
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (yr-end)	49,577	66,195	58,138
Interest Rates (pct)(1)			
Short-term	13-21	20-29.5	20-31
Medium and Long-term	14-21	21-29.8	20-31
Housing Mortgages	13-21	9-27.5	9-31
Savings Rate (pct)(1)	15.00	24.00	26.0
Investment Rate	N/A	N/A	N/A
CPI (1977 = 100)	775.2	1,007.4	1,233.7
Wholesale Price Index	N/A	N/A	N/A
Exchange Rates(2)			
Official	33	64	95
Parallel	140	160	180
Balance of Payments and Trade			
Total Exports fob	11,484.0	22,195.0	38,180.5
Total to U.S.	419.1	915.2	2,280
Total Imports cif	34,650.0	74,560.0	117,695.5
Total from U.S.	1,250.7	2,208	3,800
Aid from U.S.	122.1	4,160	1,301.5
Aid from Others(3)	N/A	N/A	N/A
External Public Debt	120,450	234,880	386,460
Annual Debt Service (paid)	3,029.4	21,440	29,545
ForEx Reserves	1,584.4	5,910.8	14,127.2
Balance of Payments	-9,458.3	-23,443.9	-27,170

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Notes:
(1) Interest and savings rates are for 7-1-86, 7-1-87, and 11-15-88.
(2) Between 1986 and 1988, there was a significant exchange rate change. Figures are converted from USD values at average exchange rates.
(3) Separate figures for bilateral aid are not available. Total external aid was $420 million in 1986 and $490 million in 1987.

Source: Bank of Tanzania, Tanzanian Ministry of Finance and Economic Planning, World Bank and U.S. Embassy Assessments.

1. General Policy Framework

Major macroeconomic, structural and sectoral imbalances have existed in Tanzania's economy since the late seventies. Begun in 1986, Tanzania's three-year Economic Recovery Program (ERP) under President Ali Hassan Mwinyi is on track, and reform measures could be favorable for U.S. investors and exporters. Real economic activity is rising for the third straight year, and most sectors should experience growth in 1988. ERP objectives are to increase agricultural production; rehabilitate physical infrastructure; increase industrial capacity utilization; and institute prudent monetary, fiscal, and trade policies.

Tanzania's budget (recurrent and development expenditures) is financed by recurrent revenue, external loans and grants (counterpart funds in Tanzanian Shillings), bank borrowing and domestic non-bank borrowing. No external commercial borrowing is done for the national budget. Any bank borrowing required in the government budget comes from the central bank, not from the commercial banking sector (National Bank of Commerce), so as not to crowd other sectors out of the commercial banking system. Traditionally, the government tends to overspend on recurrent expenditures and underspend on the development budget. The year 1988 is the first in which revenues were higher than projected; thus the deficit was contained, though not eliminated. The deficit resulted from ambitious social programs (health, education and water supply). Loans from the multilateral development banks go to the development budget. Equipment purchased with these loans is sold to projects (public and private enterprises), and Tanzanian Shilling (TShs) receipts are then used to cover the local component cost of projects in the development program.

The central bank only prints money at the end of the financial year (July-June) to cover any imbalance with real sector demand. In the interim, the government borrows from the Bank of Tanzania (the central bank) or from the commercial banking sector (the National Bank of Commerce) and, indirectly influences the money supply. The "bank borrowing" element in the budget is tuned with money supply growth and inflation targets.

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A new Investment Code, now planned for publication by early 1989, reportedly has a complete package of competitive foreign and domestic private investment incentives. Some investments are restricted to the state, i.e., railways, harbors, electricity, urban water supply and major infrastructure, but the government is open for collaboration in other areas. Regarding major tax policies, the government has reduced income tax rates and slashed customs tariffs from 20 categories to seven, with exemptions for basic and essential goods. This rationalization of sales and excise taxes was aimed at allowing a more acceptable minimum of effective tariff protection. In 1988-89 the Government of Tanzania will review personal income tax rates for further reductions, as well as the tariff and sales tax structure.

The Tanzanian Government uses credit ceilings to control the money supply. A credit plan is prepared with the International Monetary Fund(IMF) to set ceilings on different sectors of the economy to favor the productive sectors. Reserve and liquidity ratios are used to a lesser extent. The discount rate is set high to discourage the commercial banking sector from borrowing from the central bank and to avoid the consequent credit expansion. Agreement is normally reached with the IMF on interest rates and credit ceilings under the Economic Recovery Program (ERP). Rates have been progressively adjusted with the objective of establishing a positive interest rate structure. The volume of paper money is also set with the IMF. Open market operations are minimal.

2. Exchange Rate Policies

The Tanzanian Shilling is managed on the basis of an appropriate real effective exchange rate. To correct a large overvaluation, the Tanzanian Shilling was allowed to depreciate rapidly from a value of 17 TShs to one US$ in April 1986, to 40 to the US$ by June 20, 1986, to 74 by mid-November 1987 and to 90 by early January 1988. Subsequently, the authorities slowed down the pace so that the rate was 97 at the end of June 1988 and even appreciated against the currencies of major trading partners between June and October 1988. A new exchange rate path commenced November 1988 following the October agreement with the IMF on a second year Structural Adjustment Facility (SAF). This policy makes Tanzanian exports more profitable but raises the price of foreign imports denominated in U.S. dollars and in other foreign currencies.

3. Structural Policies

The decontrolling of prices continues. The list of categories subject to control is down from over 400 categories of goods in the early 80's to only 12. Calculation of prices equivalent to international prices should make U.S. products more competitive. Changes in customs duties are designed to improve incentives for industrial production and to increase essential commodities. To stimulate imports in targeted sectors, customs tariffs have been slashed and the categories consolidated from twenty to seven.

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To increase disposable income, the Government of Tanzania has increased wages by 20 percent and awarded rent and transportation allowances to cushion workers against inflation. Continuation of the reform program should lead to increased opportunities for U.S. exporters and investors, some through multilateral and U.S. AID lending programs. Important ERP targets which directly affect imports -- including export incentives, reductions in price and trade controls, and better fiscal performance -- have been met.

The government is carrying out studies and making corrections as appropriate with a view to reducing the burden on tax payers, promoting domestic industries, and encouraging export production and improving the government resource base.

Sectors that have been targeted for foreign investment include industry, tourism, and agribusiness. Liberalized import programs facilitate entry of selected imports destined for both public and private sectors. The Own-Funded Import scheme enables an inflow of incentive goods, spare parts and other producer goods. The Export Retention Scheme (ERS) was launched in September 1986 as a transitional measure prior to an equilibrium exchange rate situation. Exporters of nontraditional products are allowed to retain 50 percent of their foreign exchange earnings to finance imports of specified items. With the new IMF agreement, as of January 1989, the ERS will be phased out selectively, although the scheme will continue for a small volume of nontraditional manufacturing and agricultural exports. The introduction of an Open General Licensing Facility (OGL) in February 1988 liberalized trade further by providing access to foreign exchange through the central bank for a list of selected imports.

4. Debt Management Policies

Tanzania's official debt was rescheduled by the Paris Club in September 1986, and again in December 1988. Strong multilateral (including IMF and World Bank) and bilateral donor support continues for Tanzania and was reiterated during a review of the ERP's second year at the mid-July Consultative Group (CG) meeting in Paris. Tanzania borrows little on the commercial market. There has been no rescheduling of commercial credit, which is minimal ($85 million in 1986, and $100 million in 1987). Most of Tanzania's external debt is official.

5. Significant Barriers to U.S. Exports

The importation of goods into Tanzania is subject to government licensing policy and to exchange controls.

No foreign commercial banks have operated in Tanzania since they were nationalized in 1967. Monetary institutions, some financial services, and insurance are restricted to the government. There is no stock exchange in Tanzania. There is no indigenous motion picture industry, and imports of films

are strictly censored and controlled. International airlines do have access to airports located at Kilimanjaro and in Dar es Salaam. There are several minor airports around the country, but the domestic carrier, Air Tanzania Corporation, services most internal flights. Private charter aviation companies also operate smaller aircraft. Legal services are available.

The Board of External Trade (BET), a parastatal in the Ministry of Industries and Trade, is responsible for quality control, standards and packing. It focuses more on regulating domestic exports than imports from abroad. Domestic standards are established by desk officers in each area, primarily in the food area (canned fruits, coffee, and pulses). Testing is performed by Bureau of Standards laboratory technicians in close collaboration with the BET. Export and import labeling must generally conform with established international regulations with major trading partners, i.e, the European Community.

The government approval process for investment projects is laborious and involves clearances from the Ministry of Finance and Economic Planning, the relevant ministry and the Bank of Tanzania. An Industrial Licensing Board in the Ministry of Industries and Trade approves all industrial projects of value exceeding TShs 5 million. For amounts below TShs 5 million, approval can be made by the latter Ministry's Registrar. Foreigners are allowed to invest in every sector in projects totaling more than TShs 500,000. The minerals sector has particular restrictions, but policy is under review. Specific investment agreements must be negotiated with each concerned ministry, but the new Investment Code reportedly will centralize the approval process in a new body to facilitate investments. The Foreign Investment (Protection) Act of 1963, which covers the mainland, seeks to provide certain statutory guarantees to foreign investors. A separate act covers Zanzibar.

There are no legal barriers against repatriation of earnings. However, no repatriation of profits and dividends has occurred since the 1970's due to the economic crisis in Tanzania and foreign exchange constraints. Compensation is authorized for expropriations. The Government of Tanzania plans to join an international organization that mediates between investors and host countries on expropriation matters. Although foreigners can buy property, the government retains land ownership and will lease for periods up to 99 years, with option to renew.

There are burdensome administrative procedures and special document requirements for nearly all categories of imports. Some were imposed in a move to curb widespread tax evasion. Under the import relaxation policy, no special clearance is required for certain food items and imports intended for the tourist, education, communication, transport, and construction sectors. Selected industrial and nontraditional goods and services may be exported without special clearance.

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6. Export Subsidies Policies

The Government of Tanzania does not subsidize exports directly. However, various policies are designed to facilitate growth and expansion of exports. In addition to the restructuring of customs duties, the government plans to amend the sales tax structure to simplify tax administration as an export incentive. A duty drawback scheme for imported inputs also is planned for 1989 to insure that exporters will be taxed only once, either on the inputs or on the final goods.

7. Protection of U.S. Intellectual Property

Tanzania's intellectual property practices generally appear positive for U.S. exporter interests. Tanzania is a member of the World Intellectual Property Organization and party to the Paris Convention for the Protection of Industrial Property. It is also a member of the African Regional Industrial Property Organization (ARIDO) and has generally supported African positions in international fora. The legal system for intellectual property is currently under review, and new laws and regulations are expected to completely overhaul aspects of the administration in this area. Enforcement is civil and criminal and in a recent test case a decision was rendered in favor of a U.S. patents holder.

A 1987 Patents Act is not yet in force. Consequently, a pre-Independence Patents Ordinance requires that a patent be registered with the British Patents Office in order to be legal in Tanzania. (The new 1987 Patents Act removes this provision and establishes an independent patents office in Tanzania.) To date, few industrial patents are registered for Tanzania. Of the registered patents, most are from the United States, followed by the United Kingdom, Switzerland, West Germany, and Japan. The new act reportedly includes a compulsory licensing provision for the "public interest." Protection period is for 20 years; renewal for another 10. Under the new act, protection is for 10 years, then five, followed by public domain.

There is direct registration for trademarks except for textiles and steel, which must still be registered in the United Kingdom. There is a 1986 Trademarks Act, not yet in effect pending publication of regulations. There are no barriers to gaining and maintaining registration.

The 1986 Copyright Act provides for copyright protection but no copyright registration in Tanzania. There is automatic protection after publication. Piracy of audio cassettes is epidemic in Tanzania, especially since trade liberalization in 1984. Imports of counterfeit musical and video cassettes come from the Middle East, Thailand, Taiwan and South Korea.

New copyright regulations will reportedly also cover new technologies such as computer software. The special licensing unit in the Ministry of Industries and Trade sends most of its employees to the United States for any training required in this area.

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8. Worker Rights

a. The Right of Association

The right of association is limited to one labor union organization, Juwata, which is an organ of the party. In Tanzania's single-union system, all unions must belong to Juwata, and no independent unions are legally recognized. All businesses and government offices with more than a few employees are required to have a Juwata chapter. Juwata represents about 60 percent of the workers in industry and government, but it has limited influence on labor policy. Tanzanian workers are not required to join Juwata.

While it has never done so, Juwata can call for a closed shop in any industry where 50 percent of the workers or more are Juwata members. The union does collect dues from all workers -- members or not -- when the employer agrees. This is the case now for government employees and workers in most state-owned corporations.

Tanzanian workers have the right to strike, and strikes do occur. There is a process of appeals in labor disputes that leads finally to the Permanent Labor Tribunal, which receives direction from the Minister for Labor and Manpower Development. If the union is not satisfied with the Tribunal's decision, a strike is then legal. The employees of the state-owned Tanzania-Zambia Highway Corporation went on strike in early 1988 after following this process.

While Juwata is still a party organ, it has developed a degree of independence in the last two years. Previously, the Secretary General of the union was selected by the party. In 1988 Juwata began a new process of membership elections of leaders from the grassroots level, and a new Secretary-General will be elected by the members in May 1989. As a matter of policy, Juwata participates in meetings of the International Labor Organization (ILO), to which Tanzania belongs, and limits its international affiliations to regional organizations, such as the Organization of African Trade Union Unity and the newly formed East African National Trade Unions Consultative Council. The trend towards greater independence from the government is reflected in Juwata's new positive relationship with the American Federation of Labor/Congress of Industrial Organizations's African-American Labor Center.

b. The Right to Organize and Bargain Collectively

Collective bargaining is limited to the private sector. Wages for government employees are set by the government, and Juwata does not bargain collectively on behalf of government employees. At the local level, Juwata promotes employee welfare by filing grievances against employers, usually involving pay disputes. The practical limitations on the right to bargain collectively are reflections of Juwata's situation as the organ of the party in a one-party state. These same limitations apply to the question of the

government's role in union affairs. Union rights are incorporated into law -- specifically the Security of Employment Act. The law is enforced, but the line between the government and the government union can be difficult to discern. Grievances which cannot be settled in the workplace are taken to the Permanent Labor Tribunal. The ILO Committee of Experts has observed that the current provisions requiring the Permanent Labor Tribunal to approve collective agreements are not in conformity with ILO Convention 98. The Committee has noted that "the information supplied by the government reveals that the collective bargaining process has been improved in practice" and that the government has stated its readiness to revise these provisions. Labor laws are applied uniformly throughout the country. There are no export processing zones in Tanzania.

c. Prohibition of Forced or Compulsory Labor

For a number of years the ILO Committee of Experts has observed that provisions of various Tanzanian laws (i.e., Local Government -- District Authorities -- Act, 1982; Employment Ordinance; Human Resources Deployment Act, 1983; Ward Development Committees Act, 1969; Resettlement of Offenders Act, 1969; Newspaper Act, 1976; Penal Code; Merchant Shipping Act, 1967; and Permanent Labour Tribunal Act, 1967) are incompatible with ILO Conventions 29 or 105 on forced labor. The Human Resources Deployment Act, for example, requires every local government authority to insure that able-bodied persons over 15 years of age engage in productive or other lawful employment. In the past, this has led to massive police sweeps in Dar es Salaam's streets to round up persons who had no evidence of employment. The legislation has been interpreted more leniently recently (street vendors are now regarded as "gainfully employed"), and there were no massive roundups of urban unemployed in 1988. The Committee of Experts has called on the government to amend the laws described above so as to bring them into conformity with the ILO conventions; but, despite the government's expressions of good intent, this has not yet been accomplished.

d. Minimum Age for Employment of Children

Section 77 of the Employment Ordinance prohibits children under the age of 15 from working. This provision applies only to the formal wage sector in both urban and rural areas and not to children working on family farms or herding domestic livestock. A young person between the ages of 15 and 18 may be employed provided the work is safe and not injurious to health, and young people are not allowed to work between 6 p.m. and 6 a.m.

e. Acceptable Conditions of Work

Tanzanian workers work a 40-hour, six-day week. In general, women cannot be employed between 10 p.m. and 6 a.m. Several laws regulate safety in the workplace, including the Factories Ordinance, the Accidental and Occupational Diseases Notification Ordinance, and the Workmen's Compensation Ordinance. In 1986 the ILO and the Ministry of Labor and

Manpower Development completed a project establishing an occupational health and safety factory inspection system. Employers in Tanzania are required to have liability insurance. According to Juwata, inspections are made and safety regulations are enforced.

The minimum wage for government workers on the mainland was raised to $16.33 a month in the July budget presentation. Juwata then negotiated with the Association of Tanzania Employers and obtained a similar monthly minimum wage for nongovernment employees. Housing and transport allowances, food subsidies, and other benefits help, but government salaries at all levels are very low. Current economic conditions, a large civil service, and a government very short of resources all militate against a sharp rise in the minimum wage. There is no legal discrimination in wages on the basis of sex, but in practice discrimination occurs. Enforcement of these laws and regulations can be erratic in a society where corruption has become a major problem and the functioning of government machinery is flawed. The vast majority of Tanzanians are subsistence farmers and are not affected by current government labor regulations and safeguards.

f. Rights in Sectors with U.S. Investment

The petroleum sector is the only sector of the economy with any significant U.S. investment. Two of the five oil marketing companies operating in Tanzania are U.S.-owned. Employees are required to establish an office of Juwata, the one legal trade union in Tanzania. At this time, four employees of one of the U.S. firms and no employees of the other belong to Juwata. The others have either dropped their union membership or elected not to join. Legally, employees can choose to join Juwata or not, but they cannot form another union. At one of the U.S. firms, workers have formed their own workers' committee which negotiates wages and benefits annually with management.

Labor inspectors working for the Ministry of Labor conduct periodic inspections to see that the regulations are followed, and there also are periodic fire and safety inspections. Enforcement, however, is far from ideal. Juwata says that the labor inspectors' office is understaffed, and one of the U.S. firms reports one safety inspection but no labor inspections during the last three years.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Constant 1966 Shillings Unless Otherwise Noted

	1986	1987	1988
Income, Production, Employment			
Real GDP	6,715	6,643	6,838
Real GDP Growth Rate (pct)	-1	-1.1	2.9
GDP by Sector			
Agriculture (monetary)	1,493	1,385	1,440
Agriculture (non-monetary)	1,993	1,933	1,973
Misc. Manufacturing	267	235	248
Government	932	941	950
Electricity	78	95	131
Real per capita Income	457	433	440
Size of Labor Force(1)	N/A	N/A	N/A
Unemployment Rate	N/A	N/A	N/A
	12/86	12/87	3/88
Money and Prices			
Money Supply (M1 billions)	618.5	16.52	21.42
Commercial Int. Rates (pct)	38	22-25	28-32
Savings Rate (pct)	5.5	5.2	7.1
Investment Rate (gross pct)	8.1	12.0	16.0
Consumer Price Index (4/81=100)			
Middle Income	4,691	12,313	14,218
Lower Income	2,317	6,420	9,235
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate(2)			
Official	1,400	60	60
Parallel	8,000	160	400
Balance of Payments and Trade (millions of US$)			
Total Exports fob	379	383	303
Exports to U.S.	139.5	85.4	N/A
Total Imports cif	379	494	606
Imports from U.S.	4.2	18.7	N/A
Aid from U.S.	14.7	17.4	29.8
Non-U.S. Foreign Aid			
Grants	16.3	22.6	78.2
Loans	88	125	135
IMF Loans	0	57	34
External Public Debt	1,127.1	1,206	1,416.8
Annual Debt Service Paid	13	30	20
Gold and ForEx Reserves	64	31	35
Balance of Payments	31	-82	-205

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Notes:

All figures in first two sections for fiscal years ending in June. Figures in third section for calendar years.

(1) Population census in 1980 reported 12,636,600 persons, 1988 projection 15,947,800. About 92 percent of the population is rural. Projected growth rate for 88/89 is 5.3 percent.

(2) For three months in 1986 there was a fixed rate and an auction rate. In May 1987 the government issued new currency (100 old = 1 new shilling), devalued and placed a 30 percent tax on all money converted to new currency. From May 1987 to July 1988 the exchange rate was 60 shillings to the dollar. On July 1, 1988 the shilling was devalued to 150 to the dollar.

1. General Policy Framework

Uganda is an agricultural country. From independence in 1962 until 1972 Uganda's promising economic performance was based on diversified cash crops for export and a nascent industrial sector. In 1972 Uganda's economy started to fall apart from internal political strife, expulsion of Asians, economic mismanagement and corruption. This decline continued for 14 years. In January 1986 the National Resistance Movement took power and began to restore political stability and economic confidence. Even though the country still suffers from political conflict in the north and east, efforts are being made, with international donor support, to rehabilitate Uganda's economic infrastructure.

Agriculture will continue to be the basis of Uganda's economy. Monetary and non-monetary agriculture represents about one-half of gross domestic product (GDP). Coffee, which has been less effected by the economic and political turmoil than other sectors, accounts for over 90 percent of all export earnings. Cotton, tobacco and copper were among the agricultural and processed exports important in the late 1960's.

In May 1987 the government implemented a comprehensive economic rehabilitation and adjustment program with support from the International Monetary Fund (IMF), World Bank, and bilateral donors. Macroeconomic policies designed to correct imbalances in the economy and create production incentives rely heavily on coffee export earnings, foreign loans and grants.

In May 1987 the government issued a new currency (100 old Shillings = one new Shilling) and imposed a 30 percent tax on currency converted. Between May 1987 and mid-1988 the money supply tripled as the government printed money to finance the deficit, creating strong inflationary pressures. Since July 1988 inflation has begun to decline as the government has kept a tight lid on expenditures and resisted printing money to finance expenditures.

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Because of the history of economic instability and hyperinflation over the past two years, a large proportion of the money supply is held outside the banking system -- currently estimated at 60 percent to 70 percent. Ugandans prefer to hold cash or assets rather then bank deposits. Local cover to purchase foreign exchange from the central bank is often difficult to raise.

2. Exchange Rate Policies

The government pegs the shilling value to the U.S. dollar and adjusts other foreign currencies accordingly. Official foreign exchange is allocated by a foreign exchange committee with the Bank of Uganda (BOU). The BOU established an open general licensing scheme (OGL) to allocate foreign exchange to selected industries in January 1988. Coverage of the OGL is to be expanded in the future. Many imports enter with "no foreign exchange required" import licenses; they are financed with parallel market dollars because of the limited foreign exchange within the banking system. Open market selling prices reflect the high cost of foreign exchange.

Past governments used a two-tiered exchange rate system, a practice which was discontinued by the present government. An exchange rate of 60 Shillings to one Dollar was in effect from May 1987 until July 1988 when it went to 150 to the Dollar. The government is committed to reviewing exchange rate policy quarterly, and adjusting the rate to avoid its real appreciation over the next year. In November 1988 the parallel market rate was about three times the official rate.

3. Structural Policies

Many goods and services are priced at parallel market values. Often the government or businesses will ask for bids on goods in shillings leaving it to the private supplier to bring the goods into the country. Since firms are forced to pay black market rates for spares and supplies, their output is priced at black market rates. Until recently, all export proceeds were converted at the official rate through the central bank, thereby "taxing" the producers of exports and private exporters. Consequently, there was little incentive for legal exports.

The government, however, recently implemented a export/import scheme that permits the private sector to export nontraditional commodities (all except coffee, tea and cotton) and retain their foreign exchange via a import license of equivalent value. As imports financed under this scheme are not subject to price controls, such trade will take place at a much-depreciated exchange rate. This scheme is designed to give incentive to export and finance consumer and intermediate imports.

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Prices of salt, sugar, flour, soap and beer (classified as "essential commodities" by the government) are controlled. However, controlled prices are often ignored in the marketplace. Petroleum prices are also regulated.

The government, with IMF assistance, is attempting to broaden and rationalize the tax base. Tax administration and collection are largely ineffective, consequently honest taxpayers are heavily taxed. Over the past year the Government of Uganda has implemented several new non-trade taxes, including user fees on major roads and bridges.

4. Debt Management Policies

The Paris Club rescheduled Government of Uganda debts in June 1987, but all the implementing agreements are not yet completed. As a result of past political insecurity, Uganda's official external debt is not large compared to other African countries. There is little external commercial debt since Uganda was such a poor risk for so many years. The government's strategy is to seek only concessional loans.

Most parastatals need large investments to rehabilitate, upgrade or expand, but the government is loathe to give the guarantees necessary for Eximbank-type credits or guarantees. The government plans a major divestiture and it is expected that many parastatals will be sold off or opened to joint ventures. In the private sector, foreign loan repayments would require future commitments of foreign exchange which the government is not willing to promise.

Uganda has spent an average of about 50 percent to 55 percent of its export earnings to finance external debt service. Most debt service has been with the IMF or the World Bank. At times arrearages have developed, but have been paid in time to avoid serious problems. However, in 1988/89 the government's debt service burden is expected to be about 70 percent of its export earnings, unless there is a significant new Paris Club rescheduling.

5. Significant Barriers to U.S. Exports

All formal trade, imports and exports, requires a license. The procedures to obtain import licenses are awkward and time consuming. This problem affects all imports and does not in any way discriminate against U.S. goods.

Repatriation of profits remains a problem for foreign firms. Often authorization to repatriate profits is finally granted a year or more after the dividend was declared. Most firms active in Uganda were present in the seventies. They either maintained a low level of operations, have returned or been given back nationalized properties. At present the government is drafting a new investment code which will deal with regulations governing foreign investment. The code is expected to be completed and ready for "legislative" review by

December 1988. Since Uganda is a member of the Preferential Trade Area, products must be of 51 percent local content to receive preferential export treatment in the region.

At the Uganda donors conference in October 1988, $550 million in assistance for 1988/89 was pledged. Bilateral aid is often tied, which excludes U.S. firms from bidding on tenders for goods financed by other western donors. Much of the aid is from the World Bank and open to U.S. bidders. Rehabilitating Uganda's modern sector involves upgrading colonial era (mostly British) equipment. Unless U.S. equipment is purchased in the next few years, there will be little opportunity for future spare parts and supplies business.

Government bodies considering purchase options are often encouraged by the Finance Ministry to accept the deal which requires the least amount of foreign exchange. In many cases the arrangement which requires the least foreign exchange is not the "best" option.

The government continues to encourage barter trade. Because of limited foreign exchange, barter deals are viewed as attractive to the government and some private traders. Most barter deals to date have been government-to-government, and in that regard, often centrally planned or state run economies which have a single locus for decision making have taken the lion's share. Barter deals have been struck with Egypt, Libya, Yugoslavia, East Germany, West Germany, North Korea, Algeria, and Cuba. Nonetheless, since early 1988, private firms have been allowed to make barter deals, and U.S., British, and other western firms are talking with Ugandan ministries about barter trade. The government has been unable to fulfill many of its barter commitments and barter deals take longer to arrange and finance.

6. Export Subsidies Policies

At present there are no export subsidies. Uganda's only mechanism to encourage exports is the newly implemented export/import scheme which permits private firms to use export proceeds to finance imports.

7. Protection of U.S. Intellectual Property

The protection of U.S. intellectual property is not an issue in Uganda. There is little manufacturing, no movie theaters, and limited supplies of videos. There is a chronic shortage of paper, so no large scale printing is done in Uganda. Trademark registration is performed and there is no perception of problems with counterfeiting, piracy or infringement of patents or new technologies. Uganda is a party to the Paris Convention.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Uganda.

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8. Worker Rights

a. The Right of Association

Under the present government, most workers have the right under Ugandan law to form unions, although skilled workers in the civil service are not allowed to do so. The National Organization of Trade Unions (NOTU), Uganda's national labor federation to which all unions are by law affiliated, held its first free elections in 5 years in early 1986 and began rehabilitating regional union structures. High inflation and lack of transport, however, have made it difficult for individual unions to organize, especially outside the major commercial centers of Kampala and Jinja. Labor-government relations have improved during the past year, and unions generally have been supportive of government measures to fix prices of essential commodities. NOTU participates in meetings of the International Labor Organization (ILO), and it is affiliated with the Organization of African Trade Union Unity.

The Minister of Labor has stated that the government recognizes the right of workers to strike, but it does not approve of wildcat strikes and prefers that workers first exhaust more conciliatory methods of resolving labor disputes. Under the Trades Disputes (Arbitration and Settlement) Act, the Industrial Court hears and arbitrates trade disputes referred to it either by the Minister of Labor or the parties to the dispute.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized in law. Union officials are not harassed and are free to organize. The arrest of two union officials during a Coffee Marketing Board strike in June 1988 arose from a misunderstanding that was quickly resolved. In November 1988 the Bank Employees Union successfully bargained for higher pay and improved working conditions. Labor legislation and practice is uniform throughout the country. There are no export processing zones in Uganda.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law, except when imposed by a court as part of a criminal sentence. Under the National Resistance Army (NRA) code of conduct, soldiers tried by military tribunals can be sentenced to forced labor as part of their punishment. There have been reports of such labor at NRA military camps where captured rebel soldiers are "rehabilitated."

d. Minimum Age for Employment of Children

Most of Uganda's almost 15 million people live in rural areas on subsistence farms. In the modern wage sector, the

legal minimum age for employment is 12 years except for light work, which the Minister of Labor may exempt. In addition, there are legal restrictions on employing persons under 16 years of age in mining and night work, except in the case of apprenticeship (according to the ILO Committee of Experts, the government has promised to correct this "anomaly" in its next revision of labor legislation).

e. Acceptable Conditions of Work

The legal workweek is a maximum of 45 hours. The minimum legal wage is that of the lowest paid person employed by the Kampala City Council, currently about $7 per month. In practice, most workers -- even those who are not represented by unions -- receive more than this minimum wage. Nevertheless, most workers either work a second job or grow food to feed their families and pay the primary and secondary school fees. Medical care is supposed to be provided by employers. There are also occupational, safety, and health standards, but in practice, because of the serious decline in the economy, there is little effort at enforcement of labor laws.

f. Rights in Sectors with U.S. Investment

The only U.S. capital investment in Uganda is a small one in the petroleum sector.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

ZAIRE

Key Economic Indicators

Dollars or Zaires as Indicated

	1986	1987	1988
Income, Production, Employment			
GDP (US$ millions)	5,531	5,74	5,886(1)
GDP Growth	2.7	2.7	2.5(1)
GDP by Sector (pct)			
Manufacturing	6.2	N/A	N/A
Agriculture	20.2	N/A	N/A
Mining/Petroleum	25.0	N/A	N/A
Service	44.0	N/A	N/A
Utilities/Public Works	4.6	N/A	N/A
GDP per capita	N/A	N/A	N/A
Labor Force (millions)	18.0	18.5	19.0
Unemployment (pct)	N/A	170	175
Money and Prices			
Money Supply (million Z)	38,927	74,500	95,000(1)
Interest Rate	38.0	38.0	48.0
Savings Rate (pct of GDP)	12.2	9.1	N/A
Investment Rate (pct of GDP)	11.2	11.9	11.5(1)
Consumer Price Index (pct chg)	38.0	106.0	80.0(1)
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (avg)			
Official	60.0	113.0	200.0
Parallel	85.0	175.0	270.0
Balance of Payments and Trade			
Total Exports fob	1,844	1,750	1,673
Total to U.S.	238.7	320.8	360.0
Total Imports cif	1,527	1,620	1,751
Total from U.S.	104.2	103.0	100.0
Aid from U.S. (millions US$)	64.0	62.0	57.0
Bilateral Aid from Others	N/A	233.5	235.0(1)
External Public Debt (US$ mil, excluding IMF)	5,570	5,600	7,000
Actual Debt Payments	280.0	247.0	798(2)
Gold and Forex Reserves	269.0	181.0	N/A
Balance of Payments			
Trade	317.0	130.0	228(1)
Current Account	-350.0	-730.0	-620(1)

(1) Estimate.

(2) Projected unscheduled debt service.

SOURCES: International Financial Statistics, Embassy and Commerce Department Estimates, World Debt Tables

ZAIRE

1. General Policy Framework

Zaire has a mixed economy, with a dominant state role in the mining, utility, and transportation/communication sectors, but with private enterprise present throughout the economy. Except for petroleum, utilities and parts of the transportation sector, market determined prices are the norm. Since the early 1970's the economy has been buffeted by erratic export prices and economic mismanagement. In 1983 the government undertook a far reaching economic adjustment program supported by the International Monetary Fund (IMF), the World Bank, and large debt rescheduling. The program included a liberalization of the economy which has resulted in a more open and competitive environment.

Unfortunately 1986 through 1988 were difficult years for the economy. Although gross domestic product (GDP) growth continued positive, export earnings fell in real terms in 1986 and 1987 because of low world prices for copper, cobalt, and petroleum, Zaire's principal exports. A 1988 recovery of copper prices was offset by a drop in volumes of its other main exports. Coffee suffered from both low international prices and export quotas. In all three years the government budget deficit grew at a rapid rate and moved from a modest surplus of 1.2 percent of GDP in 1985 to a deficit of five percent in 1987. This deficit pushed the inflation rate to between 80 and 100 percent during the past two years.

Stated fiscal policy supports major development efforts in agriculture, transportation, and health; however, a large political and administrative bureaucracy channels most government expenditures to Kinshasa and other urban areas. Military spending is a modest seven percent of the budget, though the government has a major expansion program planned for the armed forces. Government income is derived chiefly from import and export taxes, with income from mineral and petroleum exports providing most foreign exchange revenue. Collection of customs duties has been poorly managed, although a European Communities program is presently underway to improve the customs agency's operations. The 1988 budget deficit was about five percent of GDP, financed primarily by monetary expansion. This lowered the value of the currency, the Zaire, and widened the gap between the official and parallel exchange rates to more than 35 percent. Coffee exports are the major contributor of foreign exchange to the commercial banking sector, followed by privately mined diamonds and gold, rubber, quinine, and tea.

Despite large debt reschedulings of Zaire's $8 billion (including IMF) foreign debt, import levels fell due to poor 1986-87 export earnings, together with the loss of some IMF and World Bank fundings because of poor budgetary performance. Its low per capita income (approximately $175) makes Zaire a difficult market in spite of its 33 million people. The best prospects for U.S. exports contirue to be heavy equipment, especially mining and road equipment. Food products, led by wheat and flour, also have favorable prospects. Other promising markets include pharmaceuticals, cosmetics, synthetic textiles, and appropriate technology equipment.

ZAIRE

2. Exchange Rate Policies

Since the 1982-83 liberalization program, controls on foreign exchange have been eased in a turn toward significantly greater emphasis on market forces and private enterprise. Participants in the foreign exchange market are the commercial banks and the Bank of Zaire, with individuals and corporations purchasing foreign exchange from the commercial banks. Though a market technically exists, the shortage of hard currency in the last two years has made the Bank of Zaire the only seller in the interbank market. Obtaining foreign currency has become difficult for importers, who sometimes must turn to the parallel market, which effectively adds a premium of 35 percent to the price in Zaires of a foreign purchased product.

3. Structural Policies

The liberalization over the past five years has had a positive effect on commerce in Zaire. Nontariff measures which used to impede trade have been reduced and U.S. trade with Zaire has increased steadily over recent years. Import licenses are still required for all transactions in foreign exchange. These licenses are issued by the commercial banks under guidelines of the central bank and in most cases are readily granted. The purpose of the import licenses is to collect statistics on imports and foreign currency flows and to monitor the use of scarce foreign exchange to limit nonpriority expenditures such as imports of luxury goods. Country of origin plays no role in the process.

Special licenses are also required for all petroleum product imports in order to enforce the government policy that all petroleum imports be made through a purchasing committee. It is composed of the petroleum distributors and is chaired by the state oil company Petrozaire. Only petroleum products to be imported from suppliers under contract to this committee are granted import licenses. Chevron presently supplies third country crude to Zaire under such a contract.

Despite liberalization in much of the economy, the interest rate is held at an artificially low level, resulting in a negative effective interest rate. This limits credit availability and has a chilling effect on business expansion. The general scarcity of foreign exchange in the economy restrains imports for both consumption and production needs.

4. Debt Management Policies

At the end of 1988, Zaire's medium and long-term debt outstanding (including the IMF) totaled approximately $8 billion, 72 percent of which is owed to bilateral government creditors. Annual debt reschedulings have reduced actual debt service payments to about 40 percent of contractual debt service due. If IMF charges and repurchases are included, actual debt service payments in 1987 totaled about 25 percent of merchandise exports.

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ZAIRE

After successfully completing two IMF standby arrangements during the period from 1983 to 1986, Zaire entered a 22-month $322 million standby arrangement in May 1986. Zaire fell out of compliance with the program by the end of the year due to excessive deficit spending. In May 1987 the country implemented a new structural adjustment program and gained access to a $178 million structural adjustment fund (SAF) credit from the IMF and a $165 million structural adjustment credit (SAC) from the World Bank. Zaire was only able to draw a portion of the World Bank and IMF money before the government fell out of compliance with this program during the last quarter of the year due to deficit spending well in excess of the target the IMF and government had agreed to.

In June 1988 the government initiated its own program of adjustment and discontinued most debt payments to bilateral lenders and the IMF. In October, however, the government made a $14 million payment on its IMF arrears, and in December was negotiating a new agreement with the Fund. Even strong export revenue from recent high copper prices will not allow the Government of Zaire to make debt service payments in the absence of a new Paris Club rescheduling which in turn depends on a new IMF agreement.

5. Significant Barriers to U.S. Exports

As noted in Section 3, import licenses are still required, but this does not pose a major impediment for U.S. exports. The list of products needing licenses applies to imports from all countries without discrimination toward U.S. products. National treatment is accorded imported goods in regards to government procurement. Calls for government tenders are publicly made, and bids solicited actively from foreign suppliers. Government parastatal enterprises as well as the government itself buy a considerable part of their supplies abroad because in many categories of goods there is no domestic supplier. Government procurement decisions are greatly affected by the financing arrangements offered by exporters and their governments. The Overseas Private Investment Corporation (OPIC) has been active in Zaire regarding political risk insurance. The Export-Import Bank does not currently finance exports to Zaire.

Zaire has a relatively open market in the service sector of the economy. U.S. companies currently compete in engineering, banking, business consulting, accounting, legal, and express package delivery services. Several areas are not open to private competitors, however, such as insurance, in which the state-owned corporation has a monopoly.

Regarding capital exports, Zaire has few barriers to U.S. investors. A new investment code promulgated in April 1986 provides tax advantages to investors. A bilateral investment treaty between the United States and Zaire was signed in 1984, and in October 1988 was ratified by the U.S. Senate. It provides guarantees in the area of transfer of profits, personnel, and dispute settlement. With the exception of the

minerals extraction industry, Zaire's Government neither requires nor generally seeks participation in foreign investments. New commercial ventures are required to have up to 40 percent Zairian participation but this requirement can be waived. In the minerals sector, the government generally takes a 20 percent share in private investments in return for concession rights, but does not participate in management.

The Government of Zaire encourages foreign firms to minimize the number of expatriate employees. It is official policy that as an investment matures, the number of expatriates should diminish. The government exercises control over expatriate employment through the issuance of residence and work permits. The new bilateral investment treaty assures the right of U.S.-owned firms to fill key management positions with personnel of their choice, though a special tax applies to expatriate salaries.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

The Government of Zaire acknowledges the value of intellectual property. The country is a party to the Berne and Paris conventions and is a member of the World Intellectual Property Organization (WIPO). The government Department of National Economy and Industry protects privileged technology and production information, as well as trademarks. International franchisees (e.g., Coca-Cola) operate comfortably in Zaire within the protection granted by the state. A national society of editors, composers, and authors oversees copyright protection due artists under the law, but it is a private organization and not an official agency. There is very limited production of books and sound recordings in Zaire. We are not aware of any incidents of patent infringement in the country.

The government acknowledges its duty to pursue trademark infringement, but the legal and administrative system is ill-equipped to do so. Being a large country that borders nine other states, Zaire does not control all of the goods crossing its borders. The personnel and expertise to check all goods entering for possible trademark fraud are also limited. Cartier watches, U.S. brand name jeans, and designer label clothes of questionable origin are all freely available in Kinshasa. The EC has been assisting the government with a multi-year World Bank program for the staffing and training of customs inspectors, which should enhance their future effectiveness, provided foreign trademark owners are vigilant in registering their marks in Zaire.

ZAIRE

8. Worker Rights

a. The Right of Association

Worker rights and working conditions are established by the Constitution, the Labor Code, and collective bargaining. The labor movement in Zaire is limited by law to one national union, the National Union of Zairian Workers (UNTZA), which is an integral unit of the sole political party. The Secretary General of UNTZA is a member of the party's Central Committee, and union officials at the regional level serve on regional party committees.

Membership in UNTZA is compulsory for civil servants, employees of state enterprises, and employees of private firms with at least 20 employees. The union claims about 1 million workers as dues-paying members. However, the overwhelming majority of the work force is self-employed, either in the unofficial sector or in subsistence agriculture.

UNTZA participates actively in the International Labor Organization (ILO) and the Organization of African Trade Union Unity and maintains ties with a number of foreign labor confederations.

The right to strike is included in the labor law, but because the law establishes lengthy and mandatory arbitration and appeal procedures which result in the resolution of most labor disputes, in practice lawful strikes do not occur. Workers, nevertheless, conduct frequent unauthorized strikes against employers. In these circumstances, UNTZA is called in to attempt to resolve the dispute.

b. The Right to Organize and Bargain Collectively

UNTZA has the right, and it exercises this right, to bargain collectively with employers. It also provides significant social and educational services to members and their families. It implements government programs to improve worker benefits. As part of Zaire's party-state structure, it is unable to protect worker interests or defend worker rights which run counter to government policies.

Workers throughout the country are uniformly covered by labor legislation, including in the new export processing zone.

c. Prohibition of Forced or Compulsory Labor

The Constitution and Labor Code forbid forced labor. Zairian legislation providing for compulsory civilian service for graduates from pedagogical and technical institutes was repealed in March 1987. The ILO Committee of Experts has noted that a draft has been prepared to repeal sections of an ordinance authorizing imprisonment with compulsory labor for tax defaulters. There are no known instances in which tax defaulters have been sentenced to compulsory labor. Also, the Committee of Experts has observed that amendments are currently being prepared to bring into conformity with ILO Convention 105 legislation which now obliges every able-bodied

adult national (who is not already considered to be making a contribution to national development by reason of employment) to carry out agricultural and other development work laid down by the government, under penalty of penal sanctions. While imprisonment at hard labor is a common sentence for those convicted of a range of major crimes, the Labor Code requires that such convict labor work only under the supervision and control of the government and not for any private or corporate authority.

d. Minimum Age for Employment of Children

The legislated minimum age for employment is 18, although those between ages 14 and 18 can legally engage in "light work" if a parent or guardian consents. Due to high levels of unemployment, many children under 14 years of age work in the unregulated economic sector, especially subsistence agriculture, to supplement family income, and minimum wage, safety, and health standards are not observed for them.

e. Acceptable Conditions of Work

Workers are entitled to a minimum daily wage (currently 50 cents), paid holidays, and vacations; they receive at least one rest day per week; and they enjoy fringe benefits which usually include a housing allowance, medical care, uniforms, transportation, and a midday meal. Working hours are limited to 48 hours a week. Workplaces are expected to meet minimum safety and health standards. Most workers in the organized sector know their rights, and employer compliance with labor laws is monitored through the national labor union. However, this covers only the roughly 1 million organized workers out of a potential work force of 17 million. The majority of the population is engaged in subsistence agriculture and small scale commerce outside the formal sector. In recent years income in both sectors has not kept up with inflation.

In the private sector, fringe benefits, which are not subject to income tax, often constitute more than half the total wage package and enable workers to maintain a very modest standard of living. In the public sector, where remuneration is lower, workers often resort to corruption or take second jobs in the private sector.

f. Rights in Sectors with U.S. Investment

There are U.S. investments employing Zairian labor in the petroleum and chemicals and related products sectors. These enterprises are subject to the labor laws that cover all Zairian workers, all of whom are members of the government-approved UNTZ). Under UNTZA auspices, all employees of U.S. companies benefit from the right of association and the right to organize and bargain collectively. There is no forced labor or child labor at U.S. companies in Zaire, and U.S.-originated standards are used for safety. Although health benefits and salaries are low at some companies, they generally compare favorably with local practice.

ZAIRE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		141
Total Manufacturing		(D)
Food & Kindred Products	3	
Chemicals & Allied Products	2	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

ZIMBABWE

Key Economic Indicators

Millions of Zimbabwe Dollars (Z$) Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	8,814	9,051	10,100
Real GDP Growth (pct)	1.3	1.8	5.0
GDP by Sector (pct)			
Agriculture	12	10	14
Manufacturing	27	28	28
Mining	5	5	5
Government	37	40	40
Per capita Income (Z$)	1,036	1,028	1,100
Labor Force (000's)	1,040	1,050	1,100
Unemployment (pct)	18	20	23
Money and Prices			
Money Supply (M1)	1,103	1,224	1,300
Interest Rates (pct)			
Commercial Lending	13	13	13
Savings Rate	24	21	23
Investment Rate (pct GDP)	23	17.5	19.1
Consumer Price Index (pct change)	15	12	15
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (US$ 1.00=Z$)			
Official	1.66	1.70	1.85
Parallel	3.00	3.00	4.00
Balance of Payments and Trade			
Total Exports fob	2,200	2,338	2,636
Total to U.S.	122	126	136
Total Imports cif	1,685	1,779	2,045
Total from U.S.	89	128	136
Aid from U.S.	37	30.2	14.6
Aid from Others	107	102	158
External Public Debt	4,500	4,750	5,090
Annual Debt Service Paid	683	840	1,000
Gold and Forex Reserves	300	320	350
Balance of Payments	88	-42	-90

1. General Policy Framework

Zimbabwe has great economic potential, but its performance in nearly eight years of independence has been mixed. The country's manufacturing sector, by far the most diversified in black Africa, accounts for nearly 25 percent of gross domestic product (GDP) and produces over 6,000 different products. Zimbabwe enjoys abundant mineral resources and is an important exporter of ferrochrome, asbestos, gold and

nickel. It also has significant platinum deposits. The agricultural sector, although vulnerable to periodic droughts, has made the country self-sufficient in food, and is an exporter of tobacco, sugar, cotton, maize and other crops. The country imports all of its petroleum products, but satisfies most of its electricity requirements by utilizing hydropower and domestic coal resources. Its internal transport and communication infrastructure is good, although the railroad system suffers from a lack of rolling stock and spare parts. Most of Zimbabwe's exports and imports transit South Africa. However, thanks to an intensive international development effort, the Mozambican port of Beira now is able to handle more than 25 percent of Zimbabwe's overall trade. Efforts are also underway to rehabilitate the direct rail link between Zimbabwe and the port of Maputo.

Zimbabwe's economy boomed in the first two years after independence in 1980, but growth over the last five years has averaged only around one percent annually. GDP grew only slightly in 1986 and was flat at best in 1987. A major cause of the sluggish economy has been the chronic shortage of foreign exchange caused by weak export receipts, high debt-service requirements, and decreased aid flows. Thanks to good commodity prices and decent rainfall, economic growth of five percent is expected in 1988.

President Mugabe has advocated a move toward a one-party socialist state. However, in practice, the government accepts a mixed economy and has rejected nationalization of private property as government policy. The state controls a number of major industries, including steel, airlines, railroads and public utilities, but private industry and agriculture remain vital elements of the economy.

2. Exchange Rate Policies

The exchange rate of the Zimbabwe dollar is set in relation to a trade-weighted basket of 14 currencies, among which the South African rand has had the greatest weight. The Zimbabwe dollar has depreciated eight percent against the U.S. dollar during the last year, but has appreciated slightly against most other currencies. Most local economists believe the Zimbabwe dollar is over-valued by at least 20 percent.

The illegal parallel exchange rate has reportedly been on the rise lately, occasionally approaching levels as high as four to one against the U.S. dollar. The primary market seems to consist of Zimbabwean tourists seeking to supplement their meager travel allowance.

3. Structural Policies

The Zimbabwean economy is heavily regulated and the country has long had a comprehensive system of price controls. Under the system now in effect, prices of essential goods (maize, sugar, milk, bread fertilizers, cooking oil) are controlled by the cabinet. The prices of certain basic

manufactures such as steel are set by the Ministry of Trade and Commerce, and other products are subject to markup limitations. A price freeze in effect since mid-1987 was relaxed somewhat on May 20, 1988, when most products went up five percent. Government pricing policies have no specific effect on U.S. exports.

Employment is also closely regulated. Once hired to a permanent position, a worker can only be discharged with the permission of the Ministry of Labor. This policy is cited as a major reason for the unwillingness of many businesses to expand their operations. Government regulation of investment is discussed in Section 5 of this report.

The Zimbabwean private sector is among the world's most heavily taxed. Profits of corporations, companies and enterprise are taxed at a basic rate of 50 percent. Personal income is taxed on a sliding scale which reaches a maximum of 60 percent at an income level of Z$33,000 (US$17,800). Dividends paid to non-resident shareholders are taxed at 20 percent, interest payments to non-residents at 10 percent, and dividends to residents at 20 percent. A general sales tax of 12.5 percent applies to all goods and services except a few consumer durables (appliances and furniture) which are taxed at 20 percent. Customs duties generally range between 20 and 55 percent but can be as high as 100 percent. There currently is a 20 percent surcharge on imports. Zimbabwe's heavy tax burden, particularly on the private sector, has a significant dampening effect on investment and economic growth.

4. Debt Management Policies

In 1980-83, Zimbabwe borrowed heavily to finance its ambitious development plans. However, the Government of Zimbabwe subsequently curtailed its borrowing and has followed a cautious debt management strategy. Zimbabwe has remained current on its debt obligations and plans to continue servicing its debt on a timely basis. The debt service ratio peaked near 35 percent in 1987, but should be down to 27 percent by the end of 1988. The government hopes to maintain a debt service ratio of less than 20 percent after 1990.

The government's relations with commercial creditors and export credit agencies are excellent. An International Monetary Fund (IMF) standby arrangement fell through in 1983. The government has good relations with the World Bank but is not likely soon to undertake the reform measures (principally a sharp deficit reduction) needed to qualify for a structural adjustment program.

The Government of Zimbabwe believes that it has its external debt under control. It is extremely unlikely to consider either an official or commercial debt rescheduling.

5. Significant Barriers to U.S. Exports

Virtually all imports, with the exception of certain

goods and transactions valued at less than two dollars, are subject to prior licensing. Licenses will not be issued for goods if suitable local substitutes are available. This licensing system obviously has a major effect on the level of imports, including imports from the United States. However, it should be noted that the licensing system is designed more to allocate extremely scarce foreign currency than to merely control imports.

Zimbabwe imposes no unreasonable barriers on service industries. There are several U.S. service companies operating in Zimbabwe (accounting, insurance, air couriers). Health and safety standards are somewhat less rigorous than those imposed in developed countries, but quite exacting by third-world standards. They are imposed primarily for consumer protection, not as trade barriers, and have had no effect on U.S. imports.

Although Zimbabwe offers a trained work force, good infrastructure, and abundant natural resources, it has attracted little foreign investment since independence in 1980. Any potential investor, foreign or domestic, is carefully screened to determine whether his proposal meets certain guidelines, including:

- increased investment in rural areas;
- transmission of technical and managerial skills to Zimbabweans;
- participation in joint ventures with local private investors or with the government;
- import substitution;
- maximum use of local raw materials and processed inputs;
- utilization of new and appropriate technology;
- job creation;
- generation of net exports within a reasonable period.

A prospective foreign investor, defined as anyone who holds 15 percent or more of an issued share capital or voting power, must submit an investment proposal for approval to the secretary of the Foreign Investment Committee in the Ministry of Finance, Economic Planning and Development. This ministerial-level body meets at irregular intervals. Applications must also be screened by the reserve bank.

The Foreign Investment Committee evaluates the extent to which the proposal meets the criteria mentioned above. Investment which boosts productivity in existing companies is encouraged, but the government opposes in principle the purchase of local equity or the transfer of control to foreign interests.

6. Export Subsidies Policies

The Government of Zimbabwe has implemented several export promotion measures. The most successful of these is an export revolving fund established in 1983, under which foreign exchange is allocated to finance imports of machinery and inputs for export-oriented manufacturing. A similar measure

was implemented in 1987 to stimulate exports from the agricultural and mining sectors. Also in 1987, the government set up a scheme under which companies would receive an extra allocation equal to 25 percent of the value of their increased exports.

7. Protection of U.S. Intellectual Property

Zimbabwe is a party to the Berne and Paris Conventions. Since its independence, the government has applied international conventions on patents, trademarks, copyrights, and industrial designs. Domestic laws protecting Intellectual Property Rights (IPR) date from before independence but are honored by the Zimbabwean Government. There have been no recent government actions affecting the level of protection offered intellectual property. Nor are we aware of any cases involving IPR held by U.S. entities. Pirated audio and video casettes make up perhaps 30 percent of the market.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Zimbabwe.

8. Worker Rights

a. The Right of Association

Under the Labor Relations Act, workers enjoy freedom of association, have the right to elect their representatives, publish newsletters, and set programs and policies which reflect the political and economic interests of labor. The Labor Relations Act specifies that workers may constitute workers' committees in each plant and a trade union in each industrial sector and elect appropriate officers. The Act specifies that workers' committees and trade unions must be registered with the Ministry of Labor, but it also seeks to protect workers' organizations from arbitrary government interference. The government does not control or restrict labor, but it has powerful levers affecting labor, notably in the handling of strikes and setting wages (see below).

Since independence, the government has encouraged trade unions in the same industry to amalgamate. The process of amalgamation was completed in 1987. Seventeen percent of the salaried work force is organized in 22 trade unions which are members of the Zimbabwean Congress of Trade Unions (ZCTU), the umbrella confederation of the trade union movement. The ZCTU is the voice of organized labor, and its officers and members frequently speak or comment on social issues in public forums. ZCTU officers are elected by the delegates of affiliated trade unions at biennial conventions, most recently in July 1988. Neither the government nor any political party nor any ethnic or tribal group has a preponderant influence in the trade union movement. Most trade unions suffer from meager budgets which prevent them from conducting a greater range of organizing and educational activities.

Workers have the right to strike providing that the trade union advises the government two weeks in advance of its

intention to do so. The right of unions to strike is further limited by the right of the government to declare a specific industry to be "essential" and therefore not subject to strike action. In practice, the government has employed a very broad interpretation of what "essential" industries are, and strikes in Zimbabwe have been few and unsuccessful. Nonetheless, trade union officials continue to press the government in public statements calling for the amendment of the Labor Relations Act to provide for a more liberal strike policy.

The ZCTU and its officers are active in the international labor movement and have affiliated with the Southern African Trade Union Coordinating Council and the Organization of African Trade Union Unity. The ZCTU maintains a nonaligned posture and has fraternal links with the International Confederation of Free Trade Unions and the World Federation of Trade Unions. A resident representative of the African-American Labor Center maintains links between the ZCTU and the AFL-CIO. Zimbabwe is a member of the International Labor Organization, which held two major international conferences in Harare in 1988.

Employers are also organized. They have formed industrywide associations to meet with the representatives of a particular trade union for industrywide collective bargaining. The various employers associations have confederated to form the Employers Confederation of Zimbabwe (EMCOZ). The President of EMCOZ meets with the ZCTU President and the Minister of Labor for tripartite discussions.

b. The Right to Organize and Bargain Collectively

Under the Labor Relations Act, workers have the right to organize. Workers' committees are empowered to negotiate with the management of a particular plant the conditions of labor in the workplace. Wages are negotiated on an industrywide basis but are effectively limited by the government's minimum wage system (see below). In the case of a union-organized industry, the employers' association meets directly with a particular trade union. In certain cases when there is no trade union representing a specific industry, representatives of the unorganized workers meet with the employers' association under the mediation of labor relations officers from the Ministry of Labor. Perceiving that workers are at a disadvantage in negotiations with better-financed and better-educated managers, the government believes that it is responsible for assisting workers with legislation and intervention with employers. Some trade unionists would prefer, however, that the government allow workers to negotiate on their own and learn from their own mistakes rather than become dependent on the government for negotiating assistance. All collective bargaining agreements must be ratified by the Ministry of Labor.

The government sets minimum wages and has the capacity to impose wage and price freezes. A wage/price freeze imposed in July 1987 was removed in March 1988, and minimum wages were adjusted upward. Though the government does not formally set a maximum wage, it has refused to ratify collective bargaining

wage settlements which exceed the minimum wage with the argument that such settlements are inflationary. In such cases, employers and trade unionists revise their settlement, usually to conform with government guidelines.

The government does not promote or support antitrade union discrimination, and labor laws are applied uniformly throughout the country. There are no economic zones where trade union organization is impeded or discouraged.

c. Prohibitions of Forced or Compulsory Labor

Compulsory labor is prohibited by law in Zimbabwe and is not practiced.

d. Minimum Age for Employment of Children

Under Zimbabwean labor regulations, the minimum age for the formal sector is 18, but it is possible to begin an apprenticeship at 16. Children are employed in household enterprises, e.g., family farms, which the government does not attempt to regulate.

e. Acceptable Conditions of Work

Conditions of labor are regulated by the government according to industry. Based on collective bargaining agreements, the government publishes labor regulations for each of 22 industrial sectors. These regulations specify wages, hours, holiday schemes, and required safety measures. The average workweek is 44 hours, and the law prescribes a minimum of one 24-hour rest period per week. The minimum wage for the agroindustrial sector is $91 a month. The employer also usually provides housing, food, and medical care to workers. On commercial farms, the employer may provide schooling to the children of workers. The minimum wage for commercial and industrial workers is $101 a month. The ZCTU continues to lobby for a higher minimum wage based on a 1981 report on incomes and wages that sets the minimum poverty line at $153 a month. The ZCTU uses this line as the basis for its "living wage standard." The Labor Relations Act provides considerable job security for workers. Under the Act, a worker may not be fired without Ministry of Labor concurrence that the dismissal is justified.

Labor relations officers from the Ministry of Labor are assigned to monitor developments in each plant to ensure that government minimum wage policy and occupational and safety regulations are being observed. Labor relations officers are authorized to handle worker grievances within the plant. Their decisions may be appealed to the regional hearing officer of the Ministry of Labor, and finally, to a special Labor Relations Tribunal, over which the Chief Justice presides.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the following sectors in Zimbabwe: petroleum (retailing), primary and fabricated metals (mostly mining and ferrochrome smelting), other

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manufacturing (personal care products), food and related products, chemicals and related products (pharmaceuticals), transportation equipment (diesel engines), and wholesale trade (tobacco). The following comments on worker rights apply to all of these sectors:

- The Right of Association -- All workers in the above sectors have and generally take advantage of the right to associate;

- The Right to Organize and Bargain Collectively -- There are no restrictions on the right of workers in these sectors to organize. However, their ability to bargain collectively is somewhat limited by government policies. Collective bargaining agreements between management and labor must be ratified by the government. The government has rejected collective bargaining agreements which have not conformed to government-set wage guidelines;

- Prohibition on the Use of Forced Labor or Compulsory Labor -- Forced and compulsory labor is prohibited and not practiced;

- Minimum age for Employment of Children -- Minimum ages for the employment of minors in these sectors have been established and are enforced;

- Acceptable Conditions of Work with Respect to Minimum Wages, Hours of Work, and Occupational Health and Safety -- Minimum wages for all industrial workers have been set by the government. Labor regulations set limitations on working hours. Industrial health and safety regulations offer a reasonable degree of protection to workers and are enforced by the government.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	24	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Australian Dollars

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	222,650	231,851	240,000
GDP Growth Rate (pct)	2.1	4.1	3.5
GDP by Sector	N/A	N/A	N/A
Real per capita Income	13,829	14,137	14,458
Labor Force (000s)	7,659	7,831	8,050
Unemployment Rate (pct)	8.8	7.8	7.0
Money and Prices			
Money Supply (M1)	23,041	27,572	33,000
Interest Rates (pct)			
Commercial (prime)	18.64	15.98	15.50
Savings (passbook)	6.00	6.00	6.00
Investment (12 months)	13.92	12.88	12.50
Consumer Price Index (Jun 1981=100)	155.5	168.7	176.0
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate U.S. Cents/A $	67.09	70.11	81.00
Balance of Payments and Trade			
Total Exports fob	33,687	37,872	42,500
Total Exports to U.S.	3,632	4,302	5,000
Total Imports cif	35,689	38,516	41,500
Total Imports from U.S.	7,744	8,181	8,700
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
Gross External Public Debt	26,156	32,253	30,000
Public Debt Service Payments	5,069	5,267	5,900
Gold and ForEx Reserves	15,561	17,430	22,000
Balance of Payments (current account)	-14,455	-12,439	-12,000

1. General Policy Framework

The Australian economy currently has one of the highest growth rates in the Organization for Economic Cooperation and Development (OECD) with gross domestic product (GDP) expanding at an annualized rate of about 3.6 percent. Although geographically the size of the continental United States, Australia's well-established manufacturing sector is limited by a small domestic market of about 16.5 million people. In the Australian fiscal year (July 1 through June 30) for 1986-87, manufacturing (including mining) accounted for 26.3 percent of GDP, services 70 percent and farming 3.7 percent. Primary agricultural and mineral products account for 72.4 percent of exports. Australia leads the world in wool

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production, is a significant supplier of wheat, barley, dairy produce, meat, sugar, and fruit, and a leading exporter of coal, minerals and metals, particularly iron ore and alumina/aluminum.

Longstanding industrial protection, which has permitted Australian labor to become more expensive than that of many other countries, is being dismantled. In late 1983 the government devalued and floated the Australian dollar, allowing it to fall dramatically through 1987. The cheaper Australian dollar made the manufacturing sector less susceptible to the effects of foreign imports and more capable of competing internationally. In 1984 the government liberalized the financial sector, exposing it to international competition -- then embarked on an ambitious program to reduce trade barriers and corporate taxes. With the implementation of these programs, the focus of government policy has shifted from macro toward more microeconomic reform.

Australia's economic outlook appears good. Spending on capital investment, home purchases and construction has increased markedly in 1988. Inflation and unemployment rates have decreased. In AFY1987-88, the government produced the first federal budget surplus in 35 years, possibly exceeding A$7 billion. As a result, the government plans to cut taxes (a move calculated to increase savings, but also likely to increase import demand), reduce net public sector borrowing to zero, and continue repayment of foreign debt. Other objectives are to maintain the pace of structural readjustment, diminish government competition with the private sector, stimulate business investment, improve revenue collection, and reduce domestic consumption. Fiscal policy will be kept relatively tight.

On the negative side, net external debt, at about A$88.7 billion, is extraordinarily high for a country of 16.5 million people. Inflation and growth rates of average weekly earnings remain above the OECD average; and the current account deficit, although diminishing, remains excessive at about 4.1 percent of GDP.

The Government of Australia finances about three-fourths of its deficit through tendered sales of treasury bonds to the reserve bank, although some are sold to private sector banks to meet asset requirements. Most of the remaining deficit financing is provided by foreign interests. For the first time in 35 years, the current fiscal year will record a surplus. Deficit financing for AFY1988/89, therefore, is primarily for debt servicing and regulating the money supply.

Private investment is stimulated through a variety of programs. For example, firms operating in Australia can qualify for: preferential treatment for government procurement; tax incentives for research and development and export development; local government investment and location incentives; and, although diminishing, some types of trade protection. Perceived economic opportunities also play an important role in attracting investment.

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Australian law requires that substantial investment in four sectors remain domestic: aviation, media, urban real estate, and some mining. There are also restrictive rules governing foreign takeovers of Australian firms. All other investments located in Australia, whether foreign or domestically owned, receive national treatment. Some investment is mandated by offset requirements (see section 5 below). Legal disincentives to investment are few. Most investors find Australia's labor laws more protective than in other countries, especially restrictions affecting assignments of non-Australians to positions in foreign-owned firms. Industrial relations are also an investment consideration. Wages are established annually through a tripartite national bargaining and arbitration mechanism involving the unions, business management, and government. Individual investor influence in this process is limited.

In Australia banks maintain required reserve levels based on last month's deposits. These special accounts, called Statutory Reserve Deposit Accounts, are maintained with the Reserve Bank of Australia and earn a below-market rate of interest. For check clearing purposes, banks must also maintain an exchange-settlement account balance that cannot be negative at the end of each day.

The cash money supply is normally controlled through an open market trading system of nine dealers who act as a conduit between the reserve bank and the financial system. Transactions may involve purchases, sales, or trade in repurchase agreements of short-term treasury securities. If liquidity conditions warrant, however, the reserve bank may bypass the dealers and buy short-term treasury notes direct from banks on a cash basis. Banks do not normally hold liquid deposits of any size with the reserve bank. Instead, they hold call-funds with the dealers which are good for cash and available as required. If a bank needs cash on a given day, it either borrows from other banks or withdraws funds it has on deposit with authorized dealers.

Under the above money supply control system, foreign exchange flows and government deficits and credits have only limited impact on the money supply. Expansion of the money supply to accommodate national wage awards, and subsidies to parastatals and private manufacturers appear to underlie most of Australia's comparatively high inflation rate of 7.3 percent.

2. Exchange Rate Policies

Australian dollar exchange rates are determined by international currency markets. Official policy is that the government does not defend any particular exchange rate level. In practice, however, the Australian Reserve Bank is active in "smoothing and testing" foreign exchange rates in order to provide a generally stable environment for fundamental economic adjustment policies.

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Australia does not have any major foreign exchange controls beyond requiring Reserve Bank approval if more than A$5,000 in cash is to be taken out of Australia at one time, or A$50,000 in any form in any one year. The purpose is to control tax evasion and money laundering. If the reserve bank is satisfied that there are no liens against the money, authorization to exceed exchange limits is virtually automatic. The regulation does not affect U.S. trade.

3. Structural Policies

The past 18 months have seen a major reassessment of the Australian Government's position on industry protection that has resulted in a number of changes to the administration and the future of protection for Australian industry. Convinced that industry's response to new business opportunities provided by currency devaluation, economy-wide macroeconomic reforms, and government budgetary restraint has been too slow, the government has now turned its attention to a complementary agenda of industry-by-industry, microeconomic reforms in the private and public sectors. The strategy comprises three principal premises: protection must be trimmed; the pace of reform needs to be accelerated; and industry needs to be less preoccupied about receiving protection.

Accordingly, the two percent revenue duty on all imports was abolished effective July 1, 1988. In addition through a program of phased tariff reductions averaging about 20 percent, begun July 1, 1988 and to be completed by July 1992, all tariff rates above 15 percent, except on textiles, clothing, footwear, and vehicles, will be reduced to 15 percent, and tariff rates above 10 percent, but less than 15 percent, will be reduced to 10 percent. All these reductions will benefit U.S. exports.

Other recent policy changes benefitting U.S. exports include modifications to customs regulations to allow split shipments of components to be dutiable at lower rates applied to functional units. In addition textile, clothing, and footwear quotas were liberalized and are scheduled to be removed in 1995. New authorization of accelerated depreciation on research and development, gold mining equipment, and expenses associated with the film making industry will also stimulate Australiar imports of related instruments and equipment.

Parastatals, previously exempt from duties, must pay duties on imports, effective July 1, 1987. Except in some cases where monopolies are protected, this act neutralizes a major competitive advantage once held by parastatals.

4. Debt Management Policies

Australia's net external debt is about A$88.7 billion, or 30.4 percent of GDP. Net interest payments on the debt totalled $8.4 billion in AFY1987-88, representing 17.2 percent of exports of goods and services. Although the amount of the

debt is of concern to the government, it is less alarming than it appears, because a significant portion of current imports are for factors of production and the value of exports are increasing.

5. Significant Barriers to U.S. Exports

Australia requires import licenses for certain used machinery, four-wheel drive vehicles, textiles, clothing, and footwear. Although licenses for used machinery are officially required to insure equipment imported into Australia is in good working order and safe to use, the effect has been industry protection. U.S. exports of used machinery have occasionally been affected by the process, but losses in that sector have been offset to some degree by substitution of new machinery. Licensing applied to other products is for protection, but has had little impact on U.S. products.

Not more than 20 percent of an advertisement shown on Australian television can be produced by non-Australians (except New Zealanders), unless an Australian "ghost crew" of at least four people is hired and kept, usually overseas, to compensate for Australian content requirements. This policy is currently under reconsideration.

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

Federal law requires that country of origin be clearly indicated on the front label of products sold in Australia. Labels must also express mass or volume of packaging contents to nearest five milliliters or kilograms. For example, 16 ounces, which is 473 milliliters, must be expressed as 475 milliliters. These regulations usually require the printing and application of special labels, often to relatively small quantities of products, for use only in the Australian market.

All consumer goods that come in a package or bottle must conform to packaging regulations established by each state government that are not uniform and occasionally conflict. Sales of goods not conforming to a given state's packaging regulations are prohibited in that state. Problems have been encountered with mass, sizes, packaging materials, labeling, and content descriptions.

Offset requirements mandate that most sales, on a tender by tender basis, of foreign-made products valued at more than A$2.5 million to Australian government attract an offset of 30 percent of the value of the sale. The offset may be in the form of investment or technology transfer to Australia, value of training, or domestic purchases in Australia equal to the obligation. Some U.S. firms have had difficulty meeting requirements. Unfulfilled offset requirements can result in

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damage assessments. However, U.S. companies have historically captured 80 percent of trade subject to offsets. Foreign firms that sign Partnership for Development Agreements providing for specified levels of investment in research and development and commitments to export can obtain exemption from offset requirements. Offset arrangements are often the basis for collaborative ventures with Australian companies.

Foreign investment is welcome. However, all new foreign direct investment in the media, civil aviation, some mining, and developed urban real estate, or that involves foreign takeover of 15 percent or more of an Australian corporation, is subject to approval by the Foreign Investment Review Board (FIRB). Investments worth more than A$10 million are subject to FIRB review, but most are approved unless judged to be contrary to the national interest.

Mining investment greater than A$10 million must normally contain at least 50 percent Australian equity, except when Australian capital is not available. Except for exploration, new investment in uranium mining projects by foreign or domestic interests is prohibited at present.

We are not aware of forced disinvestment outside that stemming from investments or mergers which tend to create market dominance, contravene laws on certain equity participation, or result from unfulfilled contractual obligations. No disinvestment, however, can be forced without due process of law.

Australia has not signed the General Agreement on Tariffs and Trade(GATT) Government Procurement Code.

Australia's federal and state governments' procurement policies give Australian or New Zealand bidders a 20 percent discount (10 percent in the states of Queensland and Western Australia) in comparison with foreign tenderers on bids up to A$200,000. Australian submissions to provide high technology products occasionally receive an additional 10 percent discount.

If an Australian firm produces a similar product or has the potential to produce a needed product, it is likely to be awarded a government order if prices asked are not more than 20 percent above a foreign bid. Australian Government purchasing policies cost U.S. firms an estimated A$1 million to A$1.5 million in lost sales each year.

Because of its geographic isolation, Australia is relatively free of many animal diseases (hoof-and-mouth, rabies, etc.) and pests that plague other parts of the world. To preserve its environment, Australia has stringent animal and plant quarantine restrictions. Livestock imports are limited to reproductive material and a few valuable breeding animals that must undergo long quarantines.

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6. Export Subsidies Policies

The Australian Government provides Export Market Development Reimbursement Grants of up to A$150,000 for most domestic firms exporting goods and services. An array of mechanisms also provide for drawbacks of tariffs, sales, and excise taxes previously paid on exported finished products or their components. In some cases, government grants and low-cost financing is provided to exporters for insurance, shipping costs, fees, market advice, etc. "Bounties," ranging from 5.8 to 31.4 percent of product value, are paid to manufacturers of textiles, clothing, footwear, new ships, some machine tools and farm machinery, computer and molding equipment, heavy vehicles, and steel. The bounty program for steel, however, terminated at the end of 1988. Most bounty rates were cut by 20 percent in 1986. All bounties, except for textiles, clothing, and footwear, exceeding a tariff equivalent of 10 percent are due to expire before 1992.

The Australian Government provides research and development grants to Australian industry for trials and development of internationally competitive products and services for which the commonwealth or state governments are prospective purchasers. Such grants totalled $2 million in AFY87-88. Firms engaging in such research are also permitted, until June 30, 1991, to deduct 150 percent of their research and development expenses from their corporate taxes.

Electricity production is the purview of the state governments, all of which subsidize the industry and, indirectly, users of electricity. States also control and subsidize railroads. Rates vary, depending on the product being transported. Most are at less than cost. High charges to the coal industry make up for the loss in the states of New South Wales and Queensland. In their competition for investment, state development offices often negotiate a wide range of concessions on land, utilities, and labor training, some of which amount to subsidies.

7. Protection of U.S. Intellectual Property

Australia is a member of the Paris Convention for the Protection of Intellectual Property, the Berne and Universal Copyright Conventions, and the Patent Cooperation Treaty.

Patents, trademarks, designs and copyrights are protected by Australian law which is broad enough to protect new technology.

Trade names and trademarks may be protected for seven years and renewed at will by registration under the Trademark Act. Once used, trade names and trademarks may also, without registration, be protected by common law. Protection also often extends to parallel importing; i.e., imports of legally manufactured products ordered by someone other than a person or firm having exclusive distribution rights in Australia.

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Patents are protected by the Patents Act, which offers coverage for 16 years, subject to renewal fees. Trade secrets can be protected by contract. Designs can be initially protected by registration under the Design Act for one year, which may be extended for six and five years respectively, upon application.

On May 1, 1987 the government implemented "Plant Variety Rights," which gives developers of new plant varieties rights similar to patents for their products.

Copyrights are protected under the Copyright Act. Works do not require registration and copyright automatically exists for original literary, artistic, musical and dramatic works, and film and sound recordings. Computer programs are legally considered to be literary works. Copyright protection is for the life of the author plus 50 years.

The Australian Copyright Act provides protection regarding public performances in hotels and clubs, video cassette piracy, and unauthorized third-country imports. Nonetheless, U.S. motion picture companies would like tighter copyright protection to reduce unauthorized public performances and video taping. Industry sources claim inadequate criminal penalties and police enforcement contribute to the problem, although The Australasian Film and Video Security Office (AFVSO) and the Australian Record Industry Association (AFIA) have provided noteworthy assistance to law enforcement agencies in these fields. The Attorney General's Department monitors the effectiveness of industry bodies and enforcement agencies in curbing the illegal use of copyrighted material. U.S. motion picture industry sources estimate losses to the film industry for the above activities at $25 to $30 million annually.

Data on the incidence of piracy of copyrighted material is not available, although the crime appears less prevalent in Australia than in the United States. Close monitoring by customs has virtually eliminated pirated books from the market. Charges that pirated records are being sold appear in the press occasionally and, if supported by evidence, prosecutions usually follow. Industry sources complain that videos, tapes, and computer software are widely copied. Most cases, however, appear to be for personal use and, therefore, difficult to monitor.

Illegal infringement on new technology does not appear to be a significant problem. Australia has its own software industry and accords protection to foreign and domestic production. Australia manufactures only basic integrated circuits and semiconductor chips. Its geographical isolation precludes U.S. satellite signal piracy. Cable television is not yet established in Australia.

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8. Worker Rights

a. The Right of Association

Australian law and practice afford workers great freedom to establish and to join trade unions, to choose their union representatives, and to formulate union programs. These rights of association include the right of Australian unions to associate with their counterparts in other nations and to participate in international labor organizations. Unions are extremely active and powerful, representing over half of the work force. Australian workers have the right to strike.

b. The Right to Organize and Bargain Collectively

Australian workers are granted the right, by law and in practice, to organize and bargain collectively and to be represented in negotiating the prevention and settlement of disputes with employers. These rights are enforced equally throughout the country. Industrial disputes are arbitrated by a system of federal and state industrial courts, in which trade unions receive a full and fair hearing. The rights of trade union officials are fully protected in both law and practice.

c. Prohibition of Forced or Compulsory Labor

Australia has ratified and fully respects International Labor Organization (ILO) Convention 105 concerning forced labor.

d. Minimum Age for Employment of Children

Australia has ratified and fully respects the following ILO conventions concerning minimum age for employment: Convention 7 (minimum age); Convention 10 (minimum age for agricultural workers); Convention 15 (minimum age for trimmers and stokers); Convention 112 (minimum age for fishermen); and Convention 123 (minimum age for underground workers). In addition federal and state ministries of labor monitor and enforce a complicated network of legislation (which often varies from state to state) governing such interactive factors as minimum school-leaving age, minimum age to claim unemployment benefits, and minimum age to engage in specified occupations.

e. Acceptable Conditions of Work

Australia has long had a tradition that workers should be guaranteed a decent standard of living. Australia does not have a minimum wage. Instead, differing minimum wage rates for individual trades and professions are embodied in a comprehensive system of discrete "awards" sanctioned by various state and federal commissions. The benchmark minimum wage is traditionally taken from the federal metal industry award. In addition a complex body of regulations and

commission decisions prescribes the 40-hour (often 38-hour) week, paid vacations and sick leave, and health and safety standards in the workplace, as well as other benefits for the overwhelming majority of Australian workers. Compliance with these and other regulations, such as minimum age of employment, is actively monitored and enforced by federal and state ministries of labor.

f. Rights in Sectors with U.S. Investment

In Australia there is significant U.S. investment in the petroleum, food and related products, chemicals and related products, primary and fabricated metals, machinery except electrical, electric and electronic equipment, transportation equipment, other manufacturing, and wholesale trade sectors. Worker rights are no different in those sectors with substantial U.S. investment than in purely domestic sectors. Work standards, conditions, and wages for services performed are among the highest in the world.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		2,943
Total Manufacturing		3,493
Food & Kindred Products	435	
Chemicals & Allied Products	1,406	
Metals, Primary & Fabricated	402	
Machinery, except Electrical	264	
Electric & Electronic Equipment	91	
Transportation Equipment	154	
Other Manufacturing	741	
Wholesale Trade		1,017
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		7,453

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

BURMA

Key Economic Indicators

Billions of Kyat Unless Otherwise Indicated

	1986/87	1987/88	1988/89
Income, Production, Employment			
Real GDP (1969-1970 prices)	20.26	20.71	21.20
Real GDP Growth Rate (pct)	1.0	2.2	2.3
GDP by Sector (current prices)			
Agriculture	24.54	25.34	30.18
Processing and Manufacturing	5.42	5.59	5.74
Services	8.70	9.13	9.36
Others (trade)	13.34	13.46	13.80
Total	58.75	60.66	63.45
Real per capita GDP (Kyat)	536	537	539
Size of Labor Force (millions)	15.50	15.81	15.13
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	17.03(1)	9.58(1)	N/A
Commercial Interest Rates (pct)			
Fixed Deposits	0.5-2.25	0.5-2.50	1-3.50
Savings Accounts (basic rate)	6.0	8.0	8.0
Lending Rates to (pct)			
State Enterprises	3 - 6	5 - 8	5 - 8
Cooperatives	6 - 7	8 - 9	8 - 9
Private Sector	12 - 24	12 - 24	12 - 24
Savings Rates (pct of GDP)	10.1	11.30	N/A
Investment Rates (pct of GDP)	14.7	17.2	14.6
Consumer Price Index (1978 = 100	153.8	181.1	N/A
Wholesale Price Index (1978 = 100)	125.5	N/A	N/A
Exchange Rate (Kyat/$)			
Official	7.1577	6.5159	N/A
Parallel	41.00(2)	42.00(2)	N/A
Balance of Payments and Trade (millions of Kyat)			
Total Exports fob	2,180.00	2,098.70	2,472.40
Exports to U.S.(3)	11.00	N/A	N/A
Total Imports cif	3,755.00	4,100.00	4,119.00
Imports from U.S.(3)	82.39	N/A	N/A
Aid from U.S. (grant only)(4)	59.56	47.30	N/A
Aid from Others (grant only)	2,366.7	2,925.3	2,581.4
External Public Debt(5)	24,479	26,147	N/A
Annual Debt Service (paid)	2,130.00	2,152.10	2,130.70
Gold and ForEx Reserves(6)	238.71	178.21	N/A
Balance of Payments			
Trade	-1575.00	-2001.30	-1646.60
Current Account	-1808.80	-2345.90	-1844.80
Overall Balance	-120.20	-79.70	-0.80

BURMA

Notes:
(1) Money supply in March 1987 and 1988.
(2) U.S. Embassy - Rangoon.
(3) Trade with the U.S. is minimal.
(4) Figures for U.S. fiscal year (October - September) for 1987 and 1988, USAID - Rangoon. Aid from bilateral donors was cut off in September 1988 and aid from multilateral sources was also slowed at that time.
(5) IMF Report, Burma - Recent Economic Developments, June 1988 (converted from SDRs at official rate).
(6) International Financial Statistics.

Unless otherwise indicated all figures are from Burmese Government statistics Burmese statistics in general are not necessarily reliable.

The Burmese Government fiscal year is April 1- March 30.

1. General Policy Framework

Recently included in the United Nation's list of the World's Least Developed Countries, Burma has a predominantly agricultural economy, extremely limited manufactured output, extensive illegal commercial activity, and a large intrusive public sector. Since the early 1960s the government has centrally planned and closely regulated economic activity, with the public sector accounting for two-fifths of total gross national product (GNP). The government directly controls major manufacturing, extractive industries, banking, communications, power, construction and foreign trade, and has strongly influenced the rest of the economy through controls on wages and prices, distribution of commodities, internal and external credit and payments, and crop production and procurement.

More recently, while not easing the scope of bureaucratic intrusion into the economy, the government began to allow more expanded private entrepreneurial activity. In September 1987 domestic trade in rice and other grains was decontrolled, in February 1988 the export trade in those commodities was opened up, and in October 1988 both domestic and foreign private sector trade in most other products was permitted. Under a newly published foreign investment law, foreign investments including wholly foreign-owned enterprises will be allowed -- 25 years after wholesale nationalizations of private and foreign companies. Whether these trade and investment openings extend to oil and gas, teak, or pearls, jade and gems is unclear; nor has a clearly needed currency devaluation been implemented. Fundamental uncertainties in the domestic political sphere will persist well into 1989, and until political issues have been settled the full extent and longer term significance of economic policy changes will not be apparent. The lack of policy clarity and the current extremely strained economic situation also obscure the near-term prospects for U.S. exports to and investment in Burma.

BURMA

Although the government subsidizes state economic enterprises (SEEs), it also depends on various taxes paid by the SEEs for about two-thirds of total public sector revenue. Therefore, the public sector is highly sensitive to developments in the terms of trade and balance of payments. Public sector revenues are also strongly influenced by the effects on SEEs of rigidity in domestic pricing policy. Perhaps a third of total public sector spending is required for military expenditures to combat long-standing border area insurgencies.

No major expansionary fiscal measures have been taken to address the worsening domestic economic situation in Burma. Rather, fiscal controls have been imposed through severe import compression, cutbacks in public sector capital investment, and limits to foreign borrowing. Public sector and external deficits have been financed through increasing monopolization of domestic credit, printing money, and foreign aid inflows.

Monetary policy is very limited in scope and does not use even interest rate manipulation as a tool. The use of credit is limited by allocation rather than by interest costs. Monetary policy merely implements the annual credit plan drawn up to support public sector budgetary requirements. Consequently, changes in the money supply generally reflect the borrowing needs of the state sector quite closely. The money supply itself is largely just currency in circulation, with demand deposits being very small and too inaccessible to be significant. On two recent occasions -- November 1985 and September 1987 -- the government declared currency demonetizations that each effectively took at least 50 percent of Burmese currency out of circulation. The government's primary goal was not to control growth in public sector credit but to confiscate the financial assets of the large black market economy. Compensation for the September 1987 demonetization was never provided, and its effect was to undermine the currency and increase demand for goods in place of money, contributing to inflationary pressures. The national banking system is used by the public sector and some of the larger businesses who must maintain a semblance of legality. Most of the Burmese public mistrusts and avoids it.

2. Exchange Rate Policies

The Kyat has been pegged to the Special Drawing Right (SDR) at 8.50847 Kyat per SDR since May 1977. The official Kyat/Dollar rate fluctuates only to a limited extent, and does not reflect economic fundamentals. A very large black market exists with a parallel exchange rate generally about six times the official rate. For example, in late October 1988 the parallel rate was about 40 Kyat/$1 compared to an official rate of about 6.4 Kyat per dollar. Exchange controls administered by the Foreign Exchange Control Board include: requirement of import permits for most durable goods; limitation of import of automobiles; requirement to repatriate part of the gross earnings of Burmese Nationals working abroad (10 percent for nationals working abroad; 50 percent in the

case of seamen); prohibition of tourist travel by Burmese Nationals and limited authorization of foreign exchange for those who are permitted to travel for official or medical reasons.

3. Structural Policies

Burmese Government policies as well as the recent cutoff of bilateral aid and the dearth of foreign exchange have a negative impact on import purchases including the purchase of U.S. goods. However, Burma's economic and trade policies may now be in transition, particularly with the intended economic opening to the private and foreign sectors. The U.S. share of Burma's total imports in 1987-88 was only about three percent, and prospects for U.S. exports are difficult to judge.

The government has controlled prices of a wide range of goods and services and provided allocations of basic commodities at official prices to military and civil servants. Relatively unchanged official prices have been far below free market prices paid by the bulk of the population, and most official allocations are resold (illegally) at free market prices.

Major taxes are a commodity and services tax (sales tax), customs duties, an income tax, and a profits tax. To provide incentives, the maximum income tax rate was reduced from 60 percent to 50 percent, and profits tax rates were also reduced effective FY 1986-87.

There are no regulatory policies affecting U.S. exports other than trade and payment restrictions. Imports and foreign exchange have been directly controlled by the government.

4. Debt Management Policies

Burma's external debt is entirely public sector debt, largely on concessional terms (91 percent of the total in FY 87-88), with medium and long-term maturities. According to the World Bank's debt reporting system, on March 31, 1987 Burma's total outstanding debt (including undisbursed funds) was SDR4,000 million ($5,143 million). About 65 percent of the total outstanding debt is in bilateral loans (the bulk of that from Japan), 27 percent is multilateral loans, and the remainder is in the form of supplier credits of loans from financial institutions of donor countries. The Burmese Government has not requested any rescheduling under the Paris Club, nor has it taken any adjustment assistance either from the International Monetary Fund (IMF) or the World Bank.

5. Significant Barriers to U.S. Exports

Import licenses have been required for private sector imports, while government agencies and state-run economic enterprises do not need them. Private sector imports have

been negligible compared with public sector imports. The government's new policies on private sector trade continue an import licensing requirement for each import transaction, with a license fee of five percent of the cif (cost, insurance, and freight) value of the imports.

Regarding services barriers, foreign financial and legal services are not allowed to operate in Burma.

A new foreign investment law was recently published. Among its major features, the new law permits enterprises with between 35 and 100 percent foreign ownership; provides an income tax exemption of at least three years; allows for additional benefits such as relief from customs duties and an income exemption on up to 50 percent of profits from exports; and allows some repatriation of funds.

A competitive tender system is the basis of government procurement. Countertrade is accepted and the government has attempted to put cross-border trade with China on that basis. Under buy-back arrangements, foreign firms provide machinery, equipment, raw and semi-finished materials and buy-back products from local factories.

Regarding customs procedures, there are no special requirements, but clearance procedures are quite extensive and time consuming.

6. Export Subsidies Policies

An Export Price Equalization Fund (EPEF) was created in 1976 to reduce the impact on exporting state economic enterprises (SEEs) of cyclical movements in the prices of Burma's exports. Its revenues came from a 50 percent tax on the export profits of profitable SEEs (which pay a total export profits tax of 65 percent) which were used to subsidize loss-making SEE exporters. The EPEF has been in deficit since 1986-87.

7. Protection of U.S. Intellectual Property

Burma is not a signatory to any of the major international intellectual property agreements. In Burma foreign firms protect their patents, trade marks, and copyrights through public notifications in local newspapers. There is no legal discrimination between domestic and foreign intellectual property rights holders.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Burma.

BURMA

8. Worker Rights

a. The Right of Association

There are no genuine trade unions and no independent labor movement in Burma. Workers do not have the right to organize independently, to bargain collectively, or to strike. Prior to the events of July-September 1988, the labor force was organized into workers' and peasants' mass organizations controlled by the only legal political party, the BSPP. Most of the leaders of these organizations were party officials, and their national leadership was made up of ranking party and government officials. On September 30,1988 military authorities announced new laws strictly governing the formation of groups and organizations. Those wishing to form organizations must apply for permission to the Ministry of Home and Religious Affairs. Outlawed organizations include those that attempt to "incite, encourage, or assist in undermining or stopping the operation of state administrative machinery." Approved groups or organizations may gather and make speeches but may not speak out against the Government. Labor organizations and other professional associations are not permitted to maintain independent relations with international private bodies. Burma is a member of the International Labor Organization (ILO) although it has been consistently criticized by the ILO's Committee of Experts on the Application of Conventions and Recommendations (CACR) for failure to observe ILO Convention 87 on Freedom of Association which Burma ratified in 1955. In 1988 as in many previous years, the CACR urged the Government to bring its legislation and practice into conformity with the Convention.

b. The Right to Organize and Bargain Collectively

As noted above, workers have no right to bargain collectively. Labor disputes in both the public and private sectors are mediated by arbitration boards composed of worker, management, and government representatives. In practice these committees are under strict control by the government. In the past, since many public sector workers, management, and government representatives were all BSPP officials, the process had little meaning. For a short time during the August and early September 1988 demonstrations and general strike, workers began to form independent labor unions and strike committees in virtually every government ministry and economic organization. These were quickly dissolved following the military takeover. At the end of 1988 there was no reason to believe workers would be granted any greater freedom to organize or bargain collectively under the new military authorities.

No special economic zones exist in Burma.

c. Prohibition of Forced or Compulsory Labor

Burma's legal code does not contain any statutory prohibition of forced labor. The Burma Army frequently conscripts civilian males in the vicinity of military operations (primarily in areas populated by ethnic minorities)

to serve as porters. In mid-October 1988 the government revealed that 1,120 people had been rounded up for labor and porter service against the various insurgencies facing the government. Women have also been conscripted, some being required to work in the women's ward of Insein prison. Insurgent groups also press-gang villagers into service as recruits or porters.

d. Minimum Age for Employment of Children

At present the minimum age for workers is 13. Children between 13 and 15 may work for 4 hours a day. The penalty for employees who disregard this regulation is 2 years in prison. However, the regulation is not strictly enforced.

e. Acceptable Conditions of Work

There is a five-day, 35-hour workweek for employees in the public sector and a six-day, 44-hour workweek for private and parastatal sector employees, with overtime paid for additional work. However, public sector employees seldom actually work more than 6-1/2 hours a day. Workers have 21 paid holidays a year, and there are numerous legal provisions to protect workers' health and safety, but these are not strictly enforced. The minimum legal wage is about $1 per day at current official exchange rates, although at the more realistic free market rate, this works out to about 25 cents a day. In the private sector the minimum wage law applies only to cheroot-rolling plants and rice mills. There are rules governing health and safety conditions at workplaces, pertaining to room size, ventilation, fire hazards, and availability of latrines and drinking water. In practice, these are seldom enforced, particularly in the private sector.

f. Rights in Sectors with U.S. Investment

There is no U.S. capital investment in Burma.

No data on Burma has been compiled by the Bureau of Economic Analysis of the U.S. Department of Commerce.

PEOPLE'S REPUBLIC OF CHINA

Key Economic Indicators

Billions of Yuan Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment (1)			
GNP (billions)	938	1,092	1,365
Real GNP Growth (pct)	7.8	9.4	10
GNP by Sector	N/A	N/A	N/A
GNP per capita	881	1,011	1,247
Real per capita GNP Growth (pct)	6.3	7.9	8.4
Gross Value Industrial Output (2)	1,119	1,378	1,819
Real Growth GVIO (pct)	11.4	16.5	17
Industrial Productivity Growth (pct)	4.0	7.6	8
Gross Value Agricultural Output (2)	401	445	512
Real Growth GVAO (pct)	3.4	4.7	5
Population (millions)	1,065	1,080	1,095
Population Growth Rate (pct)	1.4	1.4	1.4
Size of Labor Force (mils)	512.8	527.8	542.0
Official Unemployment (avg pct for year) (3)	2.0	2.0	2.0
Money and Prices			
Money Supply (M1)	N/A	N/A	N/A
Domestic M2 Money Supply	725	895	1,120
M2 Growth (pct) (4)	29.0	23.4	25
Commercial Interest Rates	N/A	N/A	N/A
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index	N/A	N/A	N/A
Wholesale Price Index	N/A	N/A	N/A
General Retail Price Index (pct change)	6.0	7.3	15
Market Price Index (pct chg)	8.1	16.1	25
Exchange Rate (Yuan/$) (5)	3.46	3.71	3.71
Balance of Payments and Trade (billions $)			
PRC Exports fob	30.9	39.5	48.0
Exports to U.S. cif (6)	5.24	6.91	8.4
PRC Imports cif	42.9	43.2	54.0
Imports from U.S. fas (6)	3.11	3.5	5.3
Aid from U.S.	0.0	0.0	0.0
Aid from Other Countries	N/A	N/A	N/A
Foreign Debt (yr-end est)	24.5	27.4	31.2
Debt Service Paid (est)	2.4	2.5	4.0
Debt Service Ratio (pct exports)	7.8	6.3	8.8
Foreign Exchange Reserves	10.5	15.2	16.2
Current Account Balance	-8.2	0.3	-4.0

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Notes:

(1) All Yuan are current Yuan. Growth rates are adjusted for inflation.
(2) In accordance with the material product system (MPS) of national income accounting, GVIO and GVAO figures are calculated on a gross rather than a net basis. They are not directly comparable with GNP and national income figures which are calculated on a value added basis.
(3) 1987 is Embassy estimate. Official figure is not yet available.
(4) Percent growth over prior year-end total.
(5) Annual average; figures do not reflect the price of foreign exchange sold at domestic adjustment centers (swap markets), which currently is about 6.5 Yuan/Dollar.
(6) U.S.-China bilateral trade is based on U.S. Government data.

Sources: State Statistical Bureau (SSB) yearbook and annual statistical communiques on economic performance; People's Bank of China banking data; Ministry of Finance budget reports; U.S. Government trade data; and Embassy estimates.

1. General Policy Framework

For the past decade, China has pragmatically pursued economic reforms aimed at decentralizing economic decision-making, expanding the role of the market, and increasing trade and investment ties with the international community. The ultimate goal is an economy which retains some elements of central planning along with indirect government manipulation of macroeconomic levers, such as tax, interest and exchange rates, but which relies on market forces to determine optimum investment and output. The policy is summed up in the official phrase, "the state regulates the market and the market guides enterprises."

Market-based reforms have progressed furthest in the countryside, where farm production incentives have significantly boosted agricultural output and rural incomes. An unexpected consequence of market reforms in rural areas has been the extensive expansion of employment in private and collective enterprises which developed to meet rural needs. In urban areas, efforts to improve industrial efficiency have given many enterprise managers greater say over output levels, investment and import decisions. Decentralization and enterprise reform have significantly altered the core nonmarket economy. The next important step, apparently postponed while China gets a grip on its inflation problem, is full-scale price reform.

The central government's budget deficit in 1987 was equal to 1.6 percent of GNP, calculated according to International Monetary Fund (IMF) methodology, and may go higher in 1988. Despite rapid growth in industrial output, profits at state-owned enterprises -- the core of China's industrial sector -- have stagnated, and roughly one-fourth of these firms are running in the red. Since taxes from these enterprises

account for about 90 percent of Beijing's revenues, poor profit performance reduces funds available to the budget. At the same time, budget expenditures are rising to cover growing enterprise operating losses and inflation-led consumer food subsidies. The 1987 budget deficit was financed through foreign borrowing (30 percent), domestic treasury bonds (23 percent), and currency issued by the People's Bank of China (47 percent). Economic overheating in 1988 forced Beijing at mid-year to double its currency expansion target, and further expansion appeared likely to meet fall grain harvest procurement obligations.

Excessive expansion of the money supply, coupled with high demand for consumer goods, pushed inflation in 1988 above 20 percent -- the highest rate since the establishment of the People's Republic in 1949. In the absence of an effective loan interest rate mechanism, the People's Bank of China (which acts as the central bank) continues to rely on annual credit plans and other administrative means to control credit expansion. In the wake of economic decentralization, however, these controls proved ineffective in preventing the rapid expansion of credit during the first half of 1988 to fund locally-sponsored capital investments. Late in 1988 the central government tightened restrictions on bank credit. In addition, to reduce inflationary pressures caused by substantial withdrawals from consumer savings accounts, the government raised savings interest rates and instituted inflation indexing for longer-term certificates of deposit. But the momentum of inflation is unlikely to abate before late 1989 due to the lag effects of this year's expansionary policies and continued high consumer demand. Past experience suggests that as Beijing tightens administrative controls over credit, relatively efficient enterprises may be starved along with the inefficient.

2. Exchange Rate Policies

China administers a managed floating official exchange rate, nominally linked to a trade-weighted basket of currencies but in fact, at present, effectively pegged to the U.S. dollar. Most of China's trade transactions are denominated in U.S. dollars. The Chinese currency, the Renminbi (RMB), is not freely convertible; China also issues a hard-currency backed scrip for foreigners called Foreign Exchange Certificates (FEC). The current exchange rate, RMB3.71/$1.00, was last adjusted in July 1986 and is widely regarded as overvalued; black market rates currently run as high as RMB8.00/$1 in some areas. Despite inflationary pressures, however, China has resisted devaluation of the RMB against the dollar. With foreign trade roughly in balance since 1987, the central government sees little immediate need to stimulate exports. Higher import prices, on the other hand, would boost import subsidies to state enterprises and ultimately worsen the central government's budget deficit. RMB devaluation seems a certainty over the longer term in order for the Chinese to maintain export competitiveness in the face of rising domestic prices.

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From 1981 to 1985 China maintained a dual exchange rate system which allowed domestic units to sell foreign exchange at a rate more favorable than the official exchange rate. Although the two rates have since been merged into one official rate, state enterprises (and Sino-foreign joint ventures) are still able to buy and sell foreign exchange at higher than official rates on local foreign exchange swap markets which have been established around the country. Sell rates on these markets (known officially as foreign exchange adjustment centers) have ranged as high as RMB6.5/$1, more than 75 percent above the official rate. In 1987 swap markets accounted for about 10 percent of total foreign exchange transactions -- equivalent to $4.2 billion -- and rose to 15 percent by the middle of 1988.

3. Structural Policies

China's policy of "opening to the outside" has led to substantial foreign trade growth over the past decade, with projected total trade in 1988 nearly five times greater than total trade ten years earlier (in nominal value). Total trade increased about 13 percent in 1987 and is expected to grow more than 20 percent in 1988. Through tight import control policies and expanded exports, China was able to reduce its overall trade deficit to less than $4 billion in 1987 (down from $12 billion in 1986) and was able to show a slight current account surplus. China's improved trade picture in 1987 led to a looser import policy in 1988, with imports increasing about 23 percent in the first eight months of the year. U.S. export performance has been particularly outstanding, with exports to China in the first eight months of 1988 up 56 percent over the same period in 1987.

Still short of foreign exchange, China continues to rely on administrative measures (embargoes on consumer products, import licensing, import substitution regulations etc.) to control imports of products that it does not consider necessary for the nation's development or that it can produce itself. China's trade system has, however, undergone reforms which could significantly alter the trading environment. In 1988, trading enterprises in the machinery and electrical products, apparel, and handicraft industries were allowed to engage directly in foreign trade, keep more of their earned foreign exchange, and be responsible for their own profits and losses. The movement toward a more open trading environment in which firms make more of their own import and export decisions could be a very positive development for U.S. exporters. The outstanding U.S. export performance in 1988 was due in large part to international currency shifts, especially the appreciation of the Yen over the Dollar. The decentralization of foreign trade decision-making power, however, especially the greater leeway given to trading enterprises in using their retained foreign exchange, was also an important factor.

Early in 1988 the Chinese Government announced that it was embarking on an export-led growth strategy in order to capture a greater share of the world market for labor

intensive products. The strategy entails the promotion of export-processing industries in China's coastal areas utilizing imported components and foreign investment capital. The new policy has come under domestic fire because of doubts about the wisdom of a development strategy that relies on labor intensive export-processing instead of more advanced technology-based industries, and because these processing industries were relying on domestic raw materials which were in increasingly short supply. In addition China's inland provinces have complained about preferential treatment given to coastal regions. Chinese leaders have continued, however, to voice support for the plan with adjustments to cope with the charges of regional favoritism. However the plan is implemented, China's continued emphasis on export production should result in greater openness in China's markets for imported equipment and components needed to build up the infrastructure of China's export-oriented industries.

China actively encourages foreign investment -- through incentives and other favorable policies -- in technologically advanced and export oriented manufacturing joint ventures. More than 150 national laws and regulations governing investment have been enacted over the last decade, and many regions and localities offer additional incentives to encourage investment in their areas. In October 1986 China issued a new set of 22 regulations to encourage foreign investment. The regulations give special tax treatment to technologically advanced and export-oriented enterprises. The regulations exempt profits that certain qualified foreign enterprises repatriate from taxes, give foreign enterprises the right to refuse payment of unreasonable charges, the right to autonomy from local government interference in the operation of the enterprise contract, and the right to hire and fire. They also guarantee that investment proposals will be adjudicated by the government within three months of their receipt. The regulations will not solve all the problems associated with China's investment climate. They are a step in the right direction, however, and demonstrate China's willingness to tackle important investment-related issues.

4. Debt Management Policies

The International Monetary Fund (IMF), the World Bank, and the commercial banking community regard China's current debt burden as well within acceptable limits. China's outstanding foreign debt at the end of 1987 was estimated by the IMF at about $27 billion, equivalent to about 9 percent of GNP. Other estimates based on lending country data have ranged as high as $30 to $35 billion. At the end of 1987 the debt service ratio was estimated at a moderate 9 to 10 percent, and short-term borrowing as a proportion of total debt had declined to 38 percent, compared with 54 percent at the end of 1985. Low interest loans from multilateral development banks and foreign governments accounted for about 25 percent of new borrowing in 1987. Estimates of 1988 borrowing are not yet available.

PEOPLE'S REPUBLIC OF CHINA

Debt management responsibility is shared by several central government agencies, including the state planning commission, the People's Bank of China, the Ministry of Finance, and the Ministry of Foreign Economic Relations and Trade. Annual quotas for foreign borrowing are allocated to localities and enterprises through the central planning process. The State Administration for Exchange Control (SAEC), a unit of the People's Bank, is responsible for enforcing quota restrictions, approving any out-of-plan borrowing, and ensuring that borrowers are capable of repaying their loans. Since mid-1987 all foreign loans nationwide (including those of Sino-foreign joint ventures) must be registered with the SAEC within a prescribed period of time. The SAEC plans to publish historical data on China's foreign debt.

Because several agencies, rather than one central authority, share responsibility for debt management, some Chinese economists worry that the system cannot effectively control the growth and structure of foreign borrowing. Critics predict that unless debt management is rationalized, China may face debt repayment difficulties in the 1990s. Their predictions, however, may underestimate the future growth of export revenues, which have been increasing rapidly in recent years. In early 1988 the state council rejected a plan to centralize debt management responsibilities in the hands of a new agency under the Ministry of Finance. Although the issue of centralizing debt management authority may resurface, for now the government is focusing on strengthening the existing debt management system.

5. Significant Barriers to U.S. Exports

China's import policy is designed to conserve foreign exchange and avoid balance of payments difficulties, while ensuring the inflow of materials and technology needed for the country's development and of essential products, like grain, where supply cannot meet demand. Market controls to regulate imports include tariffs and an import regulatory tax. Administrative controls include import licensing, embargoes, import substitution regulations and foreign exchange restrictions.

China adheres to the traditional use of tariffs as a tool to protect its domestic industry. Tariff ranges are highly variable and for some industrial goods extremely high (up to 200 percent). An import regulatory tax enacted on a "temporary" basis in 1985 subjects over 20 products to import charges over and above published tariff rates. The industrial and commercial consolidated tax, a kind of turnover tax, is also levied upon imports.

China maintains a complex import licensing system. The principal rationale for import licensing is to control the expenditure of foreign exchange and protect Chinese manufacturers from foreign competition. Currently, 53 broad categories of products require import licenses, covering a wide range of consumer goods, raw materials and production

equipment. Obtaining a license often requires approval from several layers of bureaucracy, and in many cases, a certificate of approval from the ministry that oversees the manufacture of such products in China -- a potential conflict of interest. Even after a license has been issued by a local trade bureau, it can be rescinded if the central government decides that the transaction is not consistent with current trade policy.

China uses embargoes to restrict certain consumer goods imports. China has also banned imports of production lines for televisions, tape recorders, washing machines and air conditioners. Approximately 80 types of consumer goods, raw materials and production equipment are now embargoed. Because the U.S. is a minor consumer goods exporter to China (as opposed to Japan), U.S. exports have not been greatly affected.

China has put into place regulations that require the purchase of certain domestically-made machinery and electrical products as substitutes for imports. Although regulations state that the import substitutes must be "comparable" in quality and price to the imports, no implementing procedures to ensure that this standard is maintained have been published for domestic products.

U.S. firms frequently cite China's foreign exchange controls as the most significant non-tariff barrier to trade and investment. Although central government controls over the use of foreign exchange have been partially relaxed this year, firms must still follow strict guidelines to ensure that foreign exchange is used in accordance with national policy objectives. Because many of the regulations surrounding foreign exchange are unavailable to foreign business persons, U.S. companies are often uncertain if foreign exchange is available to pay for contracted products and services.

The most notable example of unfair application of standards and testing requirements relates to the pesticide industry. China requires registration of any new pesticide "put into commercial production." It appears that some Chinese producers have not been required to document and demonstrate safety and effectiveness as the regulations prescribe. Foreign manufacturers must meet the requirement because proof of compliance is required to obtain import licenses. U.S. companies report that developing safety and health data that comply with Chinese regulations costs more that $5 million per agricultural chemical. It is nearly impossible for a foreign company to compete with a Chinese producer who is allowed to avoid such requirements.

Chinese restrictions on certain foreign firm service activities (including insurance, construction, banking, accounting, legal services, and freight forwarding) prevent U.S. firms from participating fully in China's service sector. U.S. banks, for example, have not been permitted to set up branch banks in China (except for two small branches in the Xiamen and Shenzhen special economic zones), while the New York branch of the Bank of China has conducted all forms of branch banking activities since 1980. U.S. insurance firms

are not allowed to participate in the direct insurance market in China. U.S. lawyers and accountants must largely limit their activities to servicing foreign firms that do business in China. Foreign law firms cannot register as official representatives, nor can accountants be registered as CPAs. In regard to freight forwarding, although U.S. freight forwarders can arrange for carrying cargo between the United States and China, they can not arrange transportation of goods within China. Chinese enterprises usually use Chinese freight forwarding organizations which can be paid in local currency to transport cargo overseas. Chinese shipping organizations are free to establish subsidiaries or representative offices in the United States. In conjunction with the signing of a new maritime agreement, China now permits some U.S. carriers to set up in China.

Despite central government efforts to improve the investment climate, problems of bureaucratic inefficiency, insufficient foreign exchange, and competitive disadvantages in the domestic market continue to plague many foreign investors. China does not provide national treatment to foreign investors. In some key areas, such as input costs, foreign investors are treated less favorably than Chinese firms. China denies foreign investors the right to take the Chinese Government to international arbitration, preferring to rely on consultations to settle disputes. China does not recognize international expropriation standards. The Chinese currency, the Renminbi, remains nonconvertible. To repatriate profits, a foreign investor must either export to earn foreign exchange, exchange Renminbi for foreign exchange at a premium on the officially-sanctioned swap market, or use some other _ad hoc_ measure. (However, a few products designated as import substitutes by the Chinese Government can be sold on the domestic market for foreign exchange.)

6. Export Subsidies Policies

Many of China's manufactured exports are directly subsidized by the central government. Chinese officials explain that these subsidies were not put in place to give Chinese products unfair competitive advantages in international markets, but are necessary to compensate for an overvalued exchange rate and high domestic prices. For many goods, domestic prices are priced above international prices. Subsidies are offered to compensate for losses taken by trading enterprises when they sell goods at the lower, international price. Other export incentives that may be regarded as subsidies include tax rebates for exporters and duty exemptions on imported inputs for export production. China's swap markets constitute a _de facto_ alternative exchange rate system where exporters can exchange earned foreign exchange for domestic currency at a rate much higher than the official rate.

PEOPLE'S REPUBLIC OF CHINA

7. Protection of U.S. Intellectual Property

In recent years China has made progress in increasing the protection of intellectual property. China has improved its trademark protection by enacting a new trademark law, promulgated a patent law that offers genuine protection in most areas, and joined the Paris Convention for the protection of industrial property. However, China still does not provide adequate protection in a number of areas and still does not have a copyright law in place. Important examples of these deficiencies are the pirating of computer software and the production of counterfeit computer hardware.

Although the new law, which came into effect in 1985, offers protection in most product categories, it does not provide protection for pharmaceutical and chemical products. U.S. firms have reported, for example, that some U.S. patented pesticides have been copied in China both for domestic use and for export.

Although several draft versions of a new copyright law have been under consideration, none have been enacted as yet. Without a copyright law, U.S. publishers and record companies are not afforded appropriate protection with a consequent widespread pirating of books and tapes.

The draft copyright law under consideration does not protect computer software. Without such protection, U.S. software producers are reluctant to sell or license their products in China because of extensive software pirating. Several leading software packages have been reproduced without permission of the U.S. supplier. Software pirating may also significantly affect computer hardware sales, as some Chinese manufacturers appear to be undercutting U.S. manufacturers by offering computer systems utilizing pirated U.S. software.

There appear to be cases where computer hardware has been counterfeited for domestic sales and for export. We have little data on how widespread a problem this is in China. There are indications that Chinese authorities wish to cooperate with the U.S. Government and U.S. firms to try to stop this practice.

Failure to adequately protect intellectual property in China has measurably cost U.S. firms in sales and profits. Inadequate protection of pharmaceutical and chemical products could cost U.S. manufacturers millions of dollars in lost sales in 1988. Perhaps just as important, inferior copies could harm the reputation of the genuine product, affecting future sales. Pirating of U.S. software has resulted in very little market penetration by U.S. firms in a potentially lucrative market. Finally, the lost hardware sales caused by counterfeit production and the low package prices offered for Chinese-made machines that utilize pirated software could be in the tens of millions of dollars.

PEOPLE'S REPUBLIC OF CHINA

8. Worker Rights

a. The Right of Association

China's trade unions are closely controlled by the Chinese Communist Party (CCP). The All-China Federation of Trade Unions (ACFTU) has for the past two years been engaged in drafting a new trade union law which will redefine the role of trade unions in China. Simultaneously, the Ministry of Labor and other government agencies have been drafting a comprehensive labor law. In the workplace, virtually all state-sector workers, and about 75 percent of all urban sector workers, belong to branches of the ACFTU.

Although not formally compulsory, membership in the ACFTU is an expected part of life in urban work units. The union's primary function is to promote labor discipline, enhance labor productivity, conduct political and ideological indoctrination, and improve workers' educational and technical skills. Unions also perform a variety of social and welfare functions such as handling pensions and disability benefits, and operating clubs, eating facilities, nurseries, schools, and sanatoriums.

Chinese workers are not assured the right to strike. Strikes are viewed by higher authorities as justified only as temporary responses to problems such as sudden deteriorations in safety conditions. During the first half of 1988 there were 49 officially reported strikes -- 19 in the first quarter and 30 in the second. These actions received official attention because they could not be resolved within the work unit. In addition informal work stoppages and slowdowns to express worker discontent are not uncommon and are apparently tolerated for brief periods as long as vital services and national security industries are not affected. Although there are no formal regulations regarding strikes in special economic zones, it appears that the authorities are more tolerant of strikes in the zones than in the rest of the country.

The ACFTU claims to have contacts with trade unions in over 120 countries or regions, and the federation has stated its desire to establish links with foreign unions regardless of any affiliation with the International Confederation of Free Trade Unions, the Soviet-dominated World Federation of Trade Unions, or other organizations. Since China joined the International Labor Organization (ILO) in 1983, an ACFTU official has served as China's worker delegate to that body.

b. The Right to Organize and Bargain Collectively

Under the labor contract system, which was instituted in 1986 and now covers over 7 million workers, individual workers are permitted to negotiate with management over some contract terms, particularly the length of the employment contract. In practice, it is mostly only university graduates who are able to choose from among several offers and negotiate effectively on salary and fringe benefits.

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The government does not permit collective bargaining. In addition, worker congresses were established in 1981 in most large and medium-sized enterprises. Congresses convene at least once or twice yearly. Initially confined largely to overseeing social welfare issues, the congresses have recently begun to fulfill the role originally intended for them as a sort of cabinet of advisors for the enterprise manager.

China's law on state-owned industrial enterprises, passed by the National People's Congress in April 1988, codifies the makeup and function of the congresses and directs the enterprise manager to consult the congress on all important decisions affecting the economic life of the enterprise or any worker benefits. Through their representatives, workers are thus theoretically able to exert an indirect influence on decisions which affect their economic well-being and the conditions of their employment.

Labor laws and regulations appear to be enforced uniformly throughout the country except, as noted in section 8. a. above, there appears to be more government tolerance toward strikes in the special economic zones.

c. Prohibition of Forced or Compulsory Labor

China is still considering ratification of ILO Convention 105 on forced labor. China's longstanding practice is that "reform through labor" or "education through labor" entails compulsory labor. Prison and labor reform camps are expected to be partially self-supporting. There are no credible reports of forced labor outside of prison and labor reform camp settings.

d. Minimum Age for Employment of Children

In mid-July the Ministry of Labor announced that, in cooperation with other government agencies, it was drafting a circular to curb an increasingly serious child labor problem. Growing reports of sweatshop-like enterprises exploiting child labor in rural areas and the Shenzhen Special Economic Zone likely spurred this decision. The regulations embodied in the circular were promulgated in November and imposed severe fines, loss of business licenses, or jail for offenders. Regulations promulgated in late 1987 also prohibit any organization or individual from employing school-age minors who have not completed the compulsory nine years of education.

e. Acceptable Conditions of Work

There is no minimum wage. Conditions of work vary widely. Subsidies, bonuses, and payments in kind are nearly universal in nonagricultural employment, making up as much as 40 percent of a person's total income.

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In the workplace, occupational health and safety are constant themes of posters and campaigns, but progress in this area has depended to a considerable extent on the construction of more modern plants and equipment with built-in safety features. Large factories built in the 1950s with Soviet help tend to be noisy, dirty, and dangerous. Renovated plants and those constructed more recently and modeled on Japanese, American, and western European prototypes have incorporated many safety features into the basic design. Persistently low safety consciousness among workers and the impetus for greater labor productivity have impeded greater government attention to safety standards.

Safety issues have figured prominently in formal programs covering nuclear power, mine safety, rail development, and civil aviation. Every production unit of any size must designate a health and safety officer; the ILO has established a training program for these officials. State procurators deal annually with thousands of negligence and accident cases involving criminal or civil liability.

The Labor Ministry and other organs of government are now mounting a vigorous drive to create nationwide social security and unemployment systems to replace the piecemeal, work unit-based programs now in place. Bilateral contacts and training programs in these areas are expanding rapidly, particularly with the Social Security Administration and the Department of Labor.

The normal and maximum workweek is still 48 hours, despite proposals to reduce it to 40 hours. Some work time is spent in political study or education-indoctrination on current social issues.

Measures which prohibit child labor were issued November 5, 1988. They provide for fines of three to five thousand Yuan for every child worker employed. "Child worker" is defined as a person who has not reached his 16th birthday. Apparently the first step in the process would be an order to discharge the underage worker. If the order is disregarded, fines would be levied. If the worker is still not discharged, criminal penalties would ensue.

f. Rights in Sectors with U.S. Investment

With regard to the first three worker rights criteria (right of association, right to organize and bargain collectively, and prohibition on the use of forced labor), practices in the goods producing sectors in which there is significant U.S. investment appear identical to those in other sectors, as described in the above section. With regard to working conditions, the petroleum sector perhaps stands out as having a larger proportion of hazardous jobs. But in a sector such as petroleum, which has accepted fairly substantial foreign investment, workers in the sector's foreign-invested firms ordinarily enjoy better working conditions than in corresponding domestic firms.

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China has a small but apparently persistent problem with employment of underage workers. Such employment usually takes place in small, mostly rural, collectively-owned or privately-owned light industrial firms turning out simple consumer items such as toys. Of the sectors with U.S. investment, the only ones likely to employ any number of underage workers are food and related products and other manufacturing. The U.S. Embassy, however, has no positive indication that there is a particular problem in the food processing sector. As stated above, abuses have been noted in light manufacturing, but new regulations provide substantial penalties for employing underage workers, and problem firms account for a very small portion of total light manufacturing. In fact, the underage employment problem is centered principally in small, family run retail shops and in restaurants, rather than in manufacturing or wholesale trade. Most of the sectors with U.S. investment are dominated by very large state-owned or collectively-owned companies. In these companies, employment of underage workers is unknown.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		133
Total Manufacturing		40
Food & Kindred Products	0	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	2	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of HK Dollars Unless Otherwise Noted

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1980 prices)	200,035(1)	227,197(2)	245,373(3)
Real GDP Growth (pct)	11.8(1)	13.5(2)	8.0(3)
GDP by Sector (pct of total)(1)			
Agriculture	0.5	N/A	N/A
Manufacturing	21.9	N/A	N/A
Commerce(4)	30.3	N/A	N/A
Finance(5)	17.0	N/A	N/A
Construction	4.5	N/A	N/A
Real per capita Income	36,063(1)	39,807(2)	45,570(3)
Labor Force (000s)(6)	2,702	2,736	2,750(7)
Unemployment (pct)(6)	2.8	1.7	1.4(7)
Money and Prices			
Money Supply (M1)(8)	56,094	81,902	84,418(9)
Commercial Interest Rate (pct)(8)(10)	6.5	5.5	9.5(9)
Savings Rate (pct)(8)(11)	2.0	1.5	5.0(9)
Investment Rate (pct)(8)(12)	3.25	2.0	6.0(9)
Consumer Price Index(A)(8)(13)	105.6	113.0	120.5(9)
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (HK$=$)	7.795	7.760	7.813(9)
Balance of Payments and Trade			
Total Exports fob	276,530	378,034	303,147(14)
Domestic Exports	153,983	195,254	136,423(14)
Re-Exports	122,547	182,780	166,725(14)
Total to U.S. fob	86,581	105,271	74,665(14)
Domestic Exports	64,219	72,817	45,135(14)
Re-Exports	22,362	32,454	29,530(14)
Total Imports cif	275,955	377,948	309,912(14)
Total from U.S. cif	23,198	32,242	26,646(14)
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Annual Debt Service	0	0	0
Gold and ForEx Reserves(15)	N/A	N/A	N/A
Balance of Payments(16)	N/A	N/A	N/A

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Notes:
(1) Provisional estimate.
(2) Preliminary estimate.
(3) Consulate estimate.
(4) Includes wholesale, retail, import/export trades, restaurants, hotels, transport, storage and communications.
(5) Includes banking, insurance, real estate, business services.
(6) Period average, not seasonally adjusted.
(7) Average, March-May 1988.
(8) End of period.
(9) September 1988.
(10) Prime lending rate.
(11) Savings deposit rate.
(12) 3-month time deposit rate.
(13) October 1984-Sept 1985; CPI (A) Covers urban households with monthly expenditures of HK$ 2,000 - 6,499; it includes approximately 50 percent of households.
(14) January-Aug 1988.
(15) The foreign exchange holdings of the Hong Kong Government Exchange Fund are confidential.
(16) The Hong Kong Government does not keep statistics on capital, interest, dividend or royalty flows, which makes it impossible to construct a balance of payments table.

1. General Policy Framework

The Hong Kong Government pursues a policy of minimum interference in the economy. This applies to trade in goods, services and investment, making the territory's markets arguably the most open in the world. There are no import tariffs; duties are levied for revenue purposes only on tobacco, cosmetics, non-alcoholic beverages, liquors, methyl alcohol and some hydrocarbons. These duties are non-discriminatory, levied on local manufactures and imports alike. There are no non-tariff barriers to trade in goods and none in services with the exception of accreditation of foreign professionals in the legal and medical fields. There is no protection or subsidization of any kind for manufacturing. Hong Kong has a freely convertible currency, and there is complete freedom of capital movement. Taxes are low -- currently 17 percent on corporate profits and 15.5 percent maximum on personal income. Property and interest are taxed; royalties, dividends, capital gains and sales are not.

The Hong Kong Government welcomes foreign investment in the territory. It makes no distinction in law or practice between foreign and domestic companies. There are no restrictions on foreign ownership, nor are there export performance or local content requirements. Profits can be freely converted and remitted.

Hong Kong is unique in the world in that the government makes no attempt to control the domestic money supply. Hong Kong has no central bank or monetary authority. There is no rediscount rate, reserve requirement or system of open market

operations. As there are no currency controls, domestic money supply growth is determined by balance of payment flows in the context of a fixed exchange rate linked to the U.S. dollar. The domestic money supply adjusts to whatever level necessary to maintain the exchange rate link. This is accomplished by market forces through currency or interest rate arbitrage. On July 18, 1988 the Hong Kong Government augmented its control over domestic interbank rates by requiring that the net clearing balance of the interbank clearing house be deposited with the government's exchange fund. While this change gave the government the power to intervene in the domestic money market, the power has been used sparingly.

2. Exchange Rate Policies

The Hong Kong dollar has been linked to the U.S. dollar at the rate of HK$7.80 to $1.00 since October 1983. The link is maintained by a system of currency and interest rate arbitrage determined by market forces. There are no multiple rates and no foreign exchange controls. In fact more than half the deposits in the domestic banking system are denominated in foreign currencies.

The price competitiveness of U.S. exports is affected by the value of the U.S. dollar in relation to third country currencies. When the value of the U.S. dollar rises in international markets, U.S. exports are less competitive in Hong Kong and vice versa.

3. Structural Policies

The Hong Kong Government does not interfere in any way in the free market determination of prices. There are no price controls or subsidies of any kind. Government procurement is conducted on an open international offer and bid basis. Tenders are published in the Department of Commerce's biweekly "Business America" and provided to subscribers of its Trade Opportunity Program. Hong Kong, a member of the General Agreement on Tariffs and Trade (GATT), is a signatory to the Government Procurement Code.

Hong Kong pursues a balanced budget strategy based on estimates of growth in the economy. Revenues are derived from betting duty, entertainments tax, estate duty, hotel accommodation tax, stamp duty and earnings and profits tax. Individuals are liable for tax on four sources of income: business profits, salaries, property and interest. Profits tax is charged only on profits arising or derived from business carried on in Hong Kong. The government pursues a low tax policy; profits and personal income taxes were reduced by one percentage point to their current low levels of 17 and 15.5 percent, respectively, this year. As the (direct) tax base is narrow (salaries and profits tax account for nearly half of general revenue), the government is studying imposition of a sales tax at the wholesale level. A working paper for public consultation will be published early in 1989.

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Hong Kong imposes virtually no controls on trade and industry other than to ensure sound business practices and to meet international obligations associated with health, safety and security. There are no laws or regulations which effectively encourage or discourage investment or determine its character. In line with its obligations to restrain exports of certain textiles and apparel under bilateral agreements, Hong Kong has an export control system administered by the Trade Department. Because of heavy reliance on sales to the U.S. market and the resultant trade surplus with the U.S., the Hong Kong Government encourages diversification of export markets and increased imports from the United States.

4. Debt Management Policies

The Hong Kong Government has no foreign debt and has issued only one domestic debt instrument (a 5-year bond issued in 1984 for HK$10 billion) which will be retired in 1989.

5. Significant Barriers to U.S. Exports

There is no general tariff on goods entering Hong Kong; duties are levied for revenue purposes only on six groups of commodities (see section 1). Barriers to trade in services involve accreditation of foreign legal and medical practitioners. The Hong Kong government has proposed elimination of the prohibition on foreign law firms employing, or admitting as partners, qualified local solicitors and advising on third country law. Amendments to the Legal Practitioners Ordinance to effect these changes will be considered by the current Legislative Council (in session through July 1989).

6. Export Subsidies Policies

Except through the statutory Trade Development Council, the Hong Kong Government does not subsidize exports either directly or indirectly. The Council is financed by the net proceeds of an *ad valorem* levy on all exports and on imports other than foodstuffs and by miscellaneous income from sources such as advertising fees and sales of publications.

7. Protection of U.S. Intellectual Property

Hong Kong has acceded to the Paris Convention for the Protection of Industrial Property, the Berne International Copyright Convention and the Geneva and Paris Universal Copyright Conventions. To meet its obligations under these conventions, Hong Kong has enacted laws covering trademarks, trade descriptions (includes counterfeiting) copyrights, industrial designs and patents.

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Hong Kong patent law is identical to that of the United Kingdom. A large proportion of patents are registered by U.S. firms. Protection extends for 20 years. Hong Kong provides full patent protection for chemical compounds and foodstuffs. There are no restrictions on the licensing of patents nor is licensing compulsory.

All trademark registrations in Hong Kong, valid for seven years and renewable for 14-year periods, are original; proprietors of trademarks registered elsewhere must apply anew and satisfy all requirements of Hong Kong law. When evidence of use is required, use must have been in Hong Kong. Counterfeiting and trademark infringement carry maximum penalties of HK$100,000 and imprisonment for two years for summary offenses and HK$500,000 and imprisonment for five years for indictable offenses. All goods seized are liable to forfeiture.

Copyright protection in Hong Kong derives from U.K. law extended to Hong Kong and from the Hong Kong Copyright Ordinance. Foreign works are protected provided ownership is vested in a country which is a signatory to one of the international conventions. Protection under the Copyright Ordinance is automatic; no registration is necessary. Three dimensional representations of two dimensional works are protected as are registered designs. Copyright infringement carries a penalty of HK$1,000 for each copy and imprisonment for one year. For possession of plates used, or intended to be used, the maximum penalty is HK$50,000 and imprisonment for two years.

Following a detailed review of Hong Kong's intellectual property laws, the American Chamber of Commerce in Hong Kong concludes that, by virtue of the rights created by law and the remedies available for enforcement, Hong Kong's intellectual property laws are among the strongest in the world. It further concludes that Hong Kong has no intellectual property laws or administrative practices which act to hinder trade.

8. Worker Rights

a. The Right of Association

Practice in Hong Kong is based on U.K. patterns with minor local variations. The principal government and nongovernment institutions which interact with the trade unions are the Legislative Council, the Department of Labor, the Labor Advisory Board, and the Labor Tribunal.

Currently, two seats in Hong Kong's Legislative Council are set aside for labor representatives indirectly elected by the labor constituency. The Department of Labor initiates labor legislation, monitors the territory's compliance with international conventions, enforces local regulations, and handles labor-management disputes. The Labor Advisory Board is a nonstatutory body which advises the Commissioner for Labor on matters of interest to the local work force; trade unions and employer organizations elect eight of the

representatives, while the remaining four are appointed by the Commissioner. The Labor Tribunal, part of the judicial branch, provides a quick, inexpensive, and informal method for adjudicating disputes arising between workers and management.

b. The Right to Organize and Bargain Collectively

Approximately 16 percent of the work force belongs to 403 registered trade unions. While collective bargaining exists in Hong Kong, it is not widely practiced. Hong Kong law does, however, provide for a system to handle settlement of disputes. Free conciliation service is afforded by the Department of Labor's labor relations division to employers and employees involved in labor disputes or grievances. It also carries out promotional activities through visits to employers' and employees' organizations, organizes training courses, talks and seminars, and assists employers in setting up, jointly with labor, consultation machinery. In the case of disputes, if initial conciliation efforts are unsuccessful, the dispute 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. Use of this system is widespread. There are no export processing zones in Hong Kong, and labor standards are uniform throughout the territory.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited in the United Kingdom and its dependent territories and possessions and is not practiced.

d. Minimum Age for Employment of Children

In Hong Kong minors are allowed to do limited parttime work beginning at age 13, and to engage in fulltime work at age 15. Employment of females under age 18 in establishments which fall under liquor regulations is prohibited. The Labor Inspectorate conducts workplace inspections to ensure that working hours conform to the law and that no persons under the age of 15 are employed full time. During 1987 the inspectorate carried out 242,791 inspections of establishments in industrial and nonindustrial sectors, which resulted in 1,704 prosecutions.

e. Acceptable Conditions of Work

Hong Kong wage rates are determined by supply and demand, with no statutory minimum. The 1968 employment ordinance generally regulates conditions and contracts of employment of all manual workers and of nonmanual workers earning $1,475 or less a month. Various pieces of legislation -- including the Factories Act of 1961, the Employment of Women, Young Persons, and Children Act of 1920, the Hours of Employment (Conventions) Act of 1936, and the Young Persons (Employment) Act of 1938 -- regulate the maximum working hours of women and young persons and prohibit night work of these groups in industrial undertakings. The U.K. Government in 1987 announced that it

was considering the repeal of these provisions because they were an unnecessary limitation on equal employment opportunities.

Regulations under the Women and Young Persons and Children Act control hours and conditions of work for women and young people in industry. These regulations mandate one-half hour of rest for each five hours of continuous work for women and young people aged 16 to 17 and one hour of rest per five hours of work for young persons aged 15. Hours of work are limited to eight per day and 48 per week between 6 a.m. and 8 p.m. for women, and between 7 a.m. and 7 p.m. for young persons aged 15 to 17. There are no legal restrictions on hours of work for men. Overtime is restricted to two hours per day and 200 days per year for women; it is prohibited for all young persons.

f. Rights in Sectors with U.S. Investment

Among goods producing industries, U.S. investment is most significant in the following: petroleum; chemicals and related products; primary and fabricated metals; machinery, except electrical; electric and electronic equipment; and wholesale trade sectors. In general the protection afforded under Hong Kong ordinances extends to all workers, both local and foreign, in all sectors. Injuries and occupational diseases qualifying for compensation, while normally not specified by industry, cover injuries resulting from use of industrial machinery as well as disease caused by exposure to physical, biological or chemical agents.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		462
Total Manufacturing		563
Food & Kindred Products	(D)	
Chemicals & Allied Products	240	
Metals, Primary & Fabricated	13	
Machinery, except Electrical	126	
Electric & Electronic Equipment	40	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		2,019
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,044

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

INDONESIA

Key Economic Indicators

Billions of 1983 Rupiahs except for Growth Rates

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	83,503	86,307	89,932
Real GDP Growth (pct)	4.0	3.6	4.2
Real GDP by Sector			
Agriculture	19,707	20,230	N/A
Mining and Energy	14,629	14,090	N/A
Processing Industries	11,181	12,053	N/A
Electricity, Gas, Water	645	715	N/A
Building Materials	4,609	4,802	N/A
Retail Trade and Hotels	12,996	13,773	N/A
Transport and Communications	4,630	4,648	N/A
Banks and Related	2,565	2,678	N/A
Housing	2,220	2,298	N/A
Government	6,862	7,366	N/A
Services	3,270	3,448	N/A
Real per capita Income(1)	349	410	435
Labor Force(2)	64.9	67.5	74.5
Unemployment Rate (pct)(3)	2.18	2.21	2.50
Money and Prices			
Money Supply (M1)(4)	11.7	11.8	12.5
Interest Rates (pct)(5)	18.5	19.3	18.5
Consumer Price Index(6)	267	290	304
Change in CPI (pct)	6.0	8.6	6.2
Exchange Rate (Rps./$1)(7)	1353	1648	1675
Balance of Payments and Trade (billions of $)	FY86/87	FY87/88	FY88/89(10)
Total Exports	13.8	18.3	19.0
Oil	4.8	6.2	5.6
Gas	2.2	2.7	2.5
Non-oil and gas	6.9	9.5	10.8
Total Imports	11.4	12.9	13.3
Oil	2.0	2.1	1.9
Gas	0.1	0.1	0.2
Non-oil and gas	9.3	10.6	11.2
Services	6.4	7.1	7.4
Oil	1.8	1.6	1.5
Gas	1.4	1.1	0.9
Non-oil and gas	3.2	4.3	4.9
Current Account	-4.0	-1.7	-1.7
Annual Debt Service	5.405	6.436	7.200
Exports to U.S. cif (mils$)(8)	3,675	3,781	878
Imports from U.S. fob (mils $)	918	764	273
Official Reserves (mils $)	5,411	6,911	6,546
Total Foreign Aid (mils $)(9)	2,519	3,150	4,000
U.S. Portion	86	190	90

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Notes:
(1) Expressed in thousands of Rupiahs.
(2) In millions of persons, 1988 is Embassy estimate.
(3) Percent, 1988 is embassy estimate.
(4) Annual growth rate, except for 1988 which is first half of 1988 over first half of 1987.
(5) Bank Indonesia discount rate, 1988 rate is average of first nine months.
(6) 100 Equals FY77/78; 1988 is first half over the first half of 1987.
(7) 1988 rate is average of first 10 months.
(8) 1988 Data are for first quarter only.
(9) Total is amount pledged at IGGI, annual donors' meeting.
(10) FY88/89 data are official Indonesian Government forecasts.

1. General Policy Framework

These are challenging times for Indonesia's economy. After a decade of nearly eight percent annual real growth during the 1970s, supported mainly by the international oil market, growth slowed drastically as a result of sharp drops in oil prices in the 1980s. Average real growth during 1983-87 was 4 percent per year. More recently Indonesia has been operating under a greatly increased debt service ratio, due to lower oil revenues as well as a spate of repayments on commercial borrowing, undertaken when oil prices were high, which are now coming due. The depreciation of the Dollar with respect to European currencies and the Yen has also added to the cost of debt service. In response to these challenges, the government has undertaken, since 1983, a series of policy steps aimed at adapting to an environment of lower oil tax and export revenues.

In general fiscal policy has been tight since FY83-84 and the growth in government spending has been negative in real terms for the past three years. Non-discretionary operating budgets and development spending have been cut to the bone. The development budget is now less than half in nominal terms what it was five years ago. Salaries (which have remained constant for the past three years) and external debt service now account for 85 percent of all government operating expenses. The government is required to maintain a balanced budget, but in reality does run a deficit which is funded completely by external borrowing. There are no domestic treasury instruments.

The government controls the money supply through the purchase and sale of Bank Indonesia (central bank) certificates of deposit, called SBIs. It seeks to influence interest rates through the action of this market. Reserve requirements were recently cut from 15 to 2 percent; however, the requirement that 80 percent of "excess" reserves be held in SBIs may indicate the effective reserve requirement is closer to 11 rather than 2 percent. There are no capital controls in Indonesia.

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2. Exchange Rate Policies

The Rupiah (Rps.) is a convertible currency; there are no foreign exchange controls. During the current fiscal year (which will end March 31, 1989), the government budget has implied an average exchange rate of Rps. 1700 to $1.00. On April 1, 1988 the rate was Rps. 1660. To average Rps. 1700 for the year the rupiah would have to depreciate gradually until it hits about Rps. 1740 by March 31, 1989. Since April the rupiah has been floating gradually downward toward the Rps. 1740 goal. On November 14, 1988 the exchange rate was Rps. 1717 to the dollar.

3. Structural Policies

In general the Indonesian government does not intervene directly to set prices, allowing the market to determine pricing. In some cases business associations (for example, the Cement Manufacturers Association which includes government-owned cement companies) establish domestic prices for their products. Direct government subsidies are confined to certain specified goods such as fertilizers, pesticides and petroleum. The government is committed to reducing the subsidies for fertilizers and pesticides over time. According to a recent government announcement, all pesticides subsidies were to be removed on January 1, 1989.

Both individuals and businesses are subject to a 35 percent tax rate on annual earnings above Rps. 50 million ($30,000). A value added tax (VAT) of 10 percent was implemented on April 1, 1985. Companies can frequently be exempted from or receive a rebate on import duties and VAT on imports used to produce exports. In November 1988 the Indonesian government implemented a 15 percent tax on interest earned on bank time deposits in an effort to equalize the tax treatment among various financial instruments. Indonesia and the United States signed a double taxation agreement in July 1988. The constitutional requirements for the entry into force of the treaty convention have been completed by the Indonesian Government. The treaty is now awaiting action by the United States Senate.

Over the past several years the Indonesian Government has made numerous structural changes in its economy as it attempts to move from an import substitution to an export-oriented economy. Through these "deregulation" policies the government hopes to increase efficiencies in the economy and make Indonesia's industrial base more competitive internationally. As part of these reform efforts it has replaced nontariff barriers on numerous products with more transparent tariffs and encouraged investments in export-oriented businesses.

4. Debt Management Policies

Over 85 percent of government borrowing last year was on concessional terms and the Intergovernment Group on Indonesia (IGGI), the group of donor nations, pledged over $4 billion at

its June 1988 session. More than half came from Japan. Indonesia is the holder of the developing world's largest unrescheduled debt -- about $45 billion ($37 billion official, $8 billion private) in medium and long-term liabilities. Recently Indonesia has suffered a large valuation increase in U.S dollar terms in its external debt due to the large proportion which is denominated in yen and other strengthening currencies.

The Government of Indonesia enjoys an excellent credit rating on commercial markets and usually goes to the market once or twice a year to renew existing lines of commercial credit. The undisbursed private bank credit to the government is over $2 billion. For the most part these commercial lines of credit are not drawn because the government views them as a contingency source of financing to be used only if official reserves dip too low. Official reserves are currently more than adequate and amount to more than six months' worth of imports.

Indonesia's excellent creditworthiness has allowed it to avoid coming to the International Monetary Fund (IMF) for a program despite the magnitude of its debt. However, the World Bank has assisted Indonesia in implementing its structural adjustment policies with ongoing policy-based and sectoral loans.

The president and economic ministers have on a number of occasions reiterated the government's determination to stay current on its external debt. External debt's share of the government's operating budget has grown from under 25 percent in FY83-84 to 53 percent in FY88-89.

5. Significant Barriers to U.S. Exports

Since 1986 the Indonesian government has relaxed or eliminated import licensing requirements on a wide range of products. The nontariff barriers on imports have been replaced in many cases by tariffs to provide more transparent protection for certain domestically produced goods. As part of its efforts to boost non-oil exports, the government may allow companies to bypass sole importing arrangements if the goods will be used to produce exports.

Barriers in the services sector are numerous and varied. Some examples are listed below.

In a major financial deregulation package announced in October 1988, the Indonesian Government announced measures which reduce differences between the rules governing treatment of Indonesian and foreign banks in an attempt to improve the long-term competitiveness of the domestic banking sector. Foreign banks already present in Jakarta can open branches in selected Indonesian cities if they meet certain requirements. New foreign banks will be permitted to enter the banking sector once certain prerequisites are met as long as they form joint venture operations with Indonesian banks. The foreign partners can now own up to 85 percent of the joint venture operation.

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Formerly foreign insurance companies could establish joint venture operations only in the life insurance area. However, in December 1988 a deregulation package was introduced which included the following measures affecting insurance companies: various insurance sub-sectors were reopened to foreign and domestic investment; licensing procedures were simplified; the minimum joint venture equity requirement for Indonesian partners was lowered from 30 to 20 percent with the requirement that the company must have a plan for the foreign partner to divest over time; and foreign joint venture firms may now offer loss insurance, reinsurance, and insurance brokerage in addition to life insurance.

Indonesia imposes a quota on the number of foreign films which can be imported in a given year. All imports are through one of four approved importers and any dubbing into the Indonesian language must be done locally.

Foreign/domestic joint venture companies can list shares on the stock exchange and, since December 1987, foreign companies and individuals can buy shares on the exchange.

U.S. pharmaceutical companies have complained that Indonesian health authority administrative delays in registering new foreign firm pharmaceutical products have given local companies a competitive market advantage. Foreign firms may register prescription pharmaceuticals only if they both incorporate high technology and are products of that company's own research. All other products must be licensed to local companies.

Although the Indonesian government has reduced differences in treatment between foreign and domestic investors in the past three years and is likely to announce further investment deregulation plans in 1989, national treatment for foreign investments does not exist. Foreign investments must be in the form of joint ventures and, except for very limited exceptions, the foreign partners must divest over a period of time to achieve majority Indonesian ownership. In many cases joint ventures cannot distribute their products locally, although a mid-November 1988 deregulation package now offers access to wholesale trade via joint ventures. The government publishes a list of sectors which are off limits to foreign participation, with all those not listed being open to foreign investment. Special investment regulations exist for the mineral, oil, and natural gas sectors. Various types of land ownership exist in Indonesia, but only Indonesians may legally own land. This has made it difficult for joint ventures to use land as collateral for bank loans and has impeded financing of possible joint venture operations in the agricultural sector. Restrictions on employment of expatriates are numerous and exist for both domestic and joint venture companies. Given Indonesia's large labor pool, companies are encouraged to employ Indonesians whenever possible.

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Most large government contracts are financed by development assistance provided by a bilateral or multilateral donor. These loans usually specify procurement procedures which must be followed. For large projects the government funds directly, international competitive bidding practices are generally followed. Whenever possible for large purchases the government requires concessional financing (called INPRES 8) which at least meets the following criteria: interest rate of 3.5 percent, 7 year grace period followed by an 18 year repayment period on the loan.

Indonesia significantly streamlined its customs procedures in 1985 when it turned customs inspection over to a Swiss company, Societe Generale de Surveillance.

6. Export Subsidies Policies

Indonesia replaced its export certificate program in July 1986 with a duty drawback system. The government provides subsidized short-term financing for exports. Indonesia is a signatory to the General Agreement on Tariffs and Trade(GATT) Code on Subsidies.

7. Protection of U.S. Intellectual Property

Indonesia has made substantial progress on improving intellectual property protection. President Soeharto will submit Indonesia's first patent bill to the legislature in February 1989. In addition amendments of the copyright law have passed the Parliament, and a team has now started work on amendments to the trademark law. Indonesia is not a signatory of the Berne Convention, but is considering this action. It is a party to the Paris Convention.

On September 19, 1987 Indonesia enacted amendments to its copyright law which largely bring the law into conformity with international standards for copyright protection. The amendments also extend protection to foreign works as long as Indonesia has a bilateral agreement with the country in question or Indonesia and the country are members of the same international convention. Following the signing of a bilateral agreement on audio recordings with the European Communities (EC), all pirated cassette tapes (including those of U.S. artists) were removed from the Indonesian market on July 1, 1988.

A bilateral copyright agreement with the United States is still pending and should be concluded early this year. Yet, in the interim, properly licensed cassettes from European and U.S. producers are reappearing on the market. The proposed copyright amendments would affect books, musical products, videos and computer software. While Indonesia seems to be stepping up enforcement efforts against pirates, it is still too early to judge the efficacy of these actions.

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Indonesia does not currently have a patent law. A draft patent law is being submitted to Parliament in February 1989. The U.S. Government expects that it will include both pharmaceutical product and process protection.

Enforcement of trademark protection has been a serious problem for foreign trademark holders in the past. However, several recent court decisions have favored U.S. and other foreign trademark owners. In addition Indonesia's intellectual property working team is now reviewing amendments to the current trademark law.

In the past the lack of effective intellectual property protection has deterred U.S. investment in Indonesia, particularly in pharmaceuticals, chemicals and high technology. The loss to U.S. copyright owners from document piracy in Indonesia was estimated by industry sources at $106 million in 1985. Implementation of effective intellectual property laws and regulations appears to have started to correct these problems. Indonesian authorities have made the commitment to remedy the situation even though the cost can be substantial for some local entrepreneurs. For example, Indonesia has lost its lucrative market for pirated tapes in the Middle East and the pirates have moved their operations elsewhere.

8. Worker Rights

a. The Right of Association

Indonesian workers in the private sector are organized in a single national body -- the All Indonesia Workers Union (SPSI). The SPSI consists of approximately 10,220 local unions and has a membership of about 3 million. There is pressure on its officials to join the government-sponsored GOLKAR political organization and GOLKAR members dominate the leadership. The total work force is about 70 million. The SPSI is the only union or federation that meets the requirements for legal recognition. These requirements are: representation in at least 20 of the 27 provinces; branch offices in at least 100 districts; and 1,000 local units at plant level. Nevertheless, a number of other groups and professional organizations function as quasi-trade unions and operate openly. Some are sanctioned by the government and others are not. Unions draw up their own constitutions and rules and elect their representatives. Regulations ensure the integrity of the process. The government views unions as an essential component of its development plans, with the role of increasing worker participation in development, maintaining industrial peace, and raising member consciousness and understanding of Pancasila as it applies to industrial relations. (Pancasila is the eclectic state ideology consisting of belief in five broad principles -- one supreme god, a just and civilized humanity, Indonesian national unity, democracy, and social justice.) The SPSI performs these functions and has had some success in negotiating collective bargaining agreements.

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The SPSI publicly addresses all matters affecting the work force, though criticisms, evaluations, and observations are formulated within the framework of Pancasila industrial relations, which emphasize consultation among the parties and avoidance of confrontation.

Government approval is needed for meetings held outside SPSI headquarters. Permission is routinely given to SPSI and to other nonregistered organizations overtly functioning as unions. The SPSI represents workers before the International Labor Organization (ILO). The Ormas Law (which requires all organiztions to adhere to the state ideology, Pancasila) governs the activities of SPSI and the quasi-unions. Although the SPSI maintains extensive international contacts, it is not affiliated with any international trade union organization, except the ASEAN Trade Union Council. Some of the trade unions not legally recognized by the government, however, are associated with international trade union bodies.

All workers organized in labor unions have a legal right to strike with the exception of employees in the 21 industries designated by a Presidential Decree in 1963 as vital to the national interest. These industries employ about 170,000 workers. A union must notify the local manpower office that its attempts to resolve disagreements through negotiations have failed and that the union will go on strike. No approval is required. While there have been some exceptions in practice, civil servants and employees of state enterprises do not have the right to join unions or to strike. They must belong to the Indonesian Corps of Civil Servants (KORPRI) -- a nonunion association.

By government regulation, a separate and compulsory dispute resolution and appeals process exists for civil servants and employees in "vital" industries to protect their interests in the event of a labor dispute. In the private sector, excluding the industries deemed vital by the 1963 Decree, arbitration is not compulsory. In the event of an industrial dispute, the parties submit their case to an administrative tribunal on which they have representatives. The parties themselves decide the means of resolving the dispute.

Indonesia has ratified ILO Convention No. 98 on the Right to Organize and Collective Bargaining, but has not ratified Convention No. 87 on Freedom of Association and Protection of the Right to Organize.

The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) has expressed its belief that Indonesian workers are denied the right of association, denied the right to bargain collectively, and that the Government controls the private sector and insists on too broad a definition of "state employee." The ILO's Committee on Freedom of Association has under consideration a 1987 complaint by the International Confederation of Free Trade Unions which alleges that Indonesian legislation restricts trade union rights, contrary to the principles of freedom of association and the provisions of ILO Convention No. 98. The

Committee requested, at its November 1988 session, that the government take steps to amend its legislation in some of these areas and to provide additional information on others.

b. The Right to Organize and Bargain Collectively

The right to bargain collectively is guaranteed by law. Collective bargaining agreements are vigorously endorsed by the Department of Manpower and viewed as hallmarks of Pancasila industrial relations. They are the principal instruments for achieving a sense of coresponsibility for industrial relations. The overwhelming majority of the SPSI's collective bargaining agreements are negotiated and concluded bilaterally with the employers.

The law protects collective bargaining agreements and the negotiating process by imposing obligations on both the union and the employer. Both parties are obligated to execute agreements upon request and to bargain in good faith. Once an employer is notified that 25 employees have joined the union, it is under a statutory obligation to bargain, and the union has an absolute right to conclude a labor agreement. As a transitional stage to encourage union organization, employment regulations require that every company employing 25 or more employees issue a company regulation covering terms and conditions of employment. There are no laws which prevent collective bargaining from taking place in export processing zones, and some of the companies in such zones have SPSI units, but there are no collective bargaining agreements in the zones.

Regulations expressly forbid employers from prejudging or harassing any employee because of union membership, and employees are urged to report harassment to the government. The SPSI claims, nevertheless, that its members and those wishing to form SPSI units are the objects of employer discrimination. Companies are required to provide office space for local union headquarters; to allow union officers time off from the job to conduct union business; and to grant liberal leave, consistent with maintaining normal operations of the firm, for training and attending regional meetings of the SPSI.

Labor disputes are resolved by a system of regional and central tripartite committees. These bodies hear the contentions of all parties and issue executeable, enforceable decisions. The parties can elect binding bipartite arbitration in lieu of the tripartite settlement mechanism. The Minister of Manpower can nullify decisions of the central committees on grounds of legality or national interest. Decisions of the regional or central committees and decisions of private arbitrators can be enforced through the courts. Although technically the Minister of Manpower's decision can be appealed to the courts, in practice it is rarely done.

Workers can organize without restriction in a private enterprise even if it is designated vital by the government. If the state has a partial interest, the enterprise is considered to be in the public service domain, but this does

not limit organizing. There are a significant number of government/private joint ventures which have labor unions and which bargain collectively.

The 1987 ICFTU complaint alleged that Indonesian regulations permit only the SPSI to register as a legitimate trade union, thereby conflicting with the ILO convention to encourage and promote collective bargaining, and that laws in place do not satisfy the antiunion discrimination requirement of ILO Convention No. 98. Several organizations carry out trade union functions independent of the SPSI. Regulations promulgated in October 1986, which address ICFTU allegations of union discrimination, were not cited in the complaint. The ICFTU complaint also alleged that public servants and employees involved in public undertakings or in enterprises in which the State participates must belong to KORPRI; that KORPRI does not and cannot perform trade union functions; and that compulsory membership of these employees in KORPRI negates the right to organize freely.

By law civil servants and employees of state enterprises must belong to KORPRI, an association chaired by the Minister of Home Affairs. KORPRI has autonomy and mechanisms for protecting its members. The KORPRI employment relations bureau, for example, represents employees in the settlement of disputes. There is also an appeal level for dispute settlement called the employees advisory board. KORPRI defends its ability to protect workers by noting that its members generally enjoy a higher standard of living than do workers in the private sector. KORPRI members in state enterprises are permitted to negotiate agreements on working conditions. These are usually in the form of company regulations rather than collective agreements.

c. Prohibition of Forced or Compulsory Labor

Forced labor is strictly prohibited and in practice it does not exist. Indonesia has agreed to be bound by ILO Convention No. 29 concerning forced labor. No reports charge the use of forced labor in Indonesia in modern times.

d. Minimum Age for Employment of Children

On February 7, 1987 the Indonesian Department of Manpower issued new regulations on child labor, which note that Indonesia's child protection laws have not been properly carried out. The new regulations also acknowledge a class of children who have to work to support their families and themselves. Such employment must be with the permission of the child's parents or guardians. Dangerous work is specifically forbidden. For children under age 14, the working day is limited to four hours, night work is forbidden, and wages are to be paid at the prevailing rate. Employers with youths under age 14 on the payroll are required to cooperate with public authorities to assure that the children have an opportunity to get an elementary education within the framework of the compulsory schooling law. Enforcement of the child labor laws has improved substantially by the new regulations. Employers are now required to report in detail

on every child employed by name, age, date, time of employment, and line of work. The Manpower Department is to conduct periodic inspections, and sanctions for violations are specified. Nonetheless, child labor and inadequate protection for working children continue to be serious problems in Indonesia, despite government efforts to strengthen the law. The government is on record as actively supporting programs and private organizations that promote and publicize child welfare and protection and has a liaison person who maintains contact with such groups. With the 1987 regulations, labor inspectors at the district level have the mandate to inspect factories to ensure enforcement. Inspectors have been tasked with checking closely cigarette companies and agricultural sites where violations have occurred in the past. The government's approach to date, however, has been mainly to persuade and attempt to teach employers rather than to penalize.

e. Acceptable Conditions of Work

The law establishes 7-hour workdays and 40-hour workweeks, with 1/2 hour of rest for each 4 hours of work. In the absence of a national minimum wage, minimum wages are established for each region and for sectors and subsectors within the region by regional wage councils working under the supervision of the National Wages Council. This is a quadripartite body consisting of representatives from labor, management, government, and the universities. The annually calculated figure reflects changes in the local Consumer Price Index (CPI) for food, clothing, housing, transportation, and other family needs. Factors considered by the quadripartite bodies in setting minimum wage rates include changes in the local CPI, skill level of workers, local supply of manpower, and the ability of firms to pay. The minimum wage in the capital of Jakarta ranges between the equivalent of $ 0.94 and $1.23 per day, depending on the industry.

Wage levels do not account for total labor costs. An extensive body of labor law and ministerial regulation provide workers with: vacation pay, maternity leave, public holidays, generous overtime and sick leave pay, guaranteed severance and service pay, paid leave for personal and family occasions, and protection from delay in wage payments. In addition workers receive transportation allowances, food allowances in cash or kind or both, and holiday bonuses. Workers in more modern facilities often receive health benefits, social security contributions, and free meals.

While there is no legal differentiation between workers in free export zones and those who work elsewhere, companies in free export zones can obtain specific exemptions from applicable regulations upon request. One such company has obtained permission from the Department of Manpower to deviate from the normal working hours. Observance of the minimum wage

figure varies from sector to sector and from region to region, and there are no reliable figures on overall compliance.

GDP per capita in 1986 was only $453. Figures from 1983, the latest available, show that 26 percent of urban dwellers and 44 percent of rural population live below the absolute poverty level as defined by the World Bank.

An extensive body of law and ministerial regulations provide for minimum standards of industrial health and safety, an area still in the early stages of development that has received greatly increased emphasis by the Department of Manpower over the last 2 years. Safety and health programs in the country's 100,500 larger, registered industries in the non-oil sector are hampered by a limited number of qualified inspectors (less than 1,200); the slowness with which the firms established the required plant safety committees (only about 4,500 as of March 1987); and the need for more and better training of government inspectors and plant safety personnel.

In January 1988 the Manpower Department launched a month-long national health and safety campaign whose primary goal was to sensitize ministry staff, firms, and workers to the importance of carrying out effective safety and health programs in the workplace. The department called for a more coordinated effort between government, private institutions, and the labor force in developing programs which address safety and health concerns in the workplace and it requested the Association of Indonesian Technical Inspectors to increase educational and training programs. The department also entered into a contract with a private foundation to assist in developing safety and health programs which can be put into place in offices, factories, workshops, and shopping centers throughout the country.

f. Rights in Sectors with U.S. Investment

The extensive body of law, practice and procedure governing worker rights in Indonesia is not contingent upon an investor's nationality nor upon a particular sector. Application is largely dependent upon whether a particular business is characterized as private or public.

U.S. investment in Indonesia is largely concentrated in the petroleum (oil and gas), primary and fabricated metals (mining), and plantation-estate (rubber) sectors.

Investment in the petroleum sector is largely in the form of production sharing contracts between the foreign investor and the state oil and gas company, Pertamina. Under this arrangement, Pertamina retains management and control over all activity. All employees working for foreign companies under this arrangement are considered to be state employees and thus subject to legislation and practices regarding state employees described above. Note that the best industrial hygiene and safety record in Indonesia is found in this sector.

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Some worker rights in the primary and fabricated metal sector depend upon whether a company is public or private. Private firms are allowed to have unions. In state enterprises, labor legislation and organizing rules and regulations which cover state employees apply. The basic regulations and laws regarding employment of children prohibit employment in dangerous enterprises, including mines. The lifting of heavy objects and employment in work connected with any production equipment is forbidden as well. Employment of children and concerns regarding child welfare are not considered to be major problem areas in this sector.

Employees in primary and fabricated metals enjoy all of the basis protections stipulated under Indonesia's comprehensive system of labor laws, and may, in practice, receive incomes and benefits beyond the prevailing minimum wage. Safety and health programs are still in the early stages of development in this and other sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		3,251
Total Manufacturing		234
Food & Kindred Products	7	
Chemicals & Allied Products	196	
Metals, Primary & Fabricated	7	
Machinery, except Electrical	9	
Electric & Electronic Equipment	-2	
Transportation Equipment	0	
Other Manufacturing	18	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Trillions of Yen Unless Otherwise Noted	1986	1987	1988(est)
Income, Production, Employment			
Real GNP	298.8	311.6	325.7(1)
Real GNP Growth Rate (pct)	2.4	4.3	6.3(1)
Real GDP by Sector			
Manufacturing	100.7	N/A	N/A
Agriculture and Fisheries	8.9	N/A	N/A
Income per capita (mils yen)	2.16	N/A	N/A
Labor Force (millions)	60.2	60.8	61.2(2)
Unemployment Rate (pct)	2.8	2.8	2.6(2)
Money and Prices			
Money Supply (M1) (yr-end)	98.2	103.0	105.5(3)
Commercial Interest Rates			
(10-yr govt bond yr-end)	5.45	5.00	5.38(4)
Savings Rate (pct)(10)	22.6	23.6	20.1(5)
Investment Rate (pct)(11)	27.6	28.8	N/A
CPI (1985 = 100)	100.6	100.7	101.0(5)
Wholesale Price Index			
(1985 = 100)	90.9	87.5	86.6(5)
Exchange Rate (yen/$)	168.5	144.6	126.8(6)
Balance of Payments and Trade			
Total Exports fob	35.3	33.3	33.0(7)
Total to U.S. fob	13.6	12.1	11.1(7)
Total Imports cif	21.6	21.7	23.8(7)
Total from U.S. cif	4.9	4.6	5.3(7)
Aid to Other Countries (bils $)	5.6	7.4	9.5
External Public Debt	N/A	N/A	N/A
Annual Debt Service Payments	N/A	N/A	N/A
Gold and ForEx Reserves			
(billions $ yr-end)	42.2	81.5	90.2(8)
Balance of Payments			
Current Account	14.2	12.5	10.1(9)
Trade Account	15.3	13.9	11/9(9)
Services Trade Account	- 0.8	- 0.8	- 1.3(7)
Long-term Capital Account	-21.7	-19.8	-16.1(7)
Overall Account	- 7.4	0 4.3	- 4.8(9)

Notes:

(1) Jan-June, S.A.A.R. (2) Jan-Aug Average
(3) End of July (4) End of September
(5) Jan-July Average (6) Jan-June Average
(7) Jan-Sept, Annualized (8) End of August
(9) Jan-Sept, S.A.A.R. (10) Salaried-workers HHolds
(11) Domestic total fixed capital formation/nominal GNP.

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1. General Policy Framework

The Japanese economy, rebuilt from post-World War II ruins, was in 1988 the world's second largest. Gross national product (GNP) of $2.6 trillion is 54 percent of the United States and more than the combined GNPs of France, the United Kingdom and Italy. A mature industrial state with some of the world's most competitive manufacturing and high technology industries, Japan continues to show great vitality and capacity to respond to international economic and political pressures. Paradoxically, Japan is also home to inefficient transport, agricultural, construction, and distribution sectors which it struggles to reform.

An important transition in Japan's economy is underway. Despite a rising yen which squeezed export industries severely, Japan is recording strong real economic growth with low inflation and low unemployment -- growth led in most recent quarters by domestic rather than external demand. Imports are increasing rapidly -- averaging about 30 percent year to year growth over the past year -- and the share of manufactured goods has risen from about one-fifth in 1982 to about one-half this year. In yen terms, Japanese external balances reversed their eight year upward spiral in 1986; in dollar terms the corner began to be turned in 1987. This transition can help overcome Japan's legacy of protectionism, erode traditional resistance to imports, place pressure to remedy structural inefficiencies in the domestic economy and, in the end, translate the nation's great productivity into markedly higher living standards for Japan's 124 million citizens.

Fiscal and monetary policies have played an important role recently in sustaining expansion of Japanese domestic demand while falling import prices and a measure of deregulation have kept inflation at bay. The Government of Japan has pursued relatively tight fiscal policies since 1982 to constrain growth in government debt that, on a gross basis, rose in 1986 to equal 50 percent of GNP (but less than 30 percent on a net basis). However, under pressure from other Summit countries to contribute to the reduction of international imbalances, the Japanese in June 1987 initiated a $35 billion multi-sector public works spending package and followed up with tax cuts worth about $10 billion. Building on economic growth which began in late 1986, that package helped to spark vigorous economic expansion in 1987 which has continued through 1988. Interest rates have remained relatively low as monetary authorities pursue a relatively relaxed policy, helping to encourage consumer spending and corporate investment, which have replaced government expenditures and housing investment as the mainstays of the current boom.

The Government of Japan's proposal for an overhaul of Japan's tax system has been approved. Bills receiving parliamentary approval late in 1988 enlarged on marginal personal income tax rate reductions enacted in mid-1988, cut

corporate income tax rates, and introduced both an indirect value-added type tax and a capital gains tax on individuals' securities transactions. The reform aims to reduce the government's dependence on direct tax revenues and to broaden the tax base. In the short-term the tax increase portion of the package may temporarily dampen personal consumption and imports, though the impact is not expected to be severe. In the long-term the broadening of the tax base is expected to improve the government's ability to respond to growing claims on the national purse in one of the world's fastest aging societies.

In recent years key to Japan's economic policy is its commitment to coordination of economic policies with other Summit countries, as agreed at the 1986 Tokyo Economic Summit, and to strengthen its role in fostering sustained, inflation-free world growth, including in developing countries. Central to the latter role is increasing official development assistance (ODA) flows. Japan, which will probably be the world's largest donor in 1989, has committed to double aid to at least $50 billion over the five years from 1988 to 1992 and to improve the "quality" of that aid by boosting the share of grant and untied aid. Japan is also stimulating new financial flows to highly indebted countries through its $20 billion yen recycling program, which includes loans to debtor countries but is largely increased funding for international financial institutions and multilateral development banks. Japan's private sector continues to play the major role in recycling Japan's large current account surpluses; by the end of 1987, for example, Japanese investors had invested about $180 billion in the United States. Of that amount, direct investment totals $33 billion, third after the United Kingdom ($75 billion) and the Netherlands ($54 billion).

2. Exchange Rate Policies

Japan ended most foreign exchange controls in the 1970s, culminating in a major simplification of its Foreign Exchange and Foreign Trade Control Law in 1980. Currently, pursuant to the international understandings launched at the 1986 Tokyo Summit and refined since then, Japan actively coordinates exchange rate policies with the United States and its other Group of Seven (G-7) partners.

The appreciation of the yen since 1985 has greatly increased the competitiveness of U.S. products and is contributing to the reduction of Japan's external imbalances. At this point, although import price reductions have had some impact in moderating domestic price levels, there remains room for further pass through of those benefits to consumers, which could also stimulate demand for U.S. exports.

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3. Structural Policies

The Japanese economy is undergoing rapid structural change. Fast-growing domestic demand, currently fueled by both personal consumption and capital investment, supplanted external demand as the engine of Japanese economic growth in 1986. The government commitment to promoting this shift is embodied in the Maekawa Report. Primary reliance thus far has been on encouraging appropriate market-driven responses to the fundamental exchange rate realignment of the last three years. However, the 1987 fiscal stimulus package, an accommodative monetary policy, and market opening measures (e.g., for cigarettes, wood products, aluminum, beef and oranges) have played an important complementary role.

Another central factor has been the increasing focus on deregulation of the economy, particularly privatization of public telecommunications and railway companies and simplification of product standards in 1986-87. Despite progress in this area, Japan's economy remains heavily regulated. Government regulations traditionally have reinforced business practices that restrict competition and thus keep prices high. Price controls remaining on certain agricultural products, restrictions on small-deposit interest rates and financial market structures, and bureaucratic obstacles to the entry of new firms into businesses like trucking and retail sales have similarly slowed the economy's structural adjustment. Spurred by domestic and foreign criticism of this maze of red tape, the Takeshita administration has placed high priority on deregulation initiatives. Studies underway may lead to substantial reforms.

Japan uses price controls and direct government subsidies as policy tools only in the agricultural sector and, generally speaking, does not make substantial use of tax policy to implement industrial policy. Expenditure policy has given an indirect boost to the competitiveness of a number of Japanese industries, particularly the construction and steel industry which benefitted most directly from public works spending. In the past the government directed considerable public and private resources to targeted priority areas, but has been moving away from such direct industrial policy measures, partly in response to criticism of Japan's export-oriented policies by trading partners. The Japanese Government continues to promote high technology cooperation among firms and plays a direct role in organizing these efforts. Japan also continues to use off-budget resources (funds accumulated through various government-sponsored savings, insurance, and pension systems), sometimes mixed with small amounts of appropriated funds, for both special purpose lending institutions and government supported investment projects, including government/private sector efforts.

4. Debt Management Policies

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

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5. Significant Barriers to U.S. Exports

Over the past ten years, most formal barriers to the import of goods and services have been removed by the government, often under pressure from the United States and other foreign nations. As noted elsewhere in this report, reform, deregulation and change are the key words in Japan today. Japan's average tariff rate is around two percent and import quotas remain on only nineteen products. Japan's agreement in June 1988 to phased liberalization of beef and citrus imports essentially cleared the agenda of major product-specific bilateral trade issues. Japan has declared its intention to negotiate the opening of its rice market to imports in the context of a multilateral reform of agricultural policies in the General Agreement on Tariffs and Trade (GATT).

Current obstacles to selling into the Japanese market do not fit into conventional trade barrier categories. Some are diffuse and deeply rooted in Japan's insular, nonwestern cultural tradition. For example, the labyrinthine distribution system poses problems, but some U.S. exporters have shown that they are not insurmountable. In some Japanese industries U.S. firms have found that even with competitive price, quality and service, it is extraordinarily difficult to crack long-established relationships between suppliers and buyers. U.S. exporters must also cope with pockets of resistance to greater imports within government ministries and allied business associations. Such resistance can rarely stop change, but can slow it in the name of "smooth adjustment" and "avoidance of market disruption."

Teamwork among U.S. exporters, U.S. Government negotiators, and pro-reform/ pro-deregulation Japanese is beginning to produce increased sales in once impenetrable market sectors. Japanese export industries and their bureaucratic and political associates often lobby for more open Japanese markets. Increasingly, moreover, the U.S. exporter of consumer goods is targeting the young Japanese consumer, sensitized by the high yen and sophisticated by greater exposure to life abroad. Inventive Japanese entrepreneurs are finding ways to cater to their demand for quality imported goods at reasonable prices.

In the years after World War II, Japan's Ministry of International Trade and Industry (MITI) strictly controlled imports and exports to conserve foreign exchange and to promote critically important industries. Technically speaking, any goods brought into Japan must still have an import license. For the most part these are now granted pro forma and do not impede trade. Restrictions remain on imports of fish and fish products, leather footwear (for which Japan has paid compensation), and some agricultural commodities, most notably rice. These are being addressed in bilateral and GATT fora; progress is slow but perceptible.

Impediments to trade in services have become prominent on the U.S.-Japan agenda in recent years as barriers to trade in goods have fallen. Major success has been achieved in securing

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Japanese commitments to foreign participation in Japan's legal services (1987), construction/public works (1988) and telecommunication network services (IVANs)(1988), markets which are closely monitored. A number of restrictive practices in the area of air travel and related services are the object of ongoing bilateral civil aviation talks. Motion picture distribution is unimpeded; Japan has recently toughened its laws against video piracy. After several years of ongoing financial market deregulation, U.S. financial firms are present in large numbers and generally report they are accorded national treatment. Remaining non-barrier problems have to do with the pace and transparency of further deregulation, and with the compartmentalized structure of the Japanese financial system. These matters are under review in the U.S.-Japan Working Group on Financial Markets.

Japanese Government control of foreign investment is not overly restrictive, but limitations remain in specified sectors: arms, gunpowder, aircraft, space development, atomic energy, manufacture of narcotics and vaccine, agriculture, forestry and fisheries, petroleum refining, leather, mining, banking and securities, and telecommunications. Structural and institutional barriers to foreign acquisitions are formidable. They include ties between government and industry, the complexities of the distribution system, and reluctance to break long-term supplier and employee relationships. Also, takeovers of the management of another company are difficult because of the view that companies are communal entities and because of aversion to hostile takeovers. Cross shareholding among companies and relatively few individual shareholders make it hard to achieve control through stock ownership.

Government procurement in Japan conforms to the letter of the GATT procurement code. The United States seeks more market-oriented procurement practices in some areas. The increased transparency negotiated via the 1987 supercomputer procurement arrangement has not resulted in U.S. firms winning any supercomputer sales. Rather the agreement has shown that in response to the single year Japanese government budget authorization process, Japanese supercomputer manufacturers discount far below list (70 percent or more). U.S. firms can not meet these uneconomic prices. The result is that the only public sector supercomputer sales by U.S. firms have been two "directed" sales. Similarly, although a "buy Japan" policy is not mandated, the practical result of Japan's national space policy emphasis on autonomy is that there have been no sales of American satellites to government entities.

The Government of Japan has simplified, harmonized and in some cases eliminated restrictive standards in order to follow international practices in these areas. This process is not complete. Some Japanese industry associations support unique standards, often justified on non-economic grounds such as health or safety. U.S. officials deal, usually successfully, with a stream of small trade problems by negotiating them with elements of the Japanese bureaucracy that are often protective of the industries they regulate. Problems with standards for skis and tire chains (now settled) are representative of these barriers.

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The 1985 to 1987 Market-Oriented Sector-Specific (MOSS) talks dealt with such barriers wholesale in four key sectors: electronics, forestry and paper products, medical and pharmaceutical products, and telecommunications. As a recent U.S. Government Accounting Office (GAO) study concluded, these talks succeeded; they substantially reduced technical sectoral barriers to trade and set in motion a continuing dialogue. MOSS follow-up groups periodically bring together working level embassy officers, U.S. industry representatives and Japanese government officials to discuss remaining and/or newly discovered issues. The workmanlike, non-confrontational atmosphere of these sessions make them an efficient follow-up to the formal, high-level trade talks which produced the MOSS agreements.

6. Export Subsidies Policies

Japan adheres to the Organization of Economic Cooperation and Development (OECD) export credit arrangement, including the agreement on the use of tied aid credits. The Government of Japan subsidizes exports as permitted by the OECD arrangement which allows softer terms for export financing to developing nations. Although Japan has moved to open procurement to other countries under its tied aid credit program, U.S. exporters face difficulties in competing due to the use of (1) "less developed country(LDC) untied aid" (bidding is open only to Japanese and LDC firms) and (2) tied feasibility studies for untied projects which result in project specifications more suited to Japanese than U.S. bidders. These programs are the subject of continuing discussions within the OECD.

7. Protection of U.S. Intellectual Property

Japan is a party to the Berne, Paris and Universal Copyright Conventions as well as the Patent Cooperation Treaty.

Japan's intellectual property rights (IPR) regime affords national treatment to foreign entities. The United States and Japan agree that uniform IPR standards and better enforcement are needed; in a number of fora the two governments are negotiating more closely harmonized systems. For example, IPR issues constituted an important part of the recent U.S.-Japan Science and Technology Agreement signed in June 1988; a bilateral U.S.-Japan IPR working group held its first meeting in August 1988; U.S., Japanese, and European patent offices are engaged in trilateral harmonization talks, and trilateral private sector talks continue on an IPR regime for the GATT Uruguay Round. For now, however, there remain major differences in U.S. and Japanese practice. The Japanese patent and copyright systems can hold pitfalls for the uninitiated.

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Many Japanese firms use patents, copyrights, and trademarks more as a tool of corporate strategy than as a set of rules to protect inventors. Dozens of firms in Japan file well over 5,000 patent applications annually; the top three filers in the United States in 1987 were Japanese corporations. A would-be U.S. filer thus often finds that his Japanese rights are closely circumscribed by prior filing of applications for a very similar invention or process. In part to avoid such tangles, U.S. firms tend to license their patents to Japanese companies in lieu of exporting product, even when their rights are well protected under the Japanese system.

The slow pace of processing patent and trademark applications in Japan disadvantages filers, and creates particular problems at present for U.S. innovators in the new materials, semiconductor and biotechnology fields. Delays in resolving specific questions of scope can keep new technologies in limbo for years. On average the Japan Patent Office (JPO) takes about three years to complete a patent examination. Some invention patent categories require up to six years. Scope of claim is relatively narrow and there is no doctrine of equivalence in Japan. Adjudication of cases of patent infringement is likewise slow; direct evidence cannot be obtained through the discovery process and infringement can be difficult to prove.

Trademark applications can take three to four years to process and infringement carries no penalty until an application is approved. The Japanese trademark law does not cover service marks. Service marks already widely known in Japan can be protected under the unfair competition law, but new service marks are not protected. The JPO has initiated study of a service mark system.

Japanese copyright practice remains ambiguous with respect to protection for algorithms, programming language, and rules. The copyright law protects these categories -- and by the Ministry of Culture's interpretation, also computer software -- as "expressions" but not as "ideas." Courts may therefore treat each infringement case on its own merits rather than by reference to an absolute standard. They tend, for example, to be more tolerant of apparent "reverse engineering;" this is an important issue in the bilateral and U.S.-Japan-Europe consultations referred to above.

In 1988 the Government of Japan passed new legislation which facilitates prosecution of suspected video pirates and extends the period of protection for record copyright holders. Nonetheless, U.S. motion picture interests are concerned about the public performance of illegitimate videocassettes in bars, hotels, restaurants and tea houses. They estimate that up to 80 percent of the videocassette market to be pirated. Recently, the motion industry estimated its annual losses of sales because of piracy at $220-$225 million.

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8. Worker Rights

a. The Right of Association

The right of association as defined by the International Labor Organization (ILO) is protected in Japan. The right of workers to organize, bargain, and act collectively is assured by the Japanese Constitution. Slightly under 28 percent of the active work force belongs to labor unions. Unions are free of government control and interference. Most unions are involved in political activity as well as labor relations. They are active in international bodies, most notably the International Confederation of Free Trade Unions and the ILO. The right to strike is implicitly assumed by the Constitution and it is exercised frequently. Public employees, however, do not have the right to strike, although they do have recourse to mediation and arbitration in order to resolve disputes. In exchange for a ban on their right to strike, government employees' pay raises are determined by the government, based on a recommendation by the independent National Personnel Authority.

b. The Right to Organize and Bargain Collectively

The Constitution states that unions have the right to organize, bargain, and act collectively and these rights are exercised in practice. Members of the armed forces, police officers, and fire fighters are not permitted to organize. Japanese law also allows unions to lobby and to make political campaign contributions. Japan does not have export processing zones. Labor laws and regulations are observed uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

The Labor Standards Law prohibits the use of forced labor, and there were no known cases of forced or compulsory labor.

d. Minimum Age for Employment of Children

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

e. Acceptable Conditions of Work

The Labor Standards Law provides for the phased reduction of maximum working hours from the present 48-hour, 6-day workweek to 40 hours by early in the next decade. Although introduced as a means of increasing leisure time available to the work force, the law has been criticized by employee groups because of the increased flexibility it gives employers in calculating actual working hours and vacation benefits. Minimum wages are set regionally, not nationally. For example, as of October, the Tokyo metropolitan area minimum

wage was $4.16 hourly ($1.00 = 122 yen). This is the highest regionally set minimum. The minimum wage for Kagoshima prefecture was $3.50, Japan's lowest regional minimum wage. In addition regions have minimum wage rates for certain industries. These vary from region to region, but they are higher than nonindustry specific regional minimum wage rates. The Ministry of Labor effectively administers various laws and regulations governing occupational health and safety, principal among which is the Industrial Safety and Health Law of 1972.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in all major sectors of the Japanese economy, including petroleum, food and related products, chemicals and related products, primary and fabricated metals, machinery, electric and electronic equipment, other manufacturing and wholesale trade.

Internationally recognized worker rights standards, as defined by the International Labor Organization (ILO) are protected under Japanese law and cover all workers in Japan.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2,561
Total Manufacturing		7,073
Food & Kindred Products	365	
Chemicals & Allied Products	2,093	
Metals, Primary & Fabricated	173	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	625	
Transportation Equipment	546	
Other Manufacturing	(D)	
Wholesale Trade		2,934
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		12,568

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Billions of Korean Won Unless Otherwise Indicated

	1986	1987	1988(est)
Income, Production, and Employment			
Real GNP (constant 1980 prices)	59,187.8	66,319.6	74,344.3
Real GNP Growth Rate (pct)	12.3	12.0	12.1(1)
Real per capita GNP (thousands won 1980 prices)	1,385	1,545	1,745
Current GNP	83,975.8	97,531.7	112,746.6
Current GNP by Sector			
Agriculture/Forestry/Fisheries	10,637.1	11,365.5	13,161.2
Mining and Manufacturing	27,086.0	31,450.8	35,791.0
Construction/Electricity/Gas/Water	9,472.4	11,370.8	13,258.4
Other Services	36,780.3	43,344.6	50,536.0
Labor Force (000s)	16,116	16,873	17,200
Unemployment Rate (pct)	3.8	3.1	3.0
Money and Prices			
Money Supply (M1)	7,236.7	8,644.4	10,373.3
Commercial Bank Rate (pct)	11.1	11.0	11.0
Investment Rate (pct)	29.1	29.2	30.6
Wholesale Price Index (1985=100)	98.5	99.0	102.0
Exchange Rates (won/$)			
Average	881.45	822.57	733.30
Year-end (2)(3)	861.4	792.3	689.0
Balance of Payments and Trade			
Total Exports fob	30,600	38,892	43,118
Exports to U.S.	12,235	15,062	15,253
Total Imports cif	27,840	33,742	38,498
Imports from U.S.	5,769	7,204	9,166
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Debt Outstanding(2)	38,332	28,206	21,359
Annual Debt Service Payments	8,356	14,245	8,800
Gold and ForEx Reserves(2)	2,887	2,864	8,957
Balance on Current Account	4,070	8,106	8,800

(1) Bank of Korea estimate.
(2) Data are for end of period.
(3) Year-end rate for 1988 (won 689 equals $ 1.00) based on 13 percent won/dollar appreciation. This year-end rate is used for statistical purposes only. It is not an exchange rate forecast. Actual exchange rate: $1.00=693.2 won As of November 15, 1988.

Sources: Embassy estimates; Bank of Korea; Economic Planning Board; and the Ministry of Finance.

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1. General Policy Framework

Korea's economic policy in the early and mid-1980s clearly reflected an enduring self-perception of Korea as underdeveloped and deficit laden. Policy focused on rapid export-led development, protection of domestic production and the reduction of an external debt that reached nearly $47 billion (equivalent to 54 percent of the gross national product (GNP)) in 1985. The use of market mechanisms has promoted economic efficiency, but governmental intervention in the economy was pervasive throughout the post-Korean War era. Restrictions on foreign participation in the economy through trade or investment were common. By 1988, however, Korea boasted the world's seventeenth largest economy, its fourth largest annual current account surplus, and is the seventh largest U.S. trade partner. Real GNP growth exceeded 12 percent in 1986, 1987, and 1988. The trade surplus in 1988 is expected to total $6.3 billion on a customs cleared basis ($8.3 billion with the United States) and the current account surplus is projected by the Bank of Korea to approach $14 billion. The Bank of Korea estimates Korea will become a net creditor nation as early as the end of 1989.

Given recent economic developments, Korean Government decision makers have been re-examining priorities. Among some government leaders Korea's traditional deficit mentality is beginning to change. In the recent past, the government has announced a number of current account surplus management actions, including tariff cuts, provision of import financing funds, reduction in surveillance items, the review of some 30 special laws to reduce import barriers, removal of restrictions on overseas travel and related currency control measures, and the easing of restraints on foreign participation in trading company activities. In addition long-standing bilateral disputes involving cigarette and insurance market access have been resolved, limited beef sales permitted, and progress achieved in intellectual property right protection and other issues of concern to the United States. Some concrete results are already flowing from these recent Korean efforts. In particular U.S. exports to Korea increased 27 percent in 1987 and were up 41 percent for the first ten months of 1988. Prospects seem favorable for continued growth of market penetration by U.S. products. U.S. business remains interested in investing in Korea. Korean Government approvals of U.S. investment applications in 1987 totaled $255 million, a 100 percent increase over 1986, and had already reached $208 million in the first eight months of 1988.

Still, despite improvements, Korea needs to do much more to support the open, international economic system from which it has so greatly benefited. Government economic policy pronouncements in recent months have reflected an awareness of that fact and have accepted that liberalization and internationalization are integrally associated with continued Korean prosperity. In his October 1988 budget statement President Roh confirmed Korea's commitment to opening up its economy -- in terms of trade access, foreign exchange rates,

capital market reform -- and to resolving specific trade problems with its major economic partners. The Presidential Commission on Economic Restructuring, which consulted with representatives from all segments of the community, has recommended a variety of liberalization measures, noting that such steps would clearly be in the interest of Korea's citizens. These recommendations include: reducing government interference in the economy; increasing Korea's imports; and liberalizing the financial sector. These and other developments seem to signal a significant evolution of attitude on the part of the government and a redirection of policy that has the potential to reduce conflict with aggrieved trading partners, including the United States. Korean officials should realize that early progress in moving from the enunciation of general principles to concrete implementation must occur if tensions are to be reduced in the near future.

Korean Government deliberations on adjustments of longstanding policies affecting external economic relations is taking place in the context of fundamental changes in Korea's overall political and economic decision-making process. Democratization has greatly increased the role of the legislature and recent elections have put the governing party in a minority position in the National Assembly. Recent campaign platforms and the current debate on the budget and other economic issues reflect some new emphases in the economic arena (i.e., social welfare, income distribution, and balanced regional development). Despite a heavy defense burden, Korean Government officials have been successful in balancing the budget. Public sentiment favoring an expansion of Korea's social welfare system, however, could place additional demands on government spending and result in adjustments in fiscal policy. Inflationary pressure, stemming primarily from large current account surpluses and large domestic wage increases, is a major government concern. Market-opening measures and further exchange rate appreciation could assist in ensuring that the inflation rate remains at a moderate level.

2. Exchange Rate Policies

The value of the won is established administratively using an undisclosed basket of currencies of Korea's leading partners and "policy variables." Tight restrictions on capital flows coupled with severe monetary restraint and close control of the Korean financial sector enhance the government's ability to control the exchange rate and limit exchange rate appreciation. The U.S. Treasury Department report to the Congress of October 24, 1988 concluded that, given Korea's strong underlying economic fundamentals, further exchange rate appreciation within a framework of liberalized trade, exchange and capital controls is clearly required. The report indicated that the United States intends to initiate bilateral negotiations with Korea on its exchange rate policy to allow for balance of payments adjustment and to eliminate unfair trade advantages. During 1988 the won appreciated 15.7 percent against the follar. Since September 1985 won appreciation against the dollar has been 30.7 percent.

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3. Structural Policies

Korea's economy is based on private ownership of the means of production and distribution. The government, however, has actively managed the Korean economy through a variety of means including comprehensive economic development plans, regulatory policies, price, credit, exchange, and capital controls, and special economic measures. Many of the problems U.S. exporters have experienced in Korea are rooted in the thicket of regulations and interpretations employed in complicated licensing requirements, the inspection and approval of industrial goods, and "special laws" which give line ministries broad powers to "stabilize" markets by controlling imports. A more thorough discussion of these cross sectoral impediments is contained in the section 5 below.

One of the means Korea has used to effectively limit imports is the imposition of high tariffs. At the conclusion of Korea's Fifth Five Year Plan in 1986, Korea's average tariff rate for all products was 19.9 percent. By 1988 the average tariff rate had dropped to 18 percent. The government has introduced a proposal in the National Assembly that provides for further phased reduction of tariff rates to seven percent (the average for Organization for Economic Cooperation and Development countries) by 1993, except in agriculture where rates will remain higher.

Korea's strict regulatory regime has enabled the government to encourage as well as to effectively bar (particularly in the services sector) foreign investors from certain sectors of the Korean economy. Effective July 1, 1987 the government limited tax exemptions to foreign investment projects which introduce advanced technology (defined by the government as technology not already available in Korea). Foreign investment in import substitution and export oriented projects, or projects introducing large amounts of capital have been dropped from the list of investments eligible for tax holidays. In some services sectors (such as insurance) which the Koreans have liberalized, foreign investors have confronted a formidable regulatory regime that has effectively limited their operations. In the banking sector the government recently announced it will liberalize lending rates and there are indications that the government may take a more flexible approach toward requests from foreign banks for new branches. However, it is unclear when more basic measures will be taken, such as improving foreign bank access to local currency funding. Growing inflationary pressures resulting from large external surpluses have caused concern among monetary officials and are likely to delay badly needed financial liberalization.

The Presidential Commission on Economic Restructuring, which is examining ways to ensure the continued development of the Korean economy, has stated in its report to the President that economic restructuring is necessary to ensure the continued success of the Korean economy. In its report the Commission has recommended that the government should avoid intervening in the market, should minimize government restrictions, should liberalize the financial sector, and

should deregulate the approvals process as it applies to trade and investment. Actions by the government and indeed the National Assembly on the Commission recommendations are uncertain.

4. Debt Management Policies

In 1985 Korea was the fourth largest debtor among developing countries, with external debt totalling nearly $47 billion. Since then Korea has used its substantial current account surpluses to reduce and even prepay its medium and long-term foreign debt. At the end of 1988 the Korean government estimated Korea's external debt at $31 billion. Korean economists project that by the end of 1989 Korea will become a net creditor with foreign assets totaling $26 billion and external debt of $25 billion, roughly 20 percent of GNP.

5. Significant Barriers to U.S. Exports

The Office of Supply, Republic of Korea (OSROK), is responsible for supervising procurement by government agencies and government-owned enterprises in which the government holds a majority share. Procurement needs for the government agencies are formulated by the concerned ministries and then screened by the Ministry of Trade and Industry to determine whether the requirements can be met from local sources. If not, the Ministry of Finance allocates the necessary foreign exchange funds. Korea is not a signatory to the General Agreement on Tariffs and Trade (GATT) Government Procurement Code but reportedly is considering accession. Korea's accession would expand opportunities for U.S. firms bidding on OSROK-procured projects and also would qualify Korean firms to bid on U.S. government projects covered by the code.

With the exception of investments in the free export zones, all foreign direct investments, technology assistance agreements exceeding $3 million and 50 percent foreign equity, and repayment of loans exceeding three years and $1 million are regulated by the Foreign Capital Inducement Law administered by the Ministry of Finance. Case-by-case reviews by the Ministry of Finance, other relevant ministries, and in some cases, the Foreign Capital Inducement Deliberation Committee (FCIDC) provide considerable latitude for Korean officials to consider applications based on nonpromulgated or informal criteria. Although there are no specific limitations on licensing agreements, approval of agreements is based on internal and unpublished policy guidelines of the Ministry of Finance. Technical and licensing agreements in the export sector and for the highly sophisticated machine industries have the highest priority. Policies and regulations designed to foster localization (reservation of the local market for domestic producers) can play a significant role in determining whether and how expeditiously a foreign investment or licensing application is approved.

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Foreigners, for the most part, cannot own land for commercial or residential use. Foreign companies occasionally encounter difficulties with resident visa procedures for their expatriate staff. Customs officials at the ports of entry and at post offices have considerable discretion in determining whether a product can be imported and the applicable tariffs. Policy and administration can be contradictory. Korean customs regulations lack transparency and rulings by customs officials are sometimes arbitrary.

There are a number of regulations requiring the inspection and approval of industrial goods (of both domestic and foreign manufacture) prior to sale. These regulations often constitute a significant barrier to imports. Domestic producers are given the power to establish certification requirements including standards for competing imports. The system lacks transparency and lends itself to manipulation by local anti-import interests. Some representative testing requirements are included in the certification procedures required by the Electrical Products Safety Control Law, the Pharmaceutical Law and the Food Sanitation Law. For example, imports of some electrical products are subject to "product approval" by the Electronics Industry Association of Korea (EIAK) and "type approval" by the Industrial Advancement Administration (IAA), to ensure that the product meets Korean electrical standards. Marking and labeling requirements for electrical appliances and apparatus (including type approval certificate number, voltage, amperage, and wattage) are also prescribed by the law to assure conformity to technical standards established by IAA.

Applications for "product approval" must be submitted to the EIAK, together with supporting documentation, such as (1) trade license, (2) agency certificate, (3) type classification of product, and (4) catalog or circuitry diagram. Applications for "type approval" must include: (1) structural diagrams and functional principles; (2) product photo; (3) test results; (4) proposed method for product management; and (5) operating manual. Imports of other products, especially pharmaceuticals, cosmetics, food-related goods and other consumer items, face equally onerous requirements.

A license is required for every import transaction and before the opening of a letter of credit. The "negative" list of prohibited imports is published by the Ministry of Trade and Industry in its Annual Trade Plan (Export and Import Notice) and remains in effect until it is revised periodically to meet changing economic conditions. The government approves license applications for import products in a restricted category on a Case by case basis after screening by the concerned agencies and relevant manufacturers' associations.

A total of 605 items fall into restricted categories, many of interest to U.S. exporters. A separate set of technical trade restrictions is also published by the Ministry of Trade and Industry and includes the Electrical Goods Safety Control Law, the Telecommunications Basic Law, the

Pharmaceutical Law, the Food Sanitation Law, and the Environmental Preservation Law. This Collective Notice of Restrictive Measures also is maintained by the Ministry of Trade and Industry. All applications for import licenses must be accompanied by firm offers from a foreign supplier (in most cases through the supplier's local agent). Such *pro forma* invoices are then checked to see whether the offer prices exceed the maximum import prices set by the government. Only firms that are registered as foreign traders are eligible to receive import licenses. The government has announced that beginning in 1989 foreign firms already invested in Korea will be able to act as trading companies and thus would no longer need to employ the services of a local agent. Exporters not invested in Korea will still have to employ a local agent.

A number of product areas where U.S. exporters are most competitive (e.g., medical equipment) have been subject to "special laws." Some provisions of special laws have been used by concerned ministries or relevant trade associations to limit the volume of competitive imports into the Korean market while other special law provisions have imposed import bans on products for which the Korean Government would like to develop indigenous manufacturing capabilities. The government has announced that it intends to review import-restraining measures for most manufactured goods with a view to removing them.

Despite liberalization of a handful of items, a system of restrictive import licensing, high tariffs, and quotas continues to impede U.S. exports of agricultural products to Korea, especially high-value products. Although scarcity forced a resumption of beef imports, a quota was imposed, and a quasigovernmental agency was designated the sole purchaser. Unreasonable phytosanitary requirements continue. Some tariffs on forest products have been lowered, but tropical logs still receive preferential treatment. A new product labeling regulation was announced but not implemented following U.S. complaints about the GATT-legality of its publication.

The service sector is of great interest to U.S. companies but liberalization has proceeded slowly. The Korean Government has adopted a negative list system for foreign investment approvals (all sectors are open to investment except those on the list). Those sectors which are prohibited or severely limited to foreign investors include many service industries such as legal assistance, accounting, language instruction, securities firms, and interpretation-translation services. Protracted bilateral negotiations have resulted in obtaining market access for other service industries such as insurance, advertising and motion pictures.

Under the revised Foreign Capital Inducement Law, the Ministry of Finance has the authority to approve foreign investments without prior consultation with other ministries (automatic approval) if the size of the foreign equity investment is $3 million or less. Another criterion for automatic approval is a foreign equity ownership share of 49.9 percent or less. However, a waiver from the 49.9 percent

automatic approval limit can be obtained if a foreign-invested company exports 60 percent or more of its product or if the joint venture produces an item which otherwise would be imported, is subject to a basic tariff of 10 percent or less, and is free of import licensing restrictions.

6. Export Subsidies Policies

Korea has employed tax benefits, import duty rebates, and special financing to support export industries. In 1989 tax exemptions for export-oriented industries will be abolished. Those exemptions which are to be eliminated include the special depreciation allowance for export industries and overseas construction firms of up to 30 percent above the regular depreciation schedule. At the end of 1987 monetary authorities significantly reduced export financing available to Korean firms.

7. Protection of U.S. Intellectual Property

In response to the signing of the 1986 United States-Korea Section 301 Intellectual Property Rights agreement, the Korean Government passed new laws and signed several international conventions including the Universal Copyright Convention and the Geneva Phonogram Convention in 1987. The Korean Government also agreed to provide special protection for certain U.S. inventions on a retroactive basis through "administrative guidance." Korea is a party to the Paris Convention and the Patent Cooperation Treaty.

Korea implemented revisions to its Patent Law in December 1986, and a new patent law became effective July 1, 1987. Korea acceded to the Budapest Treaty in March 1988. The new Korean law extends the previous patent term from 12 to 15 years from the date of publication of the patent application (18 months after filing), and establishes a patent restoration system for term lost due to regulatory approvals procedures. An important amendment is the expansion of patent coverage to include protection for chemical and pharmaceutical products and microorganisms. In addition through "administrative guidance" certain products which were patented in the United States after January 1, 1980 but were marketed neither in Korea nor the U.S. prior to July 1, 1988 will be protected by denial of permission to manufacture or market such products in Korea without authorization permission of the U.S. patent owner(s) for 10 years from the effective date of the amended Korean Patent Law. U.S. industry complaints about the Korean environment for patent protection focus on (1) interpretation of patent claims by the Korean Patent Office (KPO), (2) possible discrimination of KPO in granting patents, (3) interpretation of patent claims by the Korean courts in patent infringement actions, (4) adequacy of sanctions for patent infringement, and (5) lack of discovery procedures.

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In July 1987 Korea revised its copyright law and enacted a new Computer Program Protection Law, providing for protection of both domestic and foreign computer programs for a period of 50 years. Through administrative guidance, retroactive protection is to be extended to U.S. printed materials copyrighted in the United States and published during the 10-year period, and to computer software created and first published in the 5-year period prior to 1987

There continues, however, to be widespread pirating of U.S. books, computer software, and video cassettes. Although the Ministry of Culture and Information has sent letters of warning and periodically checked the store shelves, Korean bookstores continue to sell unauthorized reprinted books, or display catalogues of pirated books that can be ordered and received within a 24-hour period. Local legal counsel of U.S. publishers reported that, after cases are filed, prosecutors and police usually fail to investigate, and most cases are settled out of court thereby eliminating the opportunity to send a message to existing and potential infringers.

Pirated computer software is readily available in certain discount districts of Seoul, and elsewhere throughout Korea From July 1987 when the Computer Program Protection Law (CPPL) became effective until late 1988, there were no reported decisions in the Korean courts. An important development, however, was the Korean Palantir software case which was first filed in April 1988 and finally settled in the autumn of 1988. Although the fine was only 300,000 won, the case set a precedent for the interpretation of the CPPL that programs created after July 1, 1987 could be protected as a "derivative program" of the original software. This interpretation has encouraged U.S. software companies to reconsider the Korean market.

The ongoing investigative activities of the Korean Phonogram Association appear to be insufficient to prevent the production and widespread rental of pirate video tapes. Industry reports that the activities of the investigators have been hampered by the lenient treatment of pirates by judicial authorities.

U.S. industry has highlighted the following problems with trademark protection in Korea: (1) it is relatively easy for Korean parties to register famous foreign trademarks or close variants thereof; (2) it is difficult to invalidate the registration of inaccurately-registered trademarks; (3) color is not a protectable element of a trademark under Korean law; and (4) Korean authorities are not prepared to enforce existing laws. Recently one infringement case was settled out of court after encountering endless government bureaucratic obstacles and in a second the authorities took action after a one-year delay. The penalty, however, was very low (1/20th of the maximum amount permitted under the law). U.S. companies have indicated that while there has been improvement in trade-mark enforcement, prosecutors and police are not prepared to enforce court orders to search premises and seize bogus goods.

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The lack of strict enforcement of Korea's Intellectual Property Rights laws has had a generally dampening effect on U.S. trade and investment in Korea. No reliable comprehensive survey of the impact has been done recently, however, the following figures may be useful In the area of patents, U.S. pharmaceutical firms argue that Korean firms pirate the most profitable U.S. products. With regard to copyrighted works, U.S. printed materials are being sold but sales would conceivably be greatly expanded if the pirated books, in particular expensive textbooks, could be removed from circulation. U.S. industry estimates that 80 to 90 percent of the roughly 6,800 video stores in operation in Korea handle pirated merchandise. Losses due to pirated audio cassettes are estimated at 60 percent of the market or approximately $80 million. U.S. software manufacturers have to date avoided investment and aggressive marketing in Korea due to the piracy problem, but nevertheless have a significant share of the market. The Palantir case mentioned earlier may encourage U.S. firms to increase efforts to compete in the $70 million software market which is expected to grow 38 percent in 1989.

8. Worker Rights

a. The Right of Association

Although the Constitution provides for workers to have the rights to independent association, collective bargaining, and collective action, in practice this has often not been the case. Strikes are prohibited in government agencies, state or public-run enterprises, defense industries, and certain other enterprises "which have a serious impact on the national economy." During 1988, however, the government has generally been unwilling to enforce these prohibitions as well as many other provisions of the labor law. Labor laws include complicated notification procedures and 15-day "cooling-off periods" before a strike can be called legally. Only one union is allowed at each place of work. As there is no minimum number of members required to form a union, this facilitates the formation of small, company-controlled unions. Once such a union is formed, it is difficult to replace it with a more representative union.

All unions in Korea must be certified by the government. However, during a wave of labor unrest in the fall of 1987 a large number of unions were formed and began negotiations with employers before being formally certified. As long as certification was completed eventually, the government did not attempt to decertify these unions. This marked a complete reversal of past practice. In the fall of 1988 the government registered the first union federation not associated with the conservative Federation of Korean Trade Unions (FKTU), thus breaking the FKTU's monopoly. Up until that time, the FKTU had virtual veto power over union registration. Whether the registration of this new federation is a break with the past or simply a single-case exception is unclear.

KOREA

The FKTU is affiliated with the International Confederation of Free Trade Unions. Most of its constituent unions maintain affiliations with international trade secretariats.

There is no independent system of labor courts in Korea. The Central and Local Labor Committees form a semiautonomous agency of the Ministry of Labor that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. Each labor committee is composed of equal representation from labor, management, and "the public interest." The Local Labor Committees are empowered to decide on remedial measures in cases involving unfair labor practices and to mediate and arbitrate labor disputes. Most disputes are resolved at the Local Labor Committee level.

In 1988 the government generally stayed out of labor disputes. One exception was a strike by railroad engineers. The government moved decisively to break this strike, which was illegal under Korean law.

b. The Right to Organize and Bargain Collectively

The Constitution provides for independent association, collective bargaining, and collective action. In practice, however, this has often not been the case. Korea's system of labor laws does not extend the right to bargain collectively to government employees and employees of state or public-run enterprises, defense industries, and certain other key industries. A 1985 law provides that worker rights are not to be handled differently in export processing zones (EPZs). In practice equal treatment in EPZs has been the norm only since the summer of 1987.

Many of Korea's major employers are strongly antiunion. "Save the Company Squads" are employed to beat up union organizers and intimidate workers. Labor activists say they have documentary evidence of at least 30 instances of attacks on union organizers by company-hired strong-arm men. There are still cases of labor organizers being kidnaped. While uncommon, there have been cases of violence against property by workers, sometimes resulting in a good deal of property damage.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced by the government. A 1987 scandal involving a government-subsidized welfare center for the destitute in Pusan revealed that many inmates were being held against their will and made to engage in forced labor. However, a subsequent investigation indicated that the government was not directly involved, although there was gross negligence on the part of local officials.

KOREA

d. Minimum Age for Employment of Children

The Korean Labor Standards Law prohibits the employment of persons under the age of 13 without a special employment certificate from the Ministry of Labor. However, because there is compulsory education until the age of 13, few special employment certificates are issued for full time employment. Some children are allowed to do part-time jobs such as selling newspapers. In order to gain employment, children under 18 must have written approval from parents or guardian. Minors may be required to work only a limited amount of overtime and are prohibited from working at night without special permission from the Ministry of Labor. Nevertheless, employers often treat those under 18 as "regular" workers, and do not accord them the legal protections to which they are entitled. A large proportion of production line workers in labor-intensive industries such as textiles, apparel, footwear, and electronics are girls in their midteens. These girls work often in small, cramped and sometimes dangerous workplaces.

e. Acceptable Conditions of Work

Korea implemented a minimum wage law in 1988. There is a two-tiered minimum wage system, and minimum wage levels are to be reviewed annually. The minimum wage for some industries like textiles is $150 per month, for other industries it is $158 per month. In many small establishments below-minimum wages are still paid.

Current Bank of Korea statistics report that the average monthly wage for industrial workers in the third quarter of 1988 was $481.

Income distribution in Korea is quite good when compared to other countries at similar levels of economic development. In 1985 the top 20 percent of all households earned 43.7 percent of national income, while the lowest 40 percent of all households earned 17.7 percent of national income. Korea's Economic Planning Board estimates that the 1988 average monthly earnings for workers in industrial establishments employing 10 or more persons were $578 per month, up $108 over the previous year. Pockets of urban poverty still remain, but the abject poverty common to many developing countries has largely been eliminated. According to a 1986 government estimate, 6.8 percent of the population lived below the absolute poverty line.

KOREA

The Labor Standards Law and the Industrial Safety and Health Law provide for a maximum 60-hour workweek, paid overtime, holidays and vacation, and a safe working environment. According to the government, the average Korean worker works 51.9 hours a week. The Labor Ministry is studying ways to reduce the average workweek to 44-48 hours.

f. Rights in Sectors with U.S. Investment

U.S. investment in Korea is concentrated in the petroleum, chemicals and related products, transportation equipment, food and related products sectors (and to a lesser degree in the electric and electronic equipment sector). Workers in these industries enjoy the same legal rights of association and collective bargaining as workers in other industrial sectors. These rights and the right to strike, however, do not extend to workers employed in publicly-owned enterprises, major defense plants and enterprises which have an impact on the public good. Only a limited number of U.S. firms are affected by this provision (e.g., those companies in the petroleum sector.)

Since late 1987 workers in U.S. invested sectors (as well as Korean workers generally) have formed unions and have gone out on strike on a scale unprecedented in Korean history. During the past year, Korean industrial workers gained significant wage concessions with average increases of 20 percent in 1987 and about 15 percent in 1988.

Occupational safety levels vary not only from sector to sector, but within sectors; smaller plants tend to have poorer safety records. U.S. invested plants generally have better work and safety conditions.

In 1987 the average work week for industrial workers in Korea was 52 hours (including four hours overtime) down from 57 hours in 1986. Although only a small percentage of Korean companies has adopted the five-day work week, the pharmaceutical industry has been a leader in this movement. Of the 97 companies operating on a five-day work week, 68 are pharmaceutical companies.

The electric and electronic equipment sector has a high concentration of teenage (mostly female) labor working on assembly lines.

SOUTH KOREA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		7
Total Manufacturing		339
Food & Kindred Products	41	
Chemicals & Allied Products	78	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	115	
Transportation Equipment	(D)	
Other Manufacturing	48	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

MALAYSIA

Key Economic Indicators

Millions of Malaysian Ringgit (M$)

	1986	1987	1988(est)
Income, Production, Employment			
GNP (current prices)	66,364	75,339	81,482
(pct chg)	-7.9	13.5	8.2
GDP (1978 prices)	57,859	60,846	65,338
(pct change)	2.6	5.2	7.4
GDP by Sector			
Agriculture	12,389	13,311	13,790
Manufacturing	12,111	13,663	15,781
Mining and Petroleum	6,433	6,442	6,944
Utilities	3,851	4,055	4,311
Construction	2,355	2,077	2,098
Wholesale and Retail Trade	6,147	6,423	6,905
Financial Services	5,073	5,355	5,678
Government Services	7,253	7,543	7,845
GDP per capita (1978 prices)	3,369	3,681	3,861
Labor Force (000s)	6,089	6,409	6,622
Unemployment Rate (pct)	8.5	8.2	8.1
Federal Government Revenues	19,518	18,143	21,448
Federal Gov't Expenditures	27,024	24,296	26,861
Federal Deficit	7,506	6,153	5,413
(as pct of GNP)	11.3	8.2	6.6
Public Sector Deficit	6,514	4,852	4,870
(as pct of GNP)	9.8	6.4	6.0
Money and Prices			
Money Supply (M1)	13,957	25,768	16,069 (June)
Money Supply (M2)	53,767	55,459	56,245 (June)
Commercial Prime Rate (pct)	10	7.5	7.0 (Oct)
National Savings/GNP (pct)	25.8	33.8	33.6
Investment/GNP (pct)	10.9	10.9	29.7
Inflation (CPI)	0.7	1.1	2.7
Exchange Rate (avg M$/US$)	2.58	2.52	2.59(2)
Balance of Payments and Trade			
Merchandise Exports	35,373	44,612	53,878
Exports to the U.S.	5,935	7,485	8,786
Merchandise Imports	26,592	29,782	40,000
Imports from the U.S.	5,265	5,983	7,202
Merchandise Balance	8,781	14,830	13,878
Services (Net)	-9,084	-9,086	-11,088
Current Account	-207	6,105	3,127
Assistance from the U.S.	2.5	1.1	1.0
Other Assistance(loans from ADB, IBD, and Islamic Bank)	431.8	285.3	N/A

MALAYSIA

	1986	1987	1988(est)
Foreign Debt	50,714	50,855	46,702
Public Sector	43,240	45,575	41,722
Private Sector	7,474	6,280	4,980
Debt Service Payments(1)	7,427	7,780	10,167
Debt Service Ratio (pct)(1)	17.6	14.8	16.2
Official Net Reserves	16,324	19,432	17,158 (June)

(1) excluding prepayments
(2) January - August

1. General Policy Framework

Malaysia has an open, market-oriented economy. Since independence in 1957, the Malaysian economy has shown sustained growth and diversification away from the twin pillars of the colonial economy: tin and rubber. Real gross domestic product (GDP) growth averaging six to eight percent from 1964 to 1984 has been accompanied by the development of new crops (palm oil and cocoa), the expansion of the petroleum sector (now producing 500,000 barrels per day of oil and 1.6 billion cubic feet of natural gas), and the creation of a large manufacturing sector (23 percent of GNP). The collapse of commodity prices in 1985-86 led to Malaysia's sharpest recession since independence with real GDP growth near zero and nominal gross national product (GNP) falling 11 percent in two years. Since then the economy has rebounded, led by strong growth in exports of manufactured goods. Real GDP growth was estimated at about 8 percent in 1988.

The government plays a very large role in the Malaysian economy, both as a producer of goods and services and as a regulator. The government or government-owned entities dominate a number of sectors, particularly plantations and banking. Through the National Equity Corporation, the government has equity stakes (generally minority stakes) in a wide range of Malaysian domestic companies. In all, government controlled entities may account for one-third of the economy. Government controlled companies are rarely monopolies in Malaysia. Instead, they are one player (generally, but not always, the largest) in a competitive market. In 1986 the government announced its intention to privatize a number of government entities, including telecommunications, ports, electricity, and a major highway and is carrying through this policy decision.

Malaysia has encouraged foreign direct investment, particularly in manufacturing. A substantial share of the manufacturing sector is controlled by multinational corporations. Electronic components (where Malaysia is the third largest producer of integrated circuits after the United States and Japan) and consumer electronics and electrical goods are dominated by U.S. and Japanese firms. Foreign investors also play an important role in downstream petroleum, textiles, vehicle assembly, steel, cement, rubber products, and electrical machinery.

MALAYSIA

Widening fiscal and current account deficits in the early 1980s led the government to impose stringent controls over government spending in 1984. This effort has held total spending below the 1985 peak and reduced the Federal Government's deficit from 11.3 percent of GNP in 1985 to 6.8 percent in 1988 despite the recession-induced drop in tax receipts. The recession and strong foreign demand reversed a serious current account deficit by 1987 and has allowed Malaysia to begin reducing its foreign debt.

The New Economic Policy (NEP) was established in 1971 with two objectives: to (1) eradicate poverty in Malaysia and (2) restructure the economy so as to end the identification of economic function with race. In particular the NEP was designed to enhance the economic standing of the ethnic Malays and other indigenous peoples (collectively known as "bumiputras" in Malay). The NEP includes broad affirmative action programs in employment, education and government contracting.

The NEP also seeks to alter the pattern of ownership of corporate equity in Malaysia to ensure that at least 30 percent of corporate equity is held by bumiputras, 40 percent by other Malaysians (primarily Chinese and Indian Malaysians), and no more than 30 percent by non-Malaysians. To this end, the government established various trusts which were provided with government funds to purchase foreign-owned shares on behalf of the bumiputra population. Foreign firms have been urged to restructure their equity (often 100 percent foreign-owned) in line with the NEP guidelines. In 1985 the government estimated that bumiputras directly and indirectly owned 18 percent of corporate equity and foreigners 26 percent. From 1986 on, successive relaxations in NEP guidelines have reduced rigidities in the economy. It is generally expected that the NEP in some form will continue beyond 1990.

2. Exchange Rate Policy

Malaysia has a substantially open foreign exchange regime. The Malaysian currency, the Ringgit (M$), floats against the dollar and other currencies. The central bank does not specifically peg the Ringgit, but does intervene in the foreign exchange market to smooth out fluctuations and discourage speculation. It generally tracks the currency's value against a trade-weighted basket of currencies in which the dollar is believed to have a large weighting. Over the past two years, the Ringgit has traded within a fairly narrow band against the dollar, ranging from M$2.45 to M$2.70/$1.

Payments, including repatriation of capital and remittance of profits are freely permitted. Payments to countries outside Malaysia may be made in any foreign currency other than the currencies of Israel and South Africa. No permission is required for payments in foreign currency up to M$10,000 ($4,000). Individual foreign exchange transactions above M$10,000 require an exchange control license. For transactions up to M$10 million ($4 million), the license is

obtained upon completion of a simple reporting form which is approved by any commercial bank without reference to the Controller of Foreign Exchange (part of the central bank) provided that in the case of payments of interest or repayments of principal on borrowings from nonresidents, the borrowings have been obtained with the approval of the Controller, and the payments are consistent with the approved terms and conditions of the borrowing. An individual transaction in excess of M$10 million requires the approval of the Controller.

3. Structural Policies

Nearly all prices in Malaysia's economy are determined by the market with the government or government entities controlling the prices of relatively few goods, notably fuel, public utilities, rice and tobacco. Tariffs and nontariff barriers generally do not distort prices or impede trade. Tariffs overall average 15 percent and import licenses are required only for a small range of sensitive items. The few controlled prices include most notably fuel, rice, and tobacco. The government sets above-world-market farm gate prices for rice and tobacco as a means of encouraging domestic production and boosting depressed rural incomes. Despite this price incentive, Malaysia must import large quantities of rice. The government is a monopoly importer of rice and uses the profits from the resale of cheaper imports to offset the losses from the sale of domestic rice at retail prices which are fixed below domestic farm prices. In the case of tobacco, the government also presses cigarette manufacturers to use a higher proportion of locally-grown tobacco. Manufacturers maintain that consumer taste dictates a maximum level of local leaf content; this limits total demand for domestic tobacco. Since price-supported domestic tobacco is not competitive in export markets, the government is forced to maintain a large stockpile of locally-grown tobacco.

The private sector has criticized the government for maintaining relatively high direct tax rates. In the 1988 and 1989 budgets, corporate income taxes were reduced but, as part of an effort to improve collection and broaden the base, a large number of food and other products lost their exemption from the five percent sales tax. The United States has a trade interest in a number of the affected products, especially fruits and other food products (see section 5 below).

The government encourages foreign and local private investment. Liberalized guidelines on foreign equity participation apply to new investments for which application is made between October 1, 1986 and December 31, 1990. A foreign investor can hold 100 percent of the equity of a Malaysian subsidiary by meeting either of two conditions: export 50 percent or more of the output (including sales to Free Trade Zones or Licensed Manufacturing Warehouses), or employ 350 or more full-time Malaysian workers. In addition the company's products must not compete with products being produced locally for the domestic market. These guidelines do

not apply to existing investments, but do apply to the amount of equity in any expansion. The Malaysian government has pledged that new investors during this period will never be required to restructure equity at any time as long as they continue to meet the conditions of the original license. For companies exporting 20 to 49 percent of their production, foreign equity is limited to between 30 percent and 51 percent. For companies exporting less than 20 percent of their production, foreign equity is limited to 30 percent in most cases but may go as high as 51 percent for high technology or priority products for the domestic market. Except for banking, where no new licenses are being issued, investment in the financial services sector may be up to 49 percent foreign equity. Equity restrictions on new local enterprises have been relaxed over the past two years.

4. Debt Management Policies

Malaysia's medium and long-term foreign debt stood at M$50.8 billion ($20.4 billion) at the end of 1987. By the end of 1988 the Malaysian Government expects the nation's foreign debt to decline to M$46.7 billion ($17.6 billion at current exchange rates) as the government continues to use Malaysia's substantial current account surplus to retire foreign debt. Malaysia's debt service ratio (excluding prepayments) declined from a peak of 17.6 percent in 1986 to 14.8 percent in 1987, but is expected to rise to 16.2 percent in 1988 because of the large number of loans coming due. Malaysia remains an attractive borrower on international markets, able to command excellent terms. Debt denominated in dollars accounted for approximately 40 percent of Malaysia's foreign debt at the end of 1987, down from 60 percent in 1983-84 before the sharp appreciation of the yen and several European currencies. Yen-denominated debt accounted for 36 percent of all foreign debt, up from 19 percent in 1983-84. The remaining 24 percent is spread among a number of currencies.

Most of Malaysia's foreign debt was built up in the early 1980s. The 1980-82 slump in the industrialized countries depressed the prices of non-oil commodities (on which Malaysia depended for its export earnings) and slowed inward foreign investment. At the same time, the Malaysian government embarked on a policy of heavy investment in industry to reduce the economy's dependence on commodities and spent heavily to buy out large foreign stakes in key economic sectors such as plantations and banking. From 1981 through 1984, Malaysia's net foreign borrowing was some M$29 billion (approximately $12 billion).

In 1985 Malaysia reversed course and the government sought to reduce its deficit and its foreign borrowing. In 1985 and 1986, net foreign borrowing was only M$3.3 billion ($1.3 billion). In 1987 and 1988 net foreign borrowing will be approximately minus M$6.5 billion ($2.6 billion). That is, Malaysia has on net repaid $2.6 billion in foreign debt in two years. However, the appreciation of several currencies in which part of Malaysia's debt was denominated, particularly the yen and deutschemark, meant that the value of Malaysia's

debt in Malaysian Ringgit (and dollars) continued to rise. From 1985 through 1987, the appreciation of the yen and European currencies are estimated to have added M$14 billion ($5.6 billion) to the Ringgit value of Malaysia's foreign debt.

5. Significant Barriers to U.S. Exports

In order to encourage greater use of local tobacco in cigarettes and maintain high domestic leaf prices, the government levies heavy import tariffs. The present import duties for raw tobacco and cigarettes are $18.80 and $31.95 per kilogram, respectively. It is important to note that while this policy does limit total leaf imports, the high tariffs appear to discriminate more against lower quality leaf from suppliers other than the United States. Since the duty on imported leaf tobacco does not vary by quality, it is more economical to import high grade U.S. leaf to blend with lower quality domestic tobacco.

Duties for processed and high value products such as canned or fresh fruits are in the 30 to 50 percent range. The average trade-weighted import duty for all U.S. agricultural exports to Malaysia, including tobacco, is above 100 percent. In contrast virtually all Malaysian agricultural exports to the United States enter duty free.

In order to broaden the tax base, the Ministry of Finance announced in the 1988 budget a nearly complete withdrawal of the sales tax exemption formerly enjoyed by virtually all foodstuffs. With the 1989 budget, the Ministry further extended the tax to include several additional high value food products. Malaysia's sales tax is a single stage tax levied on locally produced goods ex-factory and on imported goods at the point of entry, rather than at the retail level as in the United States. The five percent sales tax adversely affects U.S. exports in three ways: coverage seems to biased against imported products; in many cases, the sales tax is not being collected from many local producers of identical or similar goods because most farmers and many small scale enterprises are outside the tax system (the tax on imported items is collected at the same time as customs duties); and the five percent tax on entered value means that the effective rate for imported products is actually six to seven percent.

In 1983 the government effectively closed peninsular Malaysia to imports of chicken parts by ceasing to issue veterinary import permits. According to the Veterinary Department, the ban was implemented because the European Community was dumping chicken parts into the Malaysian market. East Malaysia maintains a separate import regime for poultry products and still allows U.S. chicken products to be imported. It is estimated that peninsular Malaysian imports of chicken parts, mainly chicken wings, could reach as high as $20 million if current import restrictions were removed. In view of the fact that Malaysia now exports significant quantities of poultry meat to Singapore and Japan, the continued protection of the domestic industry through use of the ban appears to be unwarranted.

MALAYSIA

Because of the high cost of rice production in Malaysia, the National Rice Authority (LPN) imports substantial quantities of rice; the LPN is also the sole legal importer of rice. Purchases generally are made on a government-to-government basis, with preference accorded to rice supplied by other Asian countries, notably Thailand. This practice places private U.S. suppliers at a considerable disadvantage.

Malaysia has almost no import licensing. Those few products subject to licenses known as "approved permits", such as fully assembled automobiles, do not affect U.S. firms. There are some technical licenses, for example, for electrical products and telephone equipment, but these are administered fairly and do not constitute nontariff barriers.

Malaysia protects many service sectors. Foreign lawyers, architects, etc. are generally not allowed to practice in Malaysia. Television advertisements must be produced in Malaysia unless an exception is obtained. There are wholly-owned U.S. travel agents and air courier services. There are also wholly-owned U.S. motion picture and record distribution companies.

Banking, insurance, and stockbroking are all subject to government regulation which limits foreign participation. Foreign banks are not permitted to open new branches or establish offsite automated teller machines (ATM's). Foreign controlled companies are required to obtain 60 percent of their credit from local banks. Despite these restrictions, foreign banks account for more than 25 percent of commercial bank assets. No new insurance licenses are being granted. Foreign shareholdings in insurance companies are limited to 30 percent without government approval. However, the two largest insurance companies are 100 percent foreign-owned (one U.S.). In addition,Aetna recently purchased 49 percent of a local insurance company and John Hancock recently bought 30 percent of British-American Life and General Insurance. The government has recently announced that foreigners may hold up to 49 percent of the equity of a stockbroker and said it would consider requests for majority foreign ownership.

Malaysia has extensive standards and labeling requirements, but they appear to be implemented in a nondiscriminatory fashion, and have not affected U.S. exporters. 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 Trade and Industry, telecommunication equipment must be "type approved" by the Department of Telecomms. Pharmaceuticals must be registered with the Ministry of Health. In addition the Standards and Industrial Research Institute of Malaysia (SIRIM) provides quality and other standard approvals.

Countertrade is encouraged but not required. Most government tenders require that countertrade be offered as an alternative. There are incentives (e.g., 10 to 15 percent price incentives) for local procurement. Government employees are normally required to fly on Malaysian Airlines, the

country's flag carrier. Many smaller civil construction projects (e.g., M$50 million or less) are restricted to local firms. U.S. firms are generally not competitive in civil works projects.

6. Export Subsidies Policies

Export subsidies are relatively insignificant in Malaysia. The most important export subsidy is the Export Credit Refinancing (ECR) scheme operated by the central bank. Under the ECR, commercial banks and other lenders finance exports at an interest rate of four percent. The lender then re-discounts the loan to the central bank at three percent interest. The U.S. Department of Commerce, in a subsidy/countervailing duty case, evaluated the subsidy element in the ECR program at 0.49 percent of the value of the goods exported.

Malaysia also provides tax incentives to exporters, including the following:

- abatement of Adjusted Income for Exports provides for an abatement of adjusted income equal to 50 percent of the proportion of sales represented by exports (if 60 percent of sales are exported, then adjusted income would be reduced by 30 percent);

- Export Allowance of five percent of the free on board (FOB) value of export sales is granted to trading companies exporting products manufactured in Malaysia;

- Double Deduction for Export Credit Insurance premiums provides a double deduction from income for export credit insurance premiums paid to a company approved by the Ministry of Finance;

- Double Deduction for Promotion of Exports provides for a double deduction from income for expenses of overseas advertising, export market research, preparation of tenders for sales abroad, supply of technical information abroad, supply of free samples abroad, participation in overseas trade shows approved by the Ministry of Trade and Industry, public relations services abroad, overseas travel expenses (up to air fare and M$200 per diem), and maintaining overseas sales offices.

7. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization, but is not a member of the Berne, Paris or Universal Copyright Conventions.

The Trade Description Act of 1976, the Patent Act of 1983, and the Copyright Act of 1987 have greatly strengthened protection for intellectual property in Malaysia.

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MALAYSIA

Patents registered in Malaysia generally have a duration of 15 years but may have longer duration under certain circumstances. A person who has neither his domicile nor residence in Malaysia may not proceed before the Patent Registration Office or institute a suit except through a local patent agent. With regard to trademarks, where any person has registered or applied for protection of any trade mark in any foreign state designated by the Malaysian government, such person shall be entitled to registration of this trademark in Malaysia provided that application for registration is made within six months from the date of registration in the foreign state concerned.

The Copyright Act of 1987 went into effect on December 1, 1987. In addition to improving the protection for video tapes and audio material, the new Copyright Act for the first time explicitly protects computer software. The Act extends copyright protection only to works by Malaysian citizens and residents and to works first published in Malaysia or published in Malaysia within 30 days of the date that the work was first published overseas.

The United States and Malaysia are working on a bilateral copyright agreement to extend the protection of the new Copyright Act to U.S. works. Malaysia does not register copyrights. Copyright protection is conferred automatically to the author of the work or the individual/company that first reproduces the work in Malaysia. Copyright protection of U.S. products, particularly films and computer software, will remain inadequate until a bilateral copyright agreement is in force.

Trademark infringement is not a problem in Malaysia for U.S. companies. Patent protection is also good. A problem involving pharmaceutical patents has been resolved satisfactorily with a ruling from the Malaysian Attorney General.

8. Worker Rights

a. The Right of Association

The Trade Unions Act of 1959 and the Industrial Relations Act of 1967 govern the right of workers to engage in trade union activity. Unions may organize workplaces, bargain collectively with an employer, form federations and join international organizations. The Industrial Relations Act specifically prohibits any person from interfering with, restraining, or coercing a worker in the exercise of the right to form or participate in the lawful activities of a trade union.

The Trade Unions Act, which is administered by the Registrar of Trade Unions, sets rules for the organization of unions, their recognition at the workplace, the content of their constitutions, election of their officers, and their financial reporting requirements. (Parallel acts set the rules for companies and societies.) The Act's definition of a

trade union restricts it to representing workers in a "particular trade, occupation, or industry or within any similar trades, occupations, or industries." The Committee on Freedom of Association of the International Labor Organization (ILO) concluded that the free choice of unions to which workers wish to belong should not in any way be limited by administrative authorities' interpretations of union rules insofar as these determine the scope of their membership.

Some critics of the government's policy toward labor unions, notably the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) and Asia Watch, believe that the arrest of V. David under the Internal Security Act in the government crackdown late in 1987 demonstrated labor leaders' vulnerability to the government, which critics assert, inhibits their carrying out legitimate trade union activities. Mr. David has declared publicly that questioning during his detention related only peripherally to his role in the Malaysian Trades Union Congress (MTUC) and the Transport Workers' Union (TWU). He continues as MTUC Secretary General, campaigned successfully for reelection to that position in December, and has been allowed to travel abroad to trade union meetings.

Federations of trade unions similarly may cover only a single trade or industry or similar trades or industries. The only labor federations currently registered are one for public servants and one for teachers. Two of the state-based textile and garment workers' unions have applied to register a federation and expect a favorable ruling from the registrar. The MTUC, the main labor body in the country, is registered as a society under the Societies Act (rather than the Trade Unions Act). Previous MTUC efforts to register as a trade union federation under the Trade Unions Act were turned down because of its broad membership. In November, however, Parliament approved legislation which grants both the MTUC and the Malaysian Employers Federation the status and rights accorded trade unions, although both remain societies.

As of December 1987 there were 409 individual unions in Malaysia with over 606,000 members (10.4 percent of total employment). Union membership has been stagnant since 1983, due in part to the decline of Malaysia's largest union, the National Union of Plantation Workers, resulting from the replacement of union-organized plantation workers by unorganized contract labor; and in part to the 1985-86 recession, which particularly affected the most wage-based sectors of the economy. Unions are independent both of the government and of the political parties. While unions are not permitted to engage in political activity, individual trade union leaders have served in Parliament (V. David, the MTUC Secretary General, is currently a Member of Parliament for an opposition party) and individual union members belong to political parties. Malaysian trade unions are free to associate with the appropriate international trade secretariats, and a number of Malaysian labor leaders play major roles in international labor affairs. The MTUC is affiliated with the International Confederation of Free Trade Unions (ICFTU). The Secretary General of the National Union

of Plantation Workers is President of the ICFTU, and the MTUC Secretary General has actively participated in the ILO governing body.

While strikes are legal and do occasionally occur, critics claim that this right in practice is severely restricted. The Industrial Relations Act of 1967 requires the parties to notify the Ministry of Labor that a dispute exists before any industrial action may be taken. The Ministry's Industrial Relations Department can then become actively involved in conciliation efforts. If conciliation fails to achieve a settlement, the Minister has the power to refer the dispute to the Industrial Court, which effectively becomes compulsory arbitration. A strike is prohibited while the dispute is before the Industrial Court, and no action may be taken in respect of an award made by the Industrial Court. Industrial Court awards are the exception rather than the rule, however, representing only about 18 percent of all collective agreements registered in 1987. The remaining agreements were reached through bargaining between management and labor.

b. The Right to Organize and Bargain Collectively

Collective bargaining is the norm in Malaysian industries where workers are organized. Malaysia's system of conciliation and arbitration seeks to promote negotiation and settlement of issues without industrial action. However, Malaysian law, especially the Industrial Relations Act, restricts collective bargaining rights through compulsory arbitration.

In a complaint to the ILO, the MTUC alleged that the 1980 amendments contain prohibitive and oppressive antiunion provisions which erode the basic rights of workers, restrict union activities, and result in government and employer interference in the internal administration of unions. In 1983 the ILO urged the Malaysian Government to amend these laws further to bring them into conformity with the ILO convention on the right to organize and to bargain collectively. Many union leaders also believe that creation of the Industrial Court to handle industrial disputes further weakened their collective bargaining rights.

In 1987 the government proposed labor law amendments which would have altered the definition of wages (used for calculating overtime pay) and would have clarified the legal status of in-house unions (nowhere mentioned in the Trade Unions Act). The proposals were withdrawn in the face of union opposition in favor of a general review of Malaysia's labor legislation, presented to the tripartite National Labor Council (NLAC) in May. Union leaders took exception to several of the revised proposals, particularly the amendment to clarify the legal status of in-house unions, one to classify all government departments as "essential services," and one to restrict legal representation in Industrial Court cases. The first of these provisions was dropped from the amendments submitted to Parliament and approved in late 1988, and the other two were modified to meet, in part, union

objections. The MTUC has welcomed parts of the package, particularly the provision granting it the status of a trade union and one making Industrial Court awards directly enforceable by application to the High Court. The MTUC also won more than it gave up on the definition of wages, employers' request to reduce retrenchment benefits, coverage of the Employment Act, and back pay in unfair dismissal cases. Employers gained modest reductions in annual and sick leave and a reduction of overtime rates from a maximum of 4.5 times basic pay to three times basic pay. The MTUC still opposes the amendment which restricts legal representation at Labor Ministry conciliation hearings (but continues to allow representation in the Industrial Court); and a provision allowing the Government to declare any industry an "essential industry."

Labor standards in free trade zones are the same as those in the rest of Malaysia. Workers at many companies located in the free trade zones are unionized, especially in the textile and electrical products plants. Enterprises granted "pioneer" status (whether or not located in a free trade zone) are protected from union demands for terms of employment exceeding those specified in the Employment Act of 1955 during the period of their pioneer status (normally five years). The restriction does not apply to wages or benefits not covered by the Employment Act.

Malaysia's electronic components industry, dominated by American and Japanese firms, has been the focus of unsuccessful union organizing efforts since the late 1970s. In 1980 the Government ruled that the electronics industry was sufficiently different from the electrical industry for Malaysian law to preclude the existing Electrical Industry Workers Union (EIWU) from organizing electronics workers. In response to a complaint by the International Metalworkers Federation under ILO Convention 98, the ILO urged the Malaysian Government to "apply its legislation in a manner so as to allow representative trade union organizations" and recommended that the "legislation be interpreted in a less restrictive manner." Although there is no specific legal provision barring the formation of a separate union to represent electronics workers, the government's application of the law has in practice made it impossible to form such a union. In September 1988 the government announced that workers in the electronics industry would henceforth be allowed to unionize. In October, however, the government said that permission applied only to in-house unions. The legal basis for this restriction remains unclear.

c. Prohibition of Forced or Compulsory Labor

Malaysia is a party to ILO Convention 105 prohibiting forced or compulsory labor. Malaysia has effective legal sanctions against such abuses. Although the ILO has in the past criticized Malaysia for requiring prisoners and ISA detainees to work, Malaysia defends the practice as part of its prisoner rehabilitation program.

MALAYSIA

d. Minimum Age for Employment of Children

Employment of children is covered by the Children and Young Persons (Employment) Act of 1966, which stipulates that no child under the age of 14 may be engaged in any employment except light work in a family enterprise, in public entertainment, work performed by the government in a school or training institution, or employment as an approved apprentice. It is illegal for children to work more than 6 hours per day, more than 6 days per week, or at night. The law is effectively enforced.

e. Acceptable Conditions of Work

Malaysian wages are relatively high for its level of industrialization and higher than in all neighboring countries except Singapore. The Employment Act of 1955 sets working hours not to exceed 8 hours per day or 44 hours per week (5-1/2 days), sets overtime rates for hours in excess of those, and mandates public holidays, annual leave, sick leave, and maternity allowances for workers. Most such provisions are at least on a par with standards in industrialized countries. Minimum standards of occupational health and safety are set by law and enforced by a unit of the Ministry of Labor. Severance benefits are provided under the Employment (Termination and Lay-off Benefits) Regulations of 1980. The Employees Provident Fund (EPF) Ordinance of 1951 requires employers and employees to contribute to a fully funded retirement program. Some 90 percent of workers are covered by either the EPF or the Government's own pension plan for public servants. The Workmen's Compensation Act of 1952 and the Social Security Act provide disability and workman's compensation benefits.

There is no national minimum wage legislation, but certain classes of workers are covered by minimum wage laws: retail clerks, hotel and restaurant employees, cinema workers, and a few others, totaling approximately 140,000 workers. The effective minimum wage for unskilled labor in the urban areas is about $90 per month. Plantation work is increasingly being done by contract workers, including numerous illegal immigrants from Indonesia, in part due to a shortage of Malaysians interested in such work. Working conditions for contract workers often are significantly below those of direct hire plantation workers, many of whom belong to the National Union of Plantation Workers. Additionally, many of the immigrant workers, particularly the illegal ones, may not have access to Malaysia's system of labor adjudication.

MALAYSIA

f. Rights in Sectors with U.S. Investment

Two industrial sectors account for 90 percent of U.S. direct investment in Malaysia. The largest U.S. investment in Malaysia is in the petroleum sector. A U.S. firm has two subsidiaries operating in Malaysia; one handling offshore oil and gas production, the other refining and marketing oil products in Malaysia. Bargainable employees at both companies are represented by the National Union of Petroleum and Chemical Industry Workers (NUPCIW) which has negotiated collective agreements with management. Recently some employees of one U.S. company have sought to break away from the NUPCIW and have applied to register a separate in-house union. The Registrar of Trade Unions is investigating the claims of the rival unions. Pay and benefits at both companies are well above the Malaysian norm.

The second largest concentration of U.S. investment in Malaysia is in the electric and electronic equipment sector, especially the manufacture of electronic components (semiconductor chips and various discrete devices). Twelve U.S. electronic components manufacturers operate 16 plants in Malaysia, employing nearly 40,000 Malaysian workers. Electronics is Malaysia's largest single export. Wages and benefits are among the best in Malaysian manufacturing.

None of the U.S. owned electronics plants is unionized. There is no legal prohibition against organizing unions in the electronics industry and workers at some non-U.S. companies (mainly outside the components industry) are represented either by the Electrical Industry Workers Union (EIWU), other unions, or in-house unions. Malaysian trade union law limits a union to organizing workers in a single industry or in related industries. The Registrar of Trade Unions has in the past interpreted the law to preclude the EIWU from organizing electronic component workers. In September, 1988 the Minister of Labor announced that the government would permit formation of unions to represent electronic component workers. A National Electronics Industry Workers Union (NEW) has been formed and its pro tem committee has applied for registration as a trade union. The Minister of Labor subsequently said that only in-house unions would be permitted, but it is unclear what the legal basis for such a restriction would be.

U.S. owned companies are much less important in the electrical and consumer electronics sectors which are dominated by Japanese-owned companies. The EIWU recently won recognition as the bargaining agent for employees at a U.S.-owned plant in Kulim. Employees at a U.S.-owned plant in Muar have organized an in-house union which has been recognized by management and the Registrar of Trade Unions.

MALAYSIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		704
Total Manufacturing		329
Food & Kindred Products	4	
Chemicals & Allied Products	21	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	246	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		52
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,085

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

NEW ZEALAND

Key Economic Indicators

Millions of New Zealand Dollars Unless Specified

	1986	1987	1988
Income, Production, Employment			
Real GDP (constant 1983 prices)	34,271	34,735	34,641
Real GDP Growth Rate (pct)	2.2	1.3	-0.2
Agriculture	0.8	1.5	5.3
Fishing, Forestry, Mining	26.7	2.5	-4.6
Manufacturing	-3.9	2.3	-4.5
Electricity, Gas, Water	1.1	1.7	-0.6
Transport, Communication, Business and Personal Services	5.3	5.0	4.8
Trade, Restaurants, Hotels	-1.9	-1.2	-3.6
Construction	7.2	-0.2	9.3
Owner-Occupied Dwellings	1.8	2.3	1.8
General Government Services	-1.6	0.5	-2.0
Real per capita Disposable Income	7,884	7,641	7,534
Labor Force (000s)	1,611	1,625	1,657
Unemployment Rate (pct	4.2	4.1	5.0
Money and Prices			
Money Supply (M1)	4,059	4,958	7,302
Commercial Interest Rates (pct yr)			
Money Market Call	19.0	27.20	15.50
90-Day Commercial Bill	22.0	26.06	15.99
Five-Year Government Stock	19.7	18.22	14.43
Savings Rate (pct)(1)	13.1	11.5	11.5
Investment Rate (2)	25.5	22.2	21.4
CPI (1983 = 1000)	1,290	1,526	1,663
Wholesale Price Index (producer price 1982 = 1000)	1,304	1,400	1,480
Exchange Rate (yr-avg)(US$/NZ$)	1.93	1.87	1.61
Balance of Payments and Trade (year to June)			
Total Exports fcb	10,571.7	12,107.2	12,436.5
Total Exports to U.S.	1,646.0	1,975.9	1,836.8
Total Imports cif	11,467.0	11,800.2	11,607.1
Total Imports from U.S	1,828.0	1,739.1	1,697.6
Aid	N/A	N/A	N/A
External Public Debt (3/31)	15,595.0	21,822.0	19,269.0
Debt Service Payments (interest (on external public debt)	1,026.4	1,292.1	1,477.8
Gold and ForEx Reserves	2,667.4	7,543.6	5,554.0
Current Account Balance	-3,338	-1,996	-1,819

(1) Disposable income.
(2) Fixed capital formation as a percent of GDP.

The New Zealand fiscal year is April 1 -March 31.

NEW ZEALAND

1. General Policy Framework

New Zealand's economic resources include land which is suitable for a wide variety of pastoral and agricultural activities and forestry; gas, hydro and geothermal energy; coastal fishing; and a varied landscape and coastline which are an attraction for tourists. Dairying and sheep and cattle raising remain the primary agricultural activities. The major industries concentrate on processing primary products such as meat, hides, woolen goods, dairy products, fish, horticultural products, and forestry-based products. Secondary industries include oil refining, aluminum smelting, carpet manufacture, vehicle assembly, and numerous small scale manufacturing units.

Meat, wool and dairy products account for over half of New Zealand's export value. Other major exports include forest products, fruits and vegetables, manufactured goods and fish. Major imports include machinery, electrical equipment, transport equipment, fuels, chemicals, and textiles.

Beginning in 1985 the New Zealand Government initiated a policy of comprehensive economic reform which has transformed the nation's economy from one of the most regulated in the Western world to one that is much more market oriented. This reform has included financial sector deregulation and the free float of the New Zealand Dollar. There has also been a removal of export incentives, import licensing, farm subsidies, and a range of other industry supports, as well as a lowering of tariff barriers. This structural adjustment policy is aimed at providing improved price competitiveness and greater overall efficiency. While the rate of change is slowing, it is unlikely there will be a reversal in policy.

The process of shifting from a dependence on subsidization and protection to a determination to use resources efficiently to produce for both the domestic and foreign markets has been painful for many sectors of the economy. Economic growth has been flat over the past year and is expected to remain so in the short to medium-term. Unemployment has grown and will continue to be a problem for at least the next 12 months. The inflation rate, however, is declining from record high levels, and this augurs well for a drop in New Zealand's double digit interest rates.

2. Exchange Rate Policies

The New Zealand dollar has floated freely since March 1985. Between that time and June 1988 the New Zealand currency appreciated about 40 percent against the U.S. dollar. Although it has dropped some 13 percent since June 1988, the continued high value of the New Zealand dollar vis-a-vis the U.S. dollar makes U.S. goods and services increasingly competitive in New Zealand.

NEW ZEALAND

3. Structural Policies

The New Zealand Government's restructuring and anti-inflation policies have been painful medicine for much of the economy. Real gross domestic product (GDP) fell 0.2 percent in the fiscal year ending March 31, 1988 and may vet be revised downward. No quick turnaround is foreseen in coming months, and New Zealand will likely have to wait until fiscal year 1989-90 to return to positive growth patterns. Much of the present economic pain results from the government's tight monetary policies aimed at bringing down the rate of inflation. These policies have succeeded in reducing the annual inflation rate to 6.3 percent in June 1988 compared with 18.9 percent a year earlier.

The government uses monetary policy as a primary tool to control inflation. The reserve bank aims to maintain a constant level of primary liquidity (commercial banks' deposits held at the Reserve Bank and privately-held government securities with less than a month to maturity), largely through open market operations. The government's commitment to fund fully all public sector deficits and maturing government securities by sales of medium-term debt has ensured stringent control over the monetary base.

The New Zealand Government has recently revised its tax structure. Effective April 1, 1988 the company tax rate for New Zealand firms dropped from 48 to 28 percent, and the rate for branches of foreign firms dropped from 53 to 33 percent. The government's aim in reducing the rate was to make the tax structure more internationally competitive and encourage more foreign and domestic investment in New Zealand. Personal income tax rates have also been revised downward effective October 1, 1988. The former graduated income tax scale ranging from 15 to 48 percent was reduced to two tiers of 24 and 33 percent. In practice there is a third tier as a rebate scheme for those earning less than NZ$ 9,500. It provides the low income group with an effective tax rate of 15 percent, the same as the previous bottom rate.

The government hopes to offset the lower rates for both personal and company tax through elimination of certain deductions and loopholes. A major revenue increase, however, has come from the Goods and Services Tax, a value added tax, of 10 percent which was imposed on October 1, 1986. The lower personal and company tax rates could increase disposable incomes by up to 1.5 percent. Lower inflation levels and falling interest rates will also boost real disposable income. However, consumption and import demand may improve only gradually as further debt repayment and rebuilding of savings are expected to take precedence over consumer activity.

4. Debt Management Policies

New Zealand's overseas debt has stopped its growth trend of the 1970s and early 1980s. Total long-term foreign debt (public and private) fell from NZ$ 36.2 billion in March 1987 to NZ$ 32.8 billion in March 1988 due partly to private sector

debt repayment. A higher exchange rate also reduced the New Zealand dollar value of the foreign debt. However, New Zealand retains one of the highest debt ratios in the Organization for Economic Cooperation and Development (OECD), and official figures include only debt of one year or more. When short-term is added to that amount, total debt could reach as high as 84 percent of GDP. Net debt is estimated at about 48 percent of GDP.

The government hopes to retire NZ$ 14 billion of overseas debt by 1992 through the sale of state assets. According to the 1988-89 budget, some NZ$ 2 billion will be raised by sale of state assets this fiscal year and applied toward external debt retirement. If the assets are sold to local firms, debt will simply be transferred to the private sector as the firms borrow abroad to purchase the assets. New Zealand appears able to cope with the debt levels, and international credit rating agencies have maintained the country's credit rating. Any real easing of the debt burden may have to await an expansion of the economy, something not anticipated over the short to medium-term.

5. Significant Barriers to U.S. Exports

As part of an ongoing policy, all goods became exempt from import licensing as of July 1, 1988 except for those goods covered by industry plans. The newly-exempted goods amounted to about half of those which were still under control. By 1993, with few exceptions, all import licensing will end. Goods covered by industry development plans will be removed from import licensing control at varying dates according to the phase-out program provided in the plan concerned. In most cases removal from licensing will occur in the next few years with the final good, carpets, scheduled for removal on July 1, 1993. The only goods not yet subject to a set license-end date are adult footwear, wheat flour, apparel and some secondhand commercial ships.

The phasing out of licenses has benefited and will benefit U.S. export potential, with an important exception. Import licenses remain in effect for apples and oranges. Licenses for apples and oranges are awarded to only one importer, thus effectively limiting competition and import growth and costing U.S. exporters up to $4 million each year. Licenses are not required for imports from Australia or the Pacific Islands, and this has been effectively a license on U.S. oranges only. Oranges will be removed from licensing in 1990. Despite continuing reviews, the license on apples remains.

In regard to standards, testing, labeling and certification, U.S. poultry exports are restricted, ostensibly for health reasons. Without this barrier U.S. poultry exports could increase up to $1 million per year. A fear of infestation from external pests puts restrictions on imports of U.S. grain. A variety of sorghum not regarded as a serious pest in the United States is looked upon as a threat to New Zealand pastures. If this sorghum is present in any shipment

of grain to New Zealand, a costly sanitizing procedure is required. While this does not prohibit imports of U.S. grain, it does disadvantage U.S. exporters. Without this requirement U.S. grain exports could increase by up to $5 million.

New Zealand welcomes foreign direct investment. In most cases foreign entities can take up to 100 percent interest in New Zealand businesses. The government allows the full remittance overseas of profits and capital through normal banking channels. There are no performance requirements. Foreign investment proposals are monitored by the Overseas Investment Commission (OIC). Any foreign entity which wishes to establish a business or branch, acquire 25 percent or more of any class of share in a New Zealand company, or acquire the assets of a business where payment exceeds NZ$ 500,000 must first obtain the consent of the OIC. Investment in rural land and passive investments in real estate are not encouraged. Foreigners wishing to purchase rural land must demonstrate that the acquisition provides positive benefits to New Zealand. Rural land is defined as any land over two hectares zoned for rural purposes or farming. The exploitation of mineral deposits and natural gas and oil reserves by overseas companies is subject to special arrangements approved by the government. Other restrictions apply to the broadcast media, where foreign ownership is limited to five percent, and to New Zealand enterprises engaged in deep sea fishing where foreign ownership is restricted to not more than 29.4 percent. A stable political situation, a respect for rule of law and contracts, and an honest and efficient civil service help assure that laws and regulations governing foreign investment are enforced equitably.

6. Export Subsidies Policies

When New Zealand acceded to the General Agreement on Tariffs and Trade (GATT) Subsidies Code in 1981, the United States agreed to apply an injury test in countervailing duty cases only on a provisional basis subject to New Zealand's elimination of code-inconsistent export subsidies by March 31, 1985. In 1985 New Zealand enacted legislation to extend several export subsidy programs until 1987, with one extended until 1990. The United States therefore revoked application of the Subsidies Code and denied New Zealand an injury test in U.S. countervailing duty proceedings. Several affirmative U.S. countervailing duty determinations have been made on imports from New Zealand since it lost access to the injury test for failing to meet its Subsidies Code commitment.

7. Protection of U.S. Intellectual Property

New Zealand is a member of the World Intellectual Property Organization (WIPO), and the Paris, Berne and Universal Copyright Conventions.

The Government of New Zealand strongly endorses the protection of intellectual property and enforces equitably those laws on its books which offer such protection. This is

done to protect New Zealand innovators both at home and abroad and to encourage technology transfer. The government recognizes that New Zealand is heavily dependent on imported technology and that the country derives considerable benefit in providing intellectual property protection. The Government of New Zealand has generally supported measures to enhance intellectual property protection at multilateral organization meetings.

There have been few problems in New Zealand with infringement, counterfeiting or piracy of U.S. intellectual property in the traditional areas. In new technology U.S. firms state they have lost $8 million in computer software sales from piracy. New Zealand Government and business circles have contested this estimate. These sources admit that the government is still studying a 1986 recommendation to amend copyright legislation to specifically cover computer programs without so far enacting any legislation in this regard. However, the New Zealand Government believes strongly that software owners are not using available legal remedies under existing law.

8. Worker Rights

a. The Right of Association

New Zealand workers have unrestricted rights to establish and join organizations of their own choosing and to affiliate those organizations with other unions and international organizations. Their unions are protected from interference, suspension, and dissolution by the Government, and, in fact, have considerable influence on legislation and government policy. Unions have the right to strike. Public sector unions, however, are precluded from striking if work stoppages pose a threat to public safety. Unions freely maintain relations with international bodies and participate in bilateral exchanges.

b. The Right to Organize and Bargain Collectively

The right of labor unions to organize and bargain collectively is assumed by law. They actively recruit members and engage in collective bargaining. Sixty-one percent of wage earners are represented by unions. Mediation and arbitration procedures are independent of government control. A system of labor courts hears cases arising from disputes over interpretation of these laws. In addition the Arbitration Commission and the Mediation Service are available to handle wage disputes and assist in maintaining effective labor relations. Labor laws are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

All New Zealand workers are protected from forced or compulsory labor by law and in practice.

NEW ZEALAND

d. Minimum Age for Employment of Children

Children under the age of 16 may not be employed without special government approval and must not work between the hours of 10 p.m. and 6 a.m. These laws are effectively enforced.

e. Acceptable Conditions of Work

New Zealand enforces a 40-hour workweek, a minimum of 3 weeks' annual paid vacation for all employees, and observance of 11 paid public holidays. The hourly minimum wage is $3.00. In most cases, minimum wage recipients also receive a variety of welfare payments. The vast majority of workers earn more than the minimum wage.

f. Rights in Sectors with U.S. Investment

U.S. investment in goods producing industries in New Zealand is concentrated in the food and related products, chemicals and related products, primary and fabricated metals, electric and electronic equipment, other manufacturing, and wholesale trade sectors. Workers in New Zealand enjoy the benefits of the full range of internationally recognized worker rights. Protection of these rights is uniform across industrial sectors, and there are no export processing zones or other areas where less stringent laws or standards prevail. The structure of the trade union movement in New Zealand, which to a large extent still follows the trades-based union model, is such that most union jurisdictions cut across industrial sector lines. Contract settlements have tended to be uniform for all members of a particular union, keeping wages and working conditions similar throughout the country and across industrial sectors. This system is slowly breaking down, as the trade movement evolves toward industrial unions and the employers attempt to negotiate contracts on industry-wide bases. Within this change of the labor situation, however, the basic conditions of a strong legal defense of workers' rights and an active union movement continue.

NEW ZEALAND

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		211
Food & Kindred Products	20	
Chemicals & Allied Products	63	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	9	
Transportation Equipment	(D)	
Other Manufacturing	69	
Wholesale Trade		128
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

PAPUA NEW GUINEA

Millions of Kina Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	2,252.2	2,620.5	2,888.1
Real GDP Growth Rate (pct) (1981 = 100)	3.4	2.9	1.2
GDP by Sector		N/A	N/A
Agriculture	865.0		
Industry	662.4		
Services	909.6		
Real per capita Income	645	734	789
Size of Labor Force (thous)	1,804	1,846	1,892
Unemployment Rate (pct est)	N/A	16.5	N/A
Money and Prices			
Money Supply (M1)	254.5	276.8	300.8
Commercial Interest Rates (pct)			
Deposits	13	10.6	10.6
Loans	14.3	14.5	14.5
Savings Rate (pct of GDP)	16.9	16.9	15.3
Gross Domestic Investment (pct GDP)	23.5	23.5	30.7
Consumer Price Index (1977 = 100)	184.5	190.1	199.5
Consumer Price Index (pct chg)	5.5	3.0	5.0
Exchange Rate (US$/kina)	1.04	1.13	1.18
Balance of Payments and Trade			
Total Exports fob	914	1,079	1,136
Total Exports to U.S. cif	42.3	21.2	22.0
Total Imports fob	852	977	1,092
Total Imports from U.S.	42.3	45.0	62.0
Aid from U.S.	2.0	1.5	5.1
Aid from other Countries	276	258	N/A
External Public Debt	N/A	1,123	1,088
Annual Debt Service (paid)	262.8	256.7	326.6
Foreign Exchange Reserves	454	405	285
Current Account Balance	-180	-238	-400

1. General Policy Framework

Papua New Guinea is a country of approximately 3.6 million people. Only 38 percent of the population is literate, and about 70 percent depends on subsistence agriculture. The cash economy is based on mining and commodity exports of copper, copra, palm oil, and timber.

The government budget is financed through tax revenue (58 percent in 1986), nontax revenue (15 percent), and foreign grants (27 percent). Papua New Guinea's budget deficit has fallen slightly over the past three years. The improvement is due to an increase in nontax revenue through better collection

of fees and charges and a requirement that statutory authorities and state-owned authorities transfer a larger share of their profits to the government.

The government budget deficit was equal to two percent of gross domestic product (GDP) in 1987. It is financed through domestic borrowing, foreign commercial and concessionary borrowing. The government hopes to further reduce the deficit to one percent of GDP in 1988 through import duties on equipment for new mines and duties on imports of government agencies. Over the long-term, the government's ability to raise more domestic revenue is limited and particularly dependent on the profitability of the mining sector.

Government spending is fairly evenly divided between five functional classifications: the economic sector, infrastructure, social services, law and order, and administrative services. The government hopes to limit current expenditure by privatizing about 40 public enterprises and a reducing the size of the public service.

Monetary developments have been marked by recurring tightness in bank liquidity and pressures on interest rates. To bring down interest rates, the Bank of Papua New Guinea lowered the discount rate in August 1987 to nearly three percentage points below the then prevailing maximum rate for term deposits. The government also increased the minimum required liquid asset ratio from 11.5 to 13 percent, in order to enforce lending restraint. Total domestic credit rose 23 percent in 1985, 11 percent in 1986, and 6 percent in 1987.

About 40 percent of total bank deposits are held by a few large organizations -- the commodity stabilization funds, two large mining companies, the superannuation (retirement) funds, provincial governments, and public enterprises. These entities tend to shift their resources among domestic banks and, in the case of the mining companies, between domestic and foreign banks. The banking system is thus vulnerable to large changes in deposit liabilities.

2. Exchange Rate Policies

The exchange rate is pegged to a basket of currencies, which is based on import weights. On a trade-weighted basis, the real effective exchange rate has remained basically unchanged since a 5 percent devaluation in November 1985.

The Bank of Papua New Guinea's exchange control policy requires a tax clearance for the majority of capital remittances. Generally, current payments and repatriation of capital and profits to overseas residents are approved. A taxation clearance certificate is required if more than Kina (K) 10,000 or the foreign exchange equivalent is to be transferred in any one calendar year, or for any transfers to tax havens. The government's broad policy is that the full value of exported goods should be repatriated.

PAPUA NEW GUINEA

3. Structural Policies

The government of Prime Minister Rabbie Namaliu, elected in July 1988, is changing Papua New Guinea's tax policy. The 1989 budget is based on a shift to indirect taxation and a reduction in corporate taxes from 35 percent to 30 percent. The basic import duty will increase to 8.5 percent. The protective import duty rate, applicable to goods competing with those produced in Papua New Guinea, will increase from 25 percent to 30 percent. Excise taxes on beer, imported spirits, cigarettes, diesel, and gasoline will also rise. Personal income taxes vary according to income: those earning less than K2,400 are fully exempt from taxes and a sliding scale goes up to 45 percent for those who earn more than K15,000. Dividend withholding tax will remain at 17 percent.

Regulatory policies affecting the market for U.S. exports are mainly due to donor policies on tied development aid which specifies that the providers of equipment and services must be from the donor country.

4. Debt Management Policies

Papua New Guinea's debt service to exports ratio is expected to remain slightly above 20 percent through 1991. In 1987 the ratio of debt service to GDP was 9.8 percent. Debt service payments are projected to rise from $290 million in 1987 to $490 million in 1991. The increase will be more or less equally shared between public and private debt. Service payments on the private debt will rise throughout the period, whereas most of the public debt service increases will occur in 1988. About 80 percent of private foreign debt is linked to large projects in the mineral sector which should generate sufficient foreign exchange to service their indebtedness. The government will seek long-term foreign concessionary borrowing.

Papua New Guinea has a history of honoring debt commitments, and its relationships with commercial creditors, the International Monetary Fund (IMF), World Bank, and other international financial institutions are good.

5. Significant Barriers to U.S. Exports

The most significant barriers to U.S. exports to Papua New Guinea are not governmental, but distance, lack of direct shipping routes, and the small market. Australia's dominance of the supply lines also makes it difficult for U.S. producers to penetrate this market.

There are currently no export and import trade barriers except for tariffs, mostly levied to provide revenue; a few price controls on basic food items and petroleum products; and prohibitions on the import of certain drugs and weapons. Import certification is required for some agricultural products.

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All foreign enterprises (26 percent or more foreign ownership) are regulated under the National Investment and Development Act and are usually required to register with the National Investment and Development Authority (NIDA). Mineral and energy prospecting companies are exempt from the NIDA process and deal directly with the Department of Minerals and Energy. There are some small business operations in which foreign participation is restricted or banned. These include hunting, coastal fishing, small-scale alluvial gold mining, certain agricultural activities and livestock raising, retail trading, land transport, the manufacture of artifacts and handicrafts, and growing, processing and exporting coffee and copra.

Government policy favors joint ventures with Papua New Guineans. Despite a policy of encouraging investment, concern about the social impact of rapid economic development has led to a certain amount of government ambivalence toward processing investment applications expeditiously.

Businesses are encouraged to employ and train Papua New Guineans. Foreign enterprises must submit a proposed training and localization program to the Department of Labor and Employment. The program must indicate the company's training strategy and which expatriate positions are expected to be taken over by nationals in the first few years.

Non-resident companies are taxed at a rate of 48 percent. Corporate tax for residents will be 30 percent under the 1989 budget. Businesses are required to withhold 12 percent of payments to non-resident contractors.

6. Export Subsidies Policies

Agriculture stabilization funds and membership in international commodities organizations help smooth over fluctuations in the prices of agricultural exports. The government can grant export incentives to manufacturers in the form of waiving tax on export sales for the first seven years. Export promotion expenses qualify for double deductability.

7. Protection of U.S. Intellectual Property

Papua New Guinea has a trademarks act but is not a signatory to any of the international agreements on intellectual property. There has been little problem with infringement of intellectual property rights because of the small manufacturing base and the lack of large printing, software, and communications industries.

The Embassy knows of no loss to U.S. trade due to counterfeiting or pirating in Papua New Guinea.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Papua New Guinea.

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8. Worker Rights

a. The Right of Association

Labor unions are protected by law and are active and important in the country's economic and political life. Over 50 trade unions exist, among which the most significant are the Public Employees Association, and the two mineworkers' unions. The private sector unions are free to strike and do so on occasion. The trade union federation, the Papua New Guinea Trade Union Congress, is a member of the International Confederation of Free Trade Unions.

b. The Right to Organize and Bargain Collectively

The Constitution contains provisions assuring workers the right to engage in collective bargaining, to join industrial organizations, and to seek employment These rights are freely exercised. Labor laws and regulations are applicable uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

The Constitution forbids slavery and slave trading in all forms including forced or compulsory labor, except when the latter is imposed as a condition or sentence after due process of law.

d. Minimum Age for Employment of Children

Children under the age of 11 may not be employed outside a family relationship. Children between the ages of 11 and 16 may be employed only with parental permission, a medical clearance, and a work permit from a labor office. According to the Department of Labor, such employment is rare except in subsistence agriculture.

e. Acceptable Conditions of Work

The Department of Labor is responsible for the enforcement of laws and regulations concerning safety, health, and working conditions, and it regularly conducts industrial visits. Working hour limitations, rest periods, holidays, leave, wages, and compensation are regulated by the Employment Act of 1978. Minimum wages are established by the minimum wages board. These vary by industry and types of work, and whether or not work is performed in an urban or rural area. Standard hours of work are regulated as well and, although variable for some occupations, may not exceed 42 hours per week in an urban area or 44 hours in a rural environment. The provision of housing is a precondition for most employment. Enforcement of health and safety codes is an important focus of organized labor activity.

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Primary and fabricated metals (mining) is the only sector which has significant U.S. investment. Mineworkers enjoy the right of association and the right to organize and bargain collectively. The use of any form of forced or compulsory labor is prohibited, and 16 is the minimum age for employment in industry. The conditions of work are acceptable with respect to minimum wage, hours of work, and occupational safety and health.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Pesos Unless Otherwise Stated

	1986	1987	1988(est)(1)
Income, Production, Employment			
Real GDP (1972 pesos)	91,287	96,033	101,987
Agriculture and Fisheries	26,579	26,757	27,372
Manufacturing	21,717	23,168	24,998
Trade and Commerce	14,337	15,153	N/A
Real GDP Growth Rate (pct)	1.54	5.20	6.20
Real per capita GNP (pesos)	1,601	1,662	1,729
Labor Force (000s)	21,362	22,564	23,690
Unemployment Rate (pct)	11.8	11.2	10.6
Money and Prices			
Money Supply (M1) (yr-end)	42,657	52,091	59,380
Commercial Interest Rate (pct)(2)	17.3	13.3	15.8(3)
Savings Interest Rate (pct)	8.0	4.5	4.1(3)
Investment Rate (pct)(4)	13.3	11.1	13.0(5)
CPI (1978=100)	355.3	368.7	398.2
Wholesale Price Index (1978=100)	410.6	444.0	N/A
Exchange Rate (pesos/$)			
Official	20.386	20.567	21.40
Parallel	20.285	20.794	N/A
Balance of Payments Employment (millions of US$)			
Total Exports fob	4,842	5,720	6,665
Total Exports to U.S. cif	2,150	2,481	2,833
Total Imports fob	5,044	6,737	7,800
Total Imports from U.S. fas	1,363	1,599	1,794
Aid to the Philippines(6)	796	776	417
United States	370	229	152
Other Countries	426	547	265
External Public Debt	21,829	22,751	23,086
Debt Service Paid	2,936	3,057	3,361
Gold and ForEx Reserves	2,459	1,959	1,850
Balance of Payments	1,242	246	-31

Notes:
(1) Basically Government targets and estimates.
(2) Bank lending rates on secured loans; weighted average interest rate (WAIR) for all maturities.
(3) Actual average for January - October.
(4) Money market rates; WAIR for all types of instruments.
(5) Actual average for January - September.
(6) Bilateral official development assistance, calendar year basis.

Sources: Government of The Philippines; U.S. Department of Commerce, Survey of Current Business.

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1. General Policy Framework

The Philippine economy is continuing its recovery from the foreign exchange crisis-induced slump of the later Marcos years. After a decline of some 15 percent, the recovery began in the second half of 1986 under the government of President Aquino. Gross national product (GNP) grew by 5.7 percent in 1987 and is expected to grow by about six percent in 1988. Strong consumer spending provided much of the stimulus for last year's growth. A recovery of investment to normal levels will be necessary for continued growth. There is some evidence that the investment recovery is now underway. The inflation rate rose to 7.8 percent over the 12-month period ending September 1988. The exchange rate has remained relatively stable, depreciating from pesos 20.39 to the dollar in 1986 to pesos 21.4 in 1988.

In 1987 the Philippines enjoyed a trade surplus with the United States amounting to $882 million. U.S. imports of Philippine products ended their three-year slide in 1987, growing 15 percent to $2,481 billion. U.S. exports to the Philippines in 1987 totaled $1.60 billion. Total Philippine exports in 1987 were up 18 percent, to $5.72 billion, while imports grew nearly 34 percent to $6.74 billion, resulting in a deficit of $1.02 billion. The Philippines' $28 billion foreign debt remains a preoccupation for policymakers.

The Philippine Government has carefully modulated the money supply growth over the last two years and has been able to keep inflation well in check. The central bank uses overnight open market operations to moderate speculative pressures while short-term Treasury bills are the major instrument used to control the growth of liquidity. Reserve requirements, on the other hand, have not been adjusted in recent years. A recent decline in international reserves has led the central bank to place more emphasis on interest rates as a tool to control speculation against the Peso. Philippine monetary policy has not been detrimental to U.S. exports and has in fact encouraged imports by shoring up the value of the Peso. However, the recent tendency to maintain a high value of the peso may hurt Philippine exports and the Philippine ability to handle its debt problem.

2. Exchange Rate Policies

Commercial banks are required to make dollar purchases in the official interbank market, where the central bank has the opportunity to affect the market price. However, the banks meet a good portion of foreign exchange requirements by accepting dollar deposits. A parallel or gray market exists where traders offer dollars at a premium to those who cannot, or will not, justify their purchases under foreign exchange control regulations. The spread between the official and parallel rates, currently about two percent, is not significant enough to have a major effect on the competitiveness of U.S. exports. Nor can the Philippine peso be considered as artificially undervalued. On the contrary, most observers believe it is currently overvalued by a modest amount.

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3. Structural Policies

Since the early 1980s, the Philippine Government has implemented market-oriented economic policy reform, under International Monetary Fund (IMF) and World Bank programs. Import liberalization, a major component of this reform, has already resulted in the removal of licensing requirements and other quantitative restrictions for 1,294 products. However, continuing reform in trade and other policy areas, such as privatization and liberalization of the foreign investment regime, will be necessary for continued economic growth. Only the utilities and transportation sectors still rely on price controls, which were widespread under the previous government.

Remnants of earlier import substitution policies often result in increased imports of component parts. However, as noted above, the Philippines can point to clear progress in reducing licensing and other quantitative restrictions at a time when the country's current account remains in substantial deficit and when substantial foreign exchange must be allocated to foreign currency loan service and amortization.

4. Debt Management Policies

Due to misguided and often corrupt public investment policies of the Marcos Administration, the Philippines has accumulated a debt burden of some $28.6 billion, about 85 percent of GNP. The debt is overwhelmingly public sector (77 percent) and is generally owed to commercial banks or suppliers (66 percent).

In 1983 rising debt service payments complicated by a crisis of confidence stemming from the assassination of Senator Aquino, forced the government to suspend debt service and seek rescheduling. Since that time the Philippines has rescheduled both its commercial and its Paris Club (i.e., official creditor) debt twice. As a result, the debt service ratio has been cut to 31 percent in 1988 from the 45 percent that would have obtained without rescheduling (from 13.3 percent to 9 percent of GDP).

The Philippines has performed well under an IMF standby arrangement and a World Bank Economic Recovery Loan, implementing the market-oriented reforms mentioned above. Both institutions are satisfied that the immediate adjustment steps have been successfully undertaken and negotiations are now underway for an IMF Extended Finance Facility and a World Bank Sector Loan, which will require a long-term commitment from the Philippine Government.

5. Significant Barriers to U.S. Exports

Tariff reform was undertaken by the Philippine Government as part of a broader trade liberalization program agreed to under a 1981 structural adjustment program with the World Bank. As a result, most tariff rates were set between 10 and 50 percent and average nominal tariff rates fell from 42 percent in 1979 to 29.17 percent in 1985. In recent months, however, official

spokesmen have said the government plans to set tariffs outside the 10 to 50 percent range and provide greater protection to certain "deserving" industries.

Agricultural tariffs on products of export interest to the United States have not been reduced and many stand at the maximum 50 percent rate. Reducing tariffs to the 20 to 30 percent range could increase sales of U.S. agricultural products in the Philippines by $10 to $25 million. Although a ban on the importation of certain fresh fruits was lifted in April 1988, some elements of the Philippine Government continue to press for greater protection from apple imports.

Under the government's import liberalization program, many products may now be imported into the Philippines without prior approval from the central bank. However, clearance requirements from some government agencies still apply. Prior clearance from government agencies is no longer needed in order to open letters of credit for most imports.

Between 1981 and 1985 licensing requirements were lifted on 995 items. Under the first two-year phase of a new import liberalization program adopted by the Aquino Government in 1986, clearance requirements were removed from 1,294 additional products. The second phase of this program targets 673 more items; 104 of these are expected to be liberalized by the end of December. The remaining 571 items include products which are more sensitive (such as animal and meat products and consumer durables). In addition over 100 of these products are unlikely to be liberalized for reasons of health, safety or national security. As a result, a further relaxation of import restrictions after 1988 is uncertain. However, this will be a goal of IMF programs currently under negotiation.

New foreign bank entry into the Philippines is limited to minority participation in indigenous financial institutions. Establishing new foreign bank branches in the Philippines has been prohibited since 1948. The four foreign banks that previously operated branches in the Philippines have been allowed to remain. Although these four banks are generally accorded domestic bank status and national treatment, there are important exceptions. They are not allowed to establish any additional branches, obtain universal bank licenses or offer trust services. The share of foreign ownership of a domestic bank is expressly limited to 30 percent. This can be increased to 40 percent with presidential approval. However, such approval would not increase the 30 percent cap on voting stock.

The Philippines requires 30 percent of screen time for showing locally produced films. The foreign licensor's share of proceeds from foreign film distribution is also limited by law. The U.S. Motion Picture Exporters Association claims that imported films are taxed unfairly, and the Government of the Philippines has not yet replied to requests for adjustment. Copyright law enforcement has been ineffective. Counterfeit cassettes (tapes and movies), remain widely available. However, police raids against private establishments are carried out when requested, so the possibility for additional progress against the counterfeiters is good.

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In August 1988 the Philippine Congress passed a Generic Drugs Act which imposes new guidelines on the manufacture, prescription and dispensation of all pharmaceutical products in the Philippines. This includes a new labeling requirement that the generic name of a drug be prominently displayed above its brand name and that doctors use the generic name in prescriptions. They may continue to use the brand name as well. New restrictions have also been placed on the importation of certain pharmaceutical ingredients at times of "national emergency." Health Department officials are still working on implementation guidelines for the new law which will be crucial in determining just how damaging the law will be to U.S. interests.

The government maintains a number of investment barriers, in common with other countries in the Association of South East Asian Nations (ASEAN), including lack of national treatment for foreign corporations, equity participation limitations, export performance and involuntary divestment requirements, some forced phase-outs of foreign managerial personnel and prohibitions on land ownership. For example, a provision in the 1987 constitution requires advertising firms to reduce their foreign equity to no more than 30 percent. Other legislative proposals have called for similar foreign equity reductions in the insurance and pharmaceutical industries, but it is unclear whether these proposals will ever actually become law.

Tax discrimination exists in the cigarette industry where "foreign" cigarette brands are required to pay a 10 percent higher tax than "local" brands, even though all cigarettes are manufactured locally and use local tobacco. The government points to a 1984 GATT waiver as permitting the discrimination until the end of 1989. Pending legislation which would withdraw pharmaceutical patent protection and require a reduction of foreign equity in pharmaceutical firms would place further investment restrictions on this industry, if passed as drafted and signed into law by the President.

One element of the import liberalization program is a pre-shipment inspection of imports from some Asian countries which has been imposed to prevent false declarations of goods coming into the Philippines and an evasion of tariffs. In some cases this may make it more difficult and expensive to import. Since the appointment of a new Customs Commissioner late last year, the government has been working to make customs procedures more transparent and to minimize widely reported irregularities and corruption in the system.

6. Export Subsidies Policies

The Philippine Omnibus Investment Code of 1987 provides for several programs which benefit Philippine industry. These include tax and duty exemptions for imported capital equipment and tax credits for purchases of domestic capital equipment; tax credits based on the net local content of exports; and tax deductions equal to 20 percent of gross export sales for registered export traders.

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The Philippines agreed to eliminate its export subsidy programs when it acceded to the GATT Subsidies Code in 1985. The government pledged at that time not to increase the overall level of subsidies and, as of April 1, 1987, agreed not to extend the benefits of any existing programs to new products or producers. In addition, the Philippines agreed to phase out all of the subsidy elements contained in the Omnibus Investment Code on or before April 1, 1990.

7. Protection of U.S. Intellectual Property

The Philippines are a party to the Berne, Paris and Universal Copyright Conventions and intellectual property protection has recently received increased attention at high levels of the Philippine Government. In March 1988 the Department of Trade and Industry announced the formation of a Task Force on Anti-Piracy and Counterfeiting composed of five law enforcement agencies and a private sector intellectual property rights (IPR) advocacy group. The objective of the task force is to formulate new strategies, policies, laws, rules and regulations for appropriate branches of the government to strengthen the enforcement of Philippine copyright, patent and trademark laws.

The Philippine Congress is also considering legislation (House Bill No. 2748) that seeks to address IPR problems by creating a commission empowered to adjudicate all cases of infringement of copyrights, trademarks and patents. The Commission would investigate, impose fines on infringers, award damages and handle other aspects of enforcement now handled by other agencies or the courts. Appeals would be made only to the Supreme Court.

Nonetheless, legal procedures for the protection of intellectual property rights still lack effectiveness and resources devoted to enforcement are inadequate. The U.S. motion picture industry protests the lack of protection afforded their products in the Philippines, noting that both unauthorized public performances and videocassette priacy present barriers to successful market exploitation. U.S. companies producing or attempting to market other IPR-related products in the Philippines report some difficulties in procedures for registering a trademark or patent application with Philippine authorities. For instance, Philippine law requires two month's continuous use of a trademark before an application for its registration can be filed. Industries in the Philippines reporting the most frequent IPR violations include apparel, entertainment (the motion picture and sound recording industries), electronics (semiconductors and other electrical equipment), pharmaceuticals and motor vehicle spare parts.

Losses in the Philippines from intellectual property protection infringements in 1986, reported by 168 U.S. companies, totaled approximately $55 million. A Philippine private sector IPR advocacy group estimates that the Philippine Government annually loses an estimated Pesos 468 million ($22 million) in uncollected taxes from IPR infringers.

8. Worker Rights

a. The Right of Association

The right of workers, including public employees, to join trade unions is assured by the Constitution and freely practiced without government interference. While reliable figures on union membership are not available, about 10 percent of the nation's employed work force of approximately 21 million workers are organized into over 3,000 trade unions, not including the 2.7 million workers who are members of the National Congress of Farmers Organization. Most of the trade unions belong to relatively small federations which for the most part are members of two larger trade union groupings, the largest of which is the Trade Union Congress of the Philippines (TUCP), an affiliate of the International Confederation of Free Trade Unions (ICFTU). Politically, the TUCP takes a moderate, prodemocratic, and pro-Aquino stance.

The second largest trade union grouping is the leftist KMU (Kilusang Mayo Uno, or May First Movement) which is heavily infiltrated and influenced by the Communist Party of the Philippines (CPP). Three much smaller trade union groupings are affiliates of the Communist-dominated World Federation of Trade Unions (WFTU). The best known of these is TUPAS (Trade Unions of the Philippines and Allied Services), founded by Bonifacio Tupaz and, until recently, dominated by him and members of his family.

The KMU, the WFTU affiliates, the Federation of Free Workers (FWW) and seven or eight independent trade unions are members of the Labor Advisory Consultative Council (LACC) which together with the TUCP constitutes the worker group when the government has tripartite conferences of workers, employers, and government. Some union leaders from this group serve as paid, fulltime worker representatives in several government agencies, including social security, housing, and maritime regulation. Several union leaders are members of the national legislature. Union officials from the LACC and the TUCP serve on the worker delegation to the International Labor Organization (ILO).

Strikes are legal, including in export processing zones, (EPZ's), and they take place frequently, particularly on the part of the leftist-dominated unions. Industrial relations disputes in 1988 through November resulted in over 1.4 million man-days lost in 256 strikes. The Aquino Administration pursued legal efforts to resolve disputes and rejected calls for "no-strike laws" despite the disincentive that strikes pose to needed investment. On the local level, there have been several cases of violence provoked by unions or management. Sometimes the police or military have been called in to break up illegal strike barricades, and on several occasions their attempts to enforce the law have resulted in violent clashes with strikers. The Department of Labor and Employment (DOLE) has had modest success in averting strikes by encouraging labor-management cooperation and by expanding the mediation and conciliation service provided by the National Conciliation and Mediation Board (NMCB) established by President Aquino under Presidential Decree No. 126.

b. The Right to Organize and Bargain Collectively

Labor's right to organize and bargain collectively is provided for in law and strongly supported by President Aquino. During the first 20 months she was in office, the number of collective bargaining agreements in force increased from 2,029 to 3,112. In the same period, the number of registered unions increased by about 20 percent.

It is an unfair labor practice to dismiss a union official or a worker who is trying to organize a union. Nevertheless, employers sometimes attempt to intimidate workers by threats of firing or closure. There is a history of industrial relations violence in the Philippines which worsened as a consequence of the insurgency and counterinsurgency. Unionists have been threatened, beaten, and killed. The CPP/NPA, rival unionists, and hired gunmen have all been implicated in such violence, as have civilian defense groups and rightwing elements of the military, whose involvement in such violence has been sharply condemned by the Government. The ILO's Committee on Freedom of Association, at its November 1988 meeting, considered "serious allegations," made by the International Union of Food and Allied Workers' Associations on behalf of the KMU-affiliated National Federation of Sugar Workers, of military or paramilitary repression of trade union activity in Negros Occidental Province. The allegations included reports of violent murders, woundings, arbitrary arrests and detentions, and destruction or damage to rural workers' houses and property from 1987 to mid-1988. The Philippine Government's response to the Committee described the machinery in place to investigate alleged human rights violations but did not respond to all the allegations. The committee considers the case still open and will reexamine it when the government supplies further information. AI reported that more than 100 union members, organizers, and political workers with apparent links to the left had been killed in the last year. There were no completed prosecutions in 1988 of those accused of violence against union officials or members.

The DOLE, through the NLRC, has a quasijudicial system of hearing and adjudicating workers' claims. It is usually slow, but no slower than other elements of the courts and the bureaucracy. With DOLE Secretary Drilon's emphasis on mediation and conciliation, the NMCB has helped reduce the high number of illegal work stoppages. The Secretary has said he prefers this method and other voluntary arbitration schemes to a "strike ban," which he regards as unjust and unnecessary.

Labor legislation is applied uniformly throughout the country, including in the export processing zones.

c. Prohibition of Compulsory or Forced Labor

The government prohibits forced labor, and there are no reports of it being practiced.

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d. Minimum Age for Employment of Children

The Constitution contains prohibitions against employment of children below age 15, except under the sole responsibility of parents or guardians and then only if the work does not interfere with schooling. It 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 to be appropriate, but provides that in no case may persons under 18 years of age be employed in an undertaking which the Secretry of Labor has determined is hazardous or deleterious in nature.

The most serious violations of child labor laws occur in piecework or contracting out of embroidery and other garment-related production. The Aquino Administration has made a sustained effort to investigate and reduce violations of child labor laws outside of the agricultural sector. However, there have been few successful prosecutions of violators of the law and 00000e observable success in reducing the severity of the problem.

e. Acceptable Conditions of Work

The minimum wage in nonagricultural enterprises is $3.33 per day. The agribusiness minimum is $2.81 per day. Despite the minimum wage laws, substantial numbers of workers (mostly laborers, janitors, messengers, drivers, and clerk-typists) earn less than the law stipulates. The average wage of workers in large cities is close to the minimum wage, and in the industrial sector the average wage is considerably above it. In rural areas, wages often fall below the minimum wage.

The standard workweek is 48 hours. The law mandates a full day of rest per week. Employees with more than one year on the job are entitled to five days of paid leave.

A comprehensive set of enforceable occupational safety and health standards is in effect, and provisions regulating hazardous or harmful working conditions are relatively advanced. However, enforcement of minimum wage and health and safety regulations is severely hampered by too few professional labor inspectors. Nonetheless, compliance with health and safety rules is a DOLE priority, and regular inspections take place. In 1988 the DOLE opened a modern occupational safety and health center and began a 5-year training program in occupational safety and health.

f. Rights in Sectors with U.S. Investment

The largest U.S. investments in the Philippines are in the petroleum, chemicals and related products, food and related products, and other manufacturing (consumer goods) sectors.

Worker rights conditions in these and all other goods producing sectors with U.S. investment tend to be better than those in Philippine industry taken as a whole. U.S. Embassy

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contacts with the Department of Labor and Employment, American Chamber of Commerce of the Philippines, the Trade Union Congress of the Philippines, and the Manila office of the Asian-American Free Labor Institute (AAFLI) have revealed very little in the way of dissatisfaction with the performance of companies with U.S. investment regarding respect for worker rights.

Firms with U.S. investment are extensively organized by all of the unions within the broad spectrum -- left to right -- of local labor organizations. Nearly all of these firms have concluded collective bargaining agreements. The labor relations scene in companies with U.S. capital is at least as active (if not more so) as that in industry generally. This is caused less by a negative attitude of the employers than by workers' greater expectations regarding pay, benefits, and fair play in dealing with U.S.-Philippine joint venture management.

Labor-management relations in firms with U.S. investment have attained over years a high level of sophistication. These firms have acquired a reputation for being responsible and responsive in dealing with the work force. Members of the American Chamber meet regularly in the organization's industrial relations committee to consult and to coordinate labor-management relations activities.

The prevailing lowest wages in companies with U.S. capital are generally much higher than the legal minimum wage. Employees in most of these firms work a 40-hour week with premium pay for overtime. All of the largest firms with U.S. participation apply U.S. standards of worker safety and health, mainly because of the requirement of their U.S. insurance carriers.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		101
Total Manufacturing		602
Food & Kindred Products	222	
Chemicals & Allied Products	213	
Metals, Primary & Fabricated	14	
Machinery, except Electrical	-4	
Electric & Electronic Equipment	91	
Transportation Equipment	-2	
Other Manufacturing	67	
Wholesale Trade		84
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		787

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

SINGAPORE

Key Economic Indicators

Millions of Singapore Dollars Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1985 market prices)	39,605.1	43,095.3	47,404.8
Real GDP Growth Rate (pct)	1.8	8.8	10.0
GDP by Sector			
Manufacturing	10,185.5	11,650.5	12,972.0
Construction	3,149.1	2,854.2	2,702.0
Commerce	6,518.9	7,336.7	8,194.0
Transport/Communications	5,297.0	6,173.5	6,604.6
Financial/Business Services	10,629.3	12,304.9	12,830.0
Income per capita (000s S$)	15,293.1	16,561.6	17,887.0
Labor Force (000s)	1,228.6	1,251.7	1,277.0
Unemployment Rate (mid-yr)	6.5	4.7	3.3
Money and Prices			
Money Supply (M1) (yr-end)	9,821.3	11,030.5	11,200.0
Commercial Interest Rates (yr-end)			
Prime Lending Rate	6.1	6.1	6.1
3 Months Fixed Deposit	2.9	2.9	2.9
6 Months Fixed Deposit	3.0	3.1	3.2
12 Months Fixed Deposit	3.3	3.6	3.8
Savings Rate (pct of GNP)	39.8	40.8	40.0
Investment Rate (pct of GNP)	36.8	38.2	38.0
Consumer Price Index (June 1982-May 1983 = 100)	102.3	102.8	104.2
Wholesale Price Index (1985 = 100)	84.9	91.3	90.5
Exchange Rate (S$/US$1)	2.2	2.1	2.0(1)
Balance of Payments and Trade			
Total Exports fob	48,986.0	60,266.0	75,900.0
Total to U.S. fob	11,447.4	14,695.0	18,000.0
Total Imports cif	55,545.0	68,415.0	85,000.0
Total from U.S. cif	8,317.3	10,062.1	13,000.0
Aid from U.S. (IMET)	0.1	0.1	0.1
Aid from Other Countries(2)	N/A	N/A	N/A
External Public Debt (yr-end)	746.0	459.7	323.2
Annual Debt Service (paid)	400.2	293.8	105.0
Total ForEx Reserves	28,157.5	30,441.7	36,800.0
Balance of Payments	1,208.6	2,328.5	2,000.0

Notes:
(1) The 1988 exchange rate has been estimated by averaging data for the first three quarters of the year.
(2) Singapore does not receive bilateral aid, but benefits from donors' ASEAN-wide efforts.

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1. General Policy Framework

Singapore is a small island nation with 2.65 million people and no natural resources, but does have a good natural harbor and excellent human resources. Since its founding as a British colony in 1819, Singapore has found an economic niche as a shipping center and entrepot port, taking advantage of its strategic location and resourceful people. The dearth of physical resources and tiny domestic market have led the Government of Singapore, which gained self-rule in 1959 and independence in 1965, to develop an outward looking, export-oriented economic policy framework that encourages two-way flows of trade and investment. It has become a major center for light manufacturing, financial and other services, and oil refining, primarily by offering a politically stable location, pro-free enterprise and corruption free regulatory environment, developed infrastructure, low cost, efficient, and non-ideological labor, and significant tax concessions.

Singapore's rapid economic growth -- averaging about 9 percent in real terms for the first twenty years of independence (1965 to 1985) -- created a tremendous demand for imports, including those from the United States. Unemployment fell sharply during this period and a growing number of foreign workers was needed to supplement the country's indigenous workforce. Large flows of foreign investment capital more than offset current account deficits and Singapore was able to steadily build a sizable foreign exchange reserve position. During the late 1970s and the first half of the 80s, the Government of Singapore adopted expansionary fiscal policies through development expenditures, especially for infrastructure and housing development. It also encouraged increases in real wages and non-wage benefits, and improved its provision of social services for the general population, raising living standards.

By 1985 Singapore -- still with a largely labor intensive economy -- had become uncompetitive. This loss of competitive edge, combined with a decline in investment and a sharp fall in world commodity prices, which in turn affected the service industries, caused an 18-month recession that shocked a nation and government that had come to assume steady economic growth was a fact of life. Shaken by the recession, the government moved quickly to restore competitiveness by imposing a draconian two-year wage restraint policy, as well as cutting taxes for both individuals and businesses.

Spurred by rising demand for its exports, Singapore's economy recovered modestly in 1986. Exports accelerated sharply in 1987 and maintained their momentum in the first three quarters of 1988. Complemented by rising domestic demand, this export boom has led to strong overall growth and a consequent rise in imports, including imports from the United States.

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In addition to restoring competitiveness, the recession scare has caused the government to step up its efforts to restructure the economy by shifting from labor intensive industries to capital intensive, higher value added activities and to services. The government is now much more selective in its efforts to attract foreign investment and has begun to encourage and assist more mature industries to relocate to lower labor cost neighboring countries. The government has had some success in reorienting, but will require many years and have to overcome a variety of obstacles, the most serious being the continued shortage of manpower at all skill levels.

So far in this decade, the Singapore Government has run a large cumulative budget surplus, including four consecutive years (1983 to 1987) of surpluses that averaged 5.5 percent of gross domestic product (GDP). The government has traditionally been quite conservative fiscally, usually overestimating expenditures and underestimating revenues. The sharp tax cut stimulus it imposed to deal with the 1985 recession eventually led to a small budget deficit in FY1987-88. Prospects for the current fiscal year are for a return to surplus. Development expenditures have remained low as infrastructure projects have been largely completed, while the current double digit rate of economic growth has swelled revenues.

One structural factor in the Singapore economy that is particularly significant is its tremendously high savings rate. Compulsory savings in the form of employer and employee contributions to the Central Provident Fund (the Singapore equivalent of our Social Security Fund) have formed the base of a national savings rate that has averaged about 40 percent of GDP this decade. These savings have helped fund the Government of Singapore's heavy investment in housing and infrastructure. But as investment projects have been completed, total national investment has fallen behind savings, leading to current account surpluses. Over the medium-term the government will need to stimulate domestic consumption to bring savings and investment back into line.

With such a small economy and no deficit to finance, Singapore's money and bond markets, although not underdeveloped, are not very active. The Government of Singapore issues treasury bills and government bonds with the primary intent of having an investment vehicle for financial institutions' reserve requirements and providing some liquidity to the money market. Accordingly, as of mid-October 1988 the government had only Singapore $35.4 billion ($17.7 billion) in outstanding paper. The government's monetary policy has also been quite conservative. Its reserve requirement is that 24 percent of financial institutions' deposit liabilities must be held in liquid assets -- a figure that has not been changed since the government restructured the requirement in early 1987 when it reactivated its government securities market. The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money market operations to influence interest rates and money supply growth. Its operations during the past year have involved use of swaps and interbank markets to mop up excess liquidity in the domestic banking system. Singapore is such a small and open economy that its money

supply and domestic interest rates are primarily determined by international rather than local conditions. As Singapore is so dependent on trade, effective management of its exchange rate -- keeping the Singapore dollar strong -- is the government's most important tool to control inflation. There are no controls on capital movements, a condition that limits the scope of the government to maintain an independent monetary policy. For example, the government does not set targets for monetary aggregates.

2. Exchange Rate Policies

The Singapore dollar's exchange rate is determined by an MAS-managed, market related float against an undisclosed trade-weighted basket of currencies. The MAS uses currency swaps and direct purchases or sales of foreign exchange as tools to keep the Singapore dollar within the desired trading range. The U.S. dollar is its intervention currency. The Singapore dollar's value versus other currencies is determined by the cross rates of its daily fluctuations against the U.S. dollar in the international foreign exchange markets. The Singapore dollar is freely convertible, so only a single rate exists. Forward quotations against the world's major currencies are available in the very active local foreign exchange market.

The Government of Singapore contends, and most observers including the International Monetary Fund (IMF) agree, that the Singapore dollar grew relatively overvalued during the first half of the 1980s due to the government's policy of maintaining a strong currency to keep inflation low. However, as labor costs rose and the Singapore economy became uncompetitive and went through the 1985-86 recession, the government limited the appreciation of the Singapore dollar vis-a-vis the U.S. dollar to about 20 percent from the U.S. dollar's February 1985 peak, reflecting its previously overvalued level. More recently the decline of the U.S. dollar against major currencies has been reflected in appreciation of the Singapore dollar. The Singapore dollar, valued at $2.05 to the U.S. dollar in mid July 1988, now stands at $1.94.

During the first four years of this decade the United States ran a trade surplus with Singapore, but a subsequent structural change -- unrelated to the exchange rate -- in the United States-Singapore trade relationship has led to growing U.S. bilateral trade deficits. Specifically, after a number of years of heavy inflows of U.S. investment capital into production facilities (which earlier contributed to Singapore's large trade deficits with the United States), subsidiaries of U.S. companies are now exporting large volumes of products back to their parent companies (which has led to Singapore's more recent bilateral trade surpluses). As long as the U.S. economy continues to expand, corresponding exports to the United States from these U.S. subsidiaries will maintain Singapore's bilateral trade surplus.

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3. Structural Policies

Singapore maintains an open, free trade orientation supported by moderately expansionary macroeconomic policies that play a neutral to positive role in attracting U.S. exports. Prices for virtually all products, from food to electronic goods to interest rates, are market determined. The government maintains tariffs on a few imports and significant excise taxes on cigarettes, alcohol, petroleum products, and motor vehicles. There are no non-tariff barriers on foreign goods. U.S. exports can enter the market and compete freely. In fact Singapore's imports of U.S. goods rose 35.2 percent, to $4.9 billion, in the first nine months of 1988 compared to the same period last year. However, because of the unusually dominant role played by local subsidiaries of U.S. multinational companies in the United States-Singapore trade relationship (described above), our trade deficit with Singapore actually grew during this period from $1.5 billion to $1.8 billion.

Singapore's prudent and conservative fiscal and tax policies have had a basically positive long-term effect on it as a market for U.S. exports. While more stimulative policies might have boosted U.S. exports to Singapore in any one period, its long-term economic health and development have made it a steady and reliable market. Indeed the government's fundamentally sound economic management is a primary reason U.S. companies have invested so heavily here. For example, in the wake of the 1985-86 recession the government introduced a package of cost cutting measures and tax incentives. It reduced corporate and maximum individual tax rates from 40 to 33 percent; cut by 60 percent employers' central provident fund contributions (from 25 to 10 percent of an employee's salary); and increased the property tax rebate to 50 percent. In addition to encourage further investment, investment allowance incentives were liberalized; offshore income earned by investors from funds managed in Singapore was made tax exempt; incentives for venture capital projects were improved; the expansion incentive scheme was modified to allow companies an effective tax rate of as low as 10 percent upon expiry of "pioneer" status (usually 7 to 10 years but varies with each case); and tax incentives were introduced for investment in research and development and oil trading. All these "supply side" measures have helped foster Singapore's economic recovery and its growth rate of 8.8 percent in 1987 and an expected 10 percent for 1988.

4. Debt Management Policies

Singapore's external debt is negligible, a mere $230 million at the beginning of 1988. That figure required service payments of $147 million in 1987, resulting in a debt service ratio of 0.4 percent. Singapore's external debt peaked in 1982 at $709 million. The country has had current account surpluses for most of this decade, and inflows of investment capital have facilitated overall balance of payments surpluses for practically its entire independent history. As a result, Singapore's reserves have grown sharply in recent years. From

$7.5 billion in 1981, Singapore should have a reserve position of about $18.4 billion by the end of 1988, a very high level.

5. Significant Barriers to U.S. Exports

With the exception of two areas addressed below, we are not aware of any barriers in Singapore to U.S. exports of goods. Import licenses are not required, customs procedures are minimal, the standards code is reasonable, and the government actively encourages foreign investment. All major government procurements are by international tender.

One area where the U.S. Government has identified several, albeit minor, problems has been in services. The government telecommunications monopoly precludes competition, thereby prohibiting introduction of innovative information services offerings such as U.S.-owned airline reservation systems. The government also has banned the issuance of new licenses for setting up insurance companies and opening bank branches. The expansion of automated teller machines is also restricted. U.S. accountants, lawyers, doctors, and architects have experienced problems in obtaining local certification of their professional qualifications.

A second area is the case of cigarettes, a product on which the government during 1987-88 increased both import duties and local excise taxes. The import duties now imposed on foreign cigarettes, relative to the excise taxes collected on locally manufactured cigarettes, put the U.S. products at a competitive disadvantage in the market place. This result runs counter to prior public announcements by the government that it intended to equalize the tax burden on domestic and imported cigarettes.

6. Export Subsidies Policies

The Government of Singapore does not subsidize exports. However, it does actively promote exports, as the Singapore economy is extremely export-oriented and trade is its life blood. Currently, two countervailing duty cases filed by U.S. firms are undergoing adjudication. The government offers significant incentives to attract foreign investment, which because of the small size of the domestic market, is almost all in export-oriented industries. It does not use any of the usual policy tools to promote exports, such as multiple exchange rates, preferential financing schemes, export promotion funds, or import cost reduction measures.

7. Protection of U.S. Intellectual Property

Singapore is not a signatory to any of the principal intellectual property rights accords. However, in January 1987 following close consultations with the U.S. Government, the Singapore Government enacted strict, comprehensive copyright legislation that significantly strengthened the Singapore Government's ability to prosecute copyright violators.

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Highlights of the law include:

- relaxing burden of proof requirements, so that copyright owners may more easily press charges for infringement;

- enacting stronger civil and criminal penalties; and

- codifying possession of copyrighted material as an offense in certain cases.

The Singapore Attorney General's office is currently drafting similar legislation designed to protect patents and trademarks.

The enforcement system under the copyright legislation relies heavily on copyright owners to combat infringement. Industries or individuals discovering pirating press claims through civil or criminal courts; the Commercial Crime Division of the Ministry of Law -- when presented with evidence -- investigates copyright violations and then refers the case to the Attorney General's office for a decision on prosecution. In this new framework, U.S. manufacturers have set the pace in cracking down on copyright violations. Most pirating operations have shut down or moved out, and while limited clandestine sales of pirated material continues (notably software programs), Singapore's new law and strict enforcement are proving quite successful.

The Singapore Government also recently began a highly publicized campaign against sales of counterfeit designer watches and leather goods. Pending trademark and patent legislation should further strengthen enforcement. In terms of overall impact, government intellectual property policy is positive and improving. Singapore wants to encourage high tech industry and its strong new Intellectual Property (IP) laws are now serving to help attract U.S. investment. Judging from the positive government response to manufacturers who uncover illegal pirating operations, we estimate that losses to U.S. firms from counterfeiting are minimal and decreasing.

8. Worker Rights

a. The Right of Association

Singapore's Constitution gives all citizens the right to form associations (Article 14), including trade unions. Parliament may, however, impose "such restrictions as it considers necessary or expedient in the interest of the security of Singapore or any part thereof, public order or morality." The right of association is delimited by the Societies Act and labor and education laws and regulations. Labor unions can be formed so long as they are not detrimental to the national security, public order, or morality. In practice Communist labor unions are not permitted.

The National Trades Union Congress (NTUC) is a member of the International Confederation of Free Trade Unions (ICFTU); the Asian and Pacific Regional Organization (APRO) of the ICFTU

has its headquarters in Singapore. Singapore is a member of the International Labor Organization (ILO) and has ratified ILO Convention No. 98 on the Right to Organize and Collective Bargaining but has not ratified Convention No. 87 on Freedom of Association and Protection of the Right to Organize.

The national work force is comprised of about 1.2 million workers, of which some 210,000 are organized into over 80 trade unions. Some 70 of these, including about 90 percent of the unionized workers, are affiliated with an umbrella organization, NTUC, which has a close relationship with the government. Though there is no formal link between the PAP and the NTUC, the second Deputy Prime Minister serves as its Secretary General, and about a dozen NTUC officials were elected to Parliament as PAP candidates in the September elections.

Some government critics characterize the close association between the People's Action Party(PAP), the NTUC, and the government as being designed to further the government's political and developmental goals rather than strictly to promote workers' interests. For example, the NTUC enunciated a new policy in October that the unionists who actively support opposition parties should not remain officials of the NTUC because the NTUC and the PAP share the same ideology. In the implementation of the policy, officials of NTUC-affiliated unions who had run as opposition parliamentary candidates were removed from their union positions. Two members of a NTUC taxi cooperative who ran on the opposition ticket were forced to leave the cooperative. An NTUC employee who ran as an oppositionist was fired. The NTUC actions were limited to those who were opposition candidates and has not extended to those who merely supported the opposition.

Many observers in Singapore note that the PAP, the government, and the NTUC have a symbiotic relationship, especially because Singapore is in effect a one-party state. Workers have the legal right to strike, but strikes are rare. In the only recent strike (in 1986), NTUC officials, including PAP members of Parliament, joined the picket line. Reasons given for the paucity of strikes include a cultural aversion to confrontation on the part of the workers, the fact that there is a functional institutional framework for resolving industrial disputes, and a widespread belief that the Government would intervene in activities which would reflect badly on Singapore's attractiveness as an investment center. Another probable factor is the fact that from 1980 to 1988 wage increases averaged approximately 7 percent while the GDP grew at an average annual rate of over 6 percent, thus boosting real average incomes. The NTUC, the government, and business leaders point to this record as evidence that the National Wage Council structure fairly accommodates the interests of all concerned parties.

Several unions have been founded outside of the NTUC. Catering staff and pilots for Singapore Airlines and Chinese language teachers, for instance, have formed unions outside of the NTUC framework. They function freely and have a reputation for aggressively representing members' interests. As the

economy shifts away from manufacturing -- where unionization has traditionally been common -- towards the service sector, the NTUC has launched a campaign to increase union membership in the services sector, among female employees, and among parttime employees.

b. The Right to Organize and Bargain Collectively

The Trades Union Act authorizes the formation of unions with broad rights, albeit with some narrow restrictions--such as prohibitions on the unionization of uniformed employees and the holding of union office by persons with criminal records. Collective bargaining is a normal part of management-labor relations in Singapore, particularly in the manufacturing sector. On the average, collective bargaining agreements are renewed every two to three years. As the wage increase figures cited above indicate, labor has fared relatively well at the bargaining table. This result may be attributable in part to Singapore's small population and resultant tight labor supply. Workers with higher skill levels that are in relatively short supply have a record of job-hopping if they are dissatisfied with their workplaces. The government attempted to deter job-hopping in 1988 by proposing a tracking plan, whose services would be made available for a fee to potential employers, but the proposal met with little interest from the private sector. The government seeks to make Singapore highly competitive in international trade and, as part of that effort, strives continuously to upgrade the skills of workers.

The ILO's Committee of Experts on the Application of Conventions and Regulations, at its 1988 session, discussed the Singapore Government's reluctance to introduce amendments to bring its legislation excluding certain conditions of employment from collective bargaining into conformity with the provisions of Convention 98 because "such action might endanger the balance and harmony that reign in industrial relations that have long been based on harmony and mutual trust." The government also pointed out that it is current practice to consult workers on these aspects of conditions of employment when necessary. While taking note of these views, the Committee urged the government to ensure that the legislation be amended so as to give workers the possibility of negotiating on a voluntary basis all the aspects of their conditions of employment. The Committee also requested the government to indicate the measures it envisages taking to encourage and promote the development and utilization of collective bargaining with a view to regulating the terms and conditions of employment of workers in enterprises where there are as yet no unions.

Labor laws and regulations are enforced uniformly throughout Singapore.

c. Prohibition of Forced or Compulsory Labor

Singapore law forbids the use of forced or compulsory labor, and such labor is not found in Singapore.

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d. Minimum Age for Employment of Children

The government enforces the employment act which sets the minimum age for the employment of children at 12 years of age.

e. Acceptable Conditions of Work

The Singapore labor market offers relatively high wage rates and working conditions consistent with accepted international standards. Singapore, however, has no minimum wage or unemployment compensation. Because of a continuing labor shortage, wages have generally stayed high, and the unemployment rate at about 3 percent. In 1988 the government continued implementation of a flexible wage program wherein labor and management in private companies agree to set bonuses based on the annual profitability of the companies as well as on the companies' international competitiveness. Because of Singapore's booming economy in 1988 and the consequent high demand for labor, the "flexiwage" system has not resulted in a loss of real income for workers.

The government enforces comprehensive occupational safety and health laws. Enforcement procedures, coupled with the promotion of educational and training programs, have reduced the frequency of job-related accidents by a third from the early 1970s to the early 1980s. The average severity of occupational accidents has also been reduced.

Because of the domestic labor shortage, over 100,000 foreign workers were employed in Singapore as of September 30, 1988. Most are unskilled labor and household servants. The government controls the numbers of foreign workers directly through immigration regulations and indirectly through levies on firms hiring foreign workers. The government officially encourages the employment of Singaporeans over foreign workers and exacts a levy on persons and firms hiring foreign workers. Other employment, social insurance, and safety regulations are applied without discrimination against foreign workers. Foreign workers face no legal wage discrimination, but the concentration of foreign workers in low-skilled jobs and the extra cost for employers in the form of levies for hiring foreign workers suggest that they are in general paid less than Singaporeans. There are no labor unions composed of foreign workers, and Singaporean labor unions do not recruit foreign workers as members. Some human rights groups have charged that household servants, especially Filipina maids, are subject to illegally long work hours as well as occasional mistreatment and confinement in the households where they are employed. In March the Philippines imposed a ban on household servants working abroad in an effort to secure better working conditions for them. However, the Government of the Philippines has included Singapore among a number of countries to which Filipino household servants are permitted to go to work.

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f. Rights in Sectors with U.S. Investment

U.S. investment in Singapore is concentrated in the financial, petroleum, electronic equipment, and other manufacturing sectors. Workers in those sectors, including employees of U.S. firms, are unionized and enjoy rights equal to, if not greater than, those of their counterparts in non-U.S. companies in Singapore. Employees in U.S. firms enjoy high wages and safe working conditions. In November 1988 the government announced new measures to reduce the number of foreign workers in Singapore. Employer federations are protesting the decision, saying the new policies will drive up already high wages and exacerbate an already acute labor shortage

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		579
Total Manufacturing		1,493
Food & Kindred Products	22	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	-3	
Machinery, except Electrical	208	
Electric & Electronic Equipment	965	
Transportation Equipment	61	
Other Manufacturing	(D)	
Wholesale Trade		150
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,222

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Billions of New Taiwan Dollars (NTD) Unless Noted

	1986	1987	1988(est)
Income, Production, Employment			
GDP (current prices)	2,744	3,098	3,332(1)
Real GDP (1981 prices)	2,488	2,796	2,981(1)
Real GDP Growth (pct)	10.6	12.4	6.6(1)
Real GDP by Sector			
Agriculture	135	141	148(2)
Industries	1,166	1,333	1,375(2)
Manufacturing	958	1,097	1,137(2)
Others	208	236	238(2)
Services	1,139	1,264	1,426(2)
Real per capita Income (NTD)	126,328	142,733	150,700(1)
Labor Force (000s)	7,945	8,183	8,227(2)
Unemployment Rate (pct)	2.66	1.97	1.85(2)
Money and Prices			
Money Supply (M1b)	1,138	1,568	2,038(3)
Comm'l Interest Rate (pct)	5.0-9.5	6.25-8.75	6.25-8.75(4)
Savings Rate (pct)	37.68	38.52	35.27(1)
Investment Rate (pct)	17.81	18.93	20.43(1)
CPI (1986 = 100)	100.00	100.52	101.50(5)
WPI (1986 = 100)	100.00	96.75	95.21(6)
Exchange Rate (NTD/$)			
Official	37.65	31.59	28.48(7)
Unofficial	37.85	31.53	28.50(7)
Balance of Payments and Trade ($ millions)			
Exports fob	39,789	53,538	61,647(1)
Exports to U.S.	18,995	23,637	23,976(8)
Imports cif	24,164	34,957	49,992(1)
Imports from U.S.	5,416	7,629	13,503(8)
External Public Debt	3,829	2,273	1,800(9)
Gold and ForEx Reserves	47,623	76,748	74,000(10)
Balance of Payments	16,517	19,723	12,502(11)

Notes:

(1) Estimated by the Directorate General of Budget, Accounting and Statistics.
(2) Derived from extrapolation on basis of figures for the first three quarters.
(3) Based on Central Bank assumption of 30 percent growth in M1b.
(4) Assume that interest rates remain at the present level through the end of the year.

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(5) The Consumer Price Index (CPI), rose 0.49 percent in the first quarter. The growth rates in the next two quarters were 1.27 percent and 1.23 percent. Assuming that the growth rate in the fourth quarter is 1.2 percent, the CPI for all of 1988 will be about one percent higher than for 1987.
(6) The decline in wholesale prices leveled off from minus 4.71 percent to minus 0.11 percent in the first eight months of 1988. The Wholesale Price Index (WPI) rose 0.42 percent in September. Assuming that the increase is speeding up but is still less than one percent a month for the last three months of 1988, the WPI for all of 1988 will be 1.59 percent lower than for 1987.
(7) Average exchange rates are calculated by averaging end of month figures for the year. Rates at the end of the last three months of 1988 are estimated at 28.5, 27.5 and 27.5.
(8) From unofficial AIT/T estimates based on historical patterns and recorded performance for first three quarters of 1988.
(9) Taiwan repaid about $1.5 billion in 1987, leaving outstanding external public debt at $2.3 billion. Due to the decline in principal, repayment flows have also dropped In the first half of 1988 repayment was only $139 million. Assuming that repayment in the second half of the year remains small, total 1988 repayment is estimated in the $400-500 million range.
(10) Gold and foreign exchange reserves at the end of August 1988 were about $76 billion. Assuming that efforts to drive out speculative capital are sufficient to balance capital flows for the remainder of 1988, the stock will be unchanged by the end of the year.
(11) From AIT/T Balance of Payments report (TAIPEI 3267).

1. General Policy Framework

Taiwan remains very much an export-oriented economy, despite having done much since 1986 to redress its large trade surplus. Prior to 1986 low interest export loans, tax rebates, import barriers, an undervalued currency, and foreign exchange controls all encouraged exports, protected domestic industries, and discouraged imports.

A mounting trade surplus since 1986, in particular a surplus with the United States, compelled Taiwan to make several important policy changes: revalue the currency, promote capital flow, reduce import barriers, and encourage purchase of U.S. goods. Between September 1985 and December 1987 the value of the New Taiwan Dollar (NTD) versus the U.S. dollar rose 42 percent from NTD40.55/$1 to NTD28.55/$1. In mid-1987 Taiwan removed all restrictions on foreign exchange transactions arising from trade in goods and services. The ceiling on non-trade related outward remittances was raised to $5 million per year per account while inward remittances were capped at $50,000 per year. Movement of amounts above these ceilings are subject to central bank approval.

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Taiwan began cutting import tariffs five years ago, but the pace and magnitude of the cuts accelerated in 1987 when tariffs on more than 3,600 (of a list of 4,500) import items were cut by one-third to one-half. The highest nominal tariff rate is now 50 percent and the average nominal rate is under 13 percent (compared to 30 percent two years ago). The effective tariff rate (trade weighted import tariff net of tax rebates) fell from 14.4 percent to 6.9 percent during the same period. In 1988 tariffs on another 331 items, including 52 requested by the United States, were cut. The authorities have announced plans to reduce the average nominal tariff rate to less than 10 percent by 1990. A harbor construction surcharge of four percent of the value of imports was reduced to 0.5 percent in August 1987 and applied equally to exports.

In addition Taiwan has taken a number of other actions to reduce its trade surplus. Nontariff barriers such as import permits and visas have been reduced. Export performance requirements for foreign-owned companies were abolished in 1986. Low interest export loans were also terminated in that year. The list of export items eligible for tax rebates has been reduced drastically: by 500 in 1987 and 900 in 1988. The number of officially sponsored "Buy American" missions to the United States has increased in the last two years. Taiwan's Export-Import Bank started a program last year to provide low interest loans to U.S. exporters to Taiwan. Limited free space at Taipei's new World Trade Center has been made available to fourteen U.S. state government agencies to promote bilateral trade and investment. A free trade show (USPRO) for U.S. manufacturers, the first such event, was held in December 1988. U.S. businesses responded favorably and over 300 firms participated. A second USPRO is planned for June 1989.

But much remains to be done. As our fourth largest trading partner, Taiwan runs the second largest trade surplus (after Japan) with the United States. Based on U.S. Department of Commerce statistics, Taiwan is projected to run a $15.5 billion trade surplus (excluding $2.8 billion in central bank gold purchases) with the United States in 1988 (down from $17.4 billion in 1987). Taiwan's foreign exchange holdings, now around $74 billion, are the second highest in the world. Its continuing, albeit lower, trade surplus will further increase its foreign exchange reserves. While tariffs have been cut on many items, they remain prohibitively high for certain commodities, agricultural goods in particular. To assist Taiwan in reducing its bilateral trade surplus with the United States, representatives of the American Institute in Taiwan (AIT/T) and of Taiwan are conducting a continuous dialogue on Taiwan's tariff and nontariff barriers, import of U.S. agricultural products, protection of U.S. intellectual property, and U.S. participation in major public investment projects here.

The 42 percent appreciation of the NTD in the last three years has forced the pace of structural change in Taiwan's economy. Some manufacturing of labor-intensive products has moved offshore to take advantage of lower labor costs

elsewhere. Exports of low technology products have declined while those of higher technology goods are rising. But while the NTD rose against the dollar, it has fallen against the yen and a host of major European currencies. As a consequence of relative exchange rate movements and an active export diversification program, the share of exports to these areas has increased while that to the United States has fallen.

In past years Taiwan has generally followed a conservative balanced budget fiscal policy. This ended with fiscal year (FY) 1986, which ended June 30, 1986, when Taiwan projected a small deficit of NTD30.7 billion ($900 million), or 7.6 percent of the NTD405.7 billion ($19.2 billion) budget for the fiscal year.

In their attempt to stimulate domestic consumption and investment and reduce the trade surplus, the authorities have cut corporate and personal income taxes as well as import tariffs. The size of the planned deficit accelerated to NTD74.9 billion in FY1988, 15.5 percent of the budget, and to NTD138.9 billion or 24.4 percent of the budget in FY1989. Perhaps because of the innately conservative approach to fiscal matters in Taiwan, the authorities consistently tend to anticipate large deficits but realize much smaller ones. For example, in FY1987 the planned deficit was NTD 52 billion or 12 percent of the budget. However, actual revenues were higher and expenditures lower than planned and the resulting deficit was only NTD 7.9 billion, a mere 1.9 percent of actual expenditures. If the past is any guide, planned 1988 and 1989 deficits will likely fall short of their budgeted level.

Taiwan's banking sector is 95 percent owned or controlled by the Taiwan authorities. Through the central bank, the authorities control money supply via adjustments in the reserve requirement and the discount rate. The mounting trade surplus inflated net foreign assets in the mid-80s. As money supply (M1b) growth accelerated from 12 percent per annum in 1985 to 51 percent in 1986, 38 percent in 1987, and 30 percent by mid-1988, reserve requirement and discount rate mechanisms became increasingly ineffective as instruments of monetary policy.

As a consequence, the central bank has greatly expanded open market operations via issuance of certificates of deposit (CDs) and savings bonds in the last two years. By the end of 1985, outstanding treasury bills, CDs, and savings bonds totalled NTD105 billion. By 1987 the outstanding stock had increased more than tenfold to NTD1,186 billion. However, a high level of general price inflation has not followed in the wake of this high rate of increase in the stock of money. Currency appreciation and stable world commodity prices (especially of petroleum which is the key import commodity for Taiwan's economy) has helped hold down the prices of tradable goods. At the same time, the presence of excess liquidity in the economy has led to soaring prices for non-tradable assets such as real estate and domestic securities.

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2. Exchange Rate Policies

From the early 1960s to 1985, the NTD/dollar exchange rate was basically fixed at 40:1. Taiwan's growing trade surplus brought upward pressure on the NTD. The currency started its rapid rise in value after the Plaza Meeting in September 1985 in which the authorities decided to allow market forces to play a greater role in determining foreign exchange values.

The central bank can determine the transaction weighted dollar/NTD exchange rate for the trading day by intervening in the interbank market through actual or dummy transactions carried out by its surrogates (the Bank of Taiwan and the International Commercial Bank of China). The transaction weighted exchange rate then becomes the next trading day's central rate. Using this mechanism, the authorities allowed a gradual fall in the NTD/dollar rate, i.e. an increase in the value of the NTD versus the dollar. About one-third of the 42 percent appreciation of the bilateral rate since September 1985 took place in 1986 and the other two-thirds in 1987.

As Taiwan's burgeoning foreign exchange reserves reached $62 billion, the financial authorities loosened foreign exchange control significantly in July 1987. Foreign exchange transactions arising from trade in goods and services were totally liberalized. The annual ceiling on non-trade outward remittances was raised to $5 million per year per account (a firm or individual); however, the ceiling on inward remittances was held to a mere $50,000. Amounts above these caps may be approved only by the central bank. During financial services talks with the United States in August 1988, Taiwan announced plans to further liberalize the operations of foreign financial services firms in the domestic market.

Taiwan's currency is not freely convertible in world foreign exchange markets despite the fact that Taiwan is now a major world trading power and has accumulated foreign reserves of a magnitude surpassed only by that of Japan. The NTD can be traded only in Taiwan and only Taiwan's central bank can intervene to affect its exchange rate. Therefore, while central banks of the Group of Seven (G-7) countries may exercise multilateral intervention to support one currency or another, the exchange value of the NTD is determined primarily in the local market and often with heavy central bank intervention.

3. Structural Policies

Prices for most commodities are set largely via market mechanisms. However, while Taiwan is a "pricetaker" on world markets for most imports, final prices are distorted by cartel arrangements in the domestic distribution system. It is estimated that state-run enterprises supply one-third of gross national product (GNP) and the authorities consequently have the power to influence prices for key commodities such as power, transportion, cement, and steel. Domestic and overseas official procurement is by open tender, restricted tender, or

negotiation. Open tenders are usually used to solicit foreign bids and require at least three bidders. Restricted tenders may be limited to prequalified bidders and the price comparison procedure mandates at least two bidders. Some bids are restricted to local suppliers.

Taiwan has steadily cut taxes during the past two years in order to encourage investment and domestic consumption. The corporate income tax was lowered from 35 percent to 30 percent in 1985 and to 25 percent in 1986. The income tax rate for the highest income bracket was reduced from 60 percent to 50 percent in FY1986 ending June 30, 1986.

Import duties have also been cut. The average nominal tariff rate has declined from 30 percent in early 1985 to 28 percent in late 1986, 18 percent in late 1987, and 12.8 percent in 1988. Tariff rates on 331 commodities were reduced an average of 40 percent effective November 1, 1988 for one year. The financial authorities are currently conducting an extensive review of the tariff structure prior to submitting a general reduction package to the legislature in the spring of 1989. The authorities have announced plans to reduce the average tariff rate to less than 10 percent by 1990.

The tax rebate system designed to encourage exports by repaying import taxes on inputs to exports has gradually been phased out. By the end of 1987, about 60 percent of 2,400 eligible import items had been removed from the rebate program. Harbor construction surcharges, formerly imposed only on imports at a four percent rate, were reduced to 0.5 percent in August of 1987 and applied equally to exports. In 1986 export performance requirements for foreign investment were abandoned and low interest rate loans for exports suspended.

Taiwan actively promotes foreign investment with special emphasis on capital-intensive and technology-intensive industries. However, the agricultural sector is closed to foreign investment as are the power generation and mining industries. Access to the services sector is restricted, although controls are gradually loosening.

Earnings repatriation was greatly freed by a relaxation of foreign exchange controls in mid-1987. Tax treatment of foreign firms is essentially the same as that applied to local firms. Advertising and special promotions for beer, wine, and cigarettes are restricted to limits specified under a bilateral agreement.

4. Debt Management Policies

Taiwan is not so much burdened with too much debt as with too much money. At its peak in 1982, Taiwan's external debt amounted to $8.3 billion. By the end of 1985 the total had fallen to $6.1 billion. The debt service ratio (debt service/exports) was 6.1 percent in 1985. The large trade surplus caused the authorities to order an acceleration of debt repayment by state enterprises in 1986 and 1987. As a

consequence, external debt stood at a mere $2.5 billion by the end of 1987. Because of the large repayment flow, the debt service ratio fell only slightly to 5.3 percent. Taiwan no longer has any official connection to international monetary agencies like the International Montetary Fund and the World Bank, although it has maintained its membership in the Asian Development Bank. Large foreign exchange reserves and a continuing trade surplus have made it unnecessary for it to continue to borrow foreign funds. Foreign currency needs for major infrastructure projects can be met through domestic budget allocations and foreign currency loans from state-owned banks. Private businesses do borrow from foreign commercial banks, many of which are interested in establishing or expanding operations here.

5. Significant Barriers to U.S. Exports

In general Taiwan has tended to use tariffs rather than non-tariff barriers to protect domestic industries from imports. The average nominal tariff rate is under 13 percent and rates on some items, particularly agricultural and fishery products, run as high as 40 to 50 percent. The tariff burden is exacerbated by application of local commodity taxes to the CIF (cost, insurance, and freight) price plus tariffs and harbor surcharges. As a consequence, the effective tax rate on imported goods is often much higher than the nominal tariff rate alone would suggest.

Taiwan maintains an extensive import licensing system which classifies imports into almost 27,000 categories for licensing purposes and has six grades of licensing requirements. Of these, only some 43 percent can be imported without a license. Where licenses are required, the importer must frequently first obtain the authorization of any number of relevant agencies. Licenses or "approvals" are required for most agricultural products, the import of some of which is tightly controlled or effectively banned. Wheat flour, distilled spirits, and animal offals are examples of this last. Import licenses for fruit are granted subject to administrative control and only after arbitrary CIF values are assigned by the local authorities. Chicken imports are banned. Limits on imports of turkey parts and the ban on whole ducks will be removed in 1990.

In the banking sector, branches and representative offices of foreign banks are permitted in Taiwan. However, they are not accorded national treatment with respect to the scope of business permitted and are largely confined to commercial banking business. The authorities have recently promised to permit foreign banks to engage in savings and trust business once revisions to the current Banking Law are approved in 1989 by the Legislative Yuan. The authorities have recently raised the single customer loan limit for foreign banks but retain a definition of capitalization that does not permit foreign banks to base local business activity on parent firm assets. As a consequence, the ability of foreign branches to take local currency deposits and make local loans is severely restricted.

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The authorities have recently agreed to permit the local issuance of domestic currency charge cards although all clearing operations are monopolized by a semi-official processing center.

Taiwan agreed in 1986 to allow two foreign life and two foreign property insurance firms per year, to be licensed to do domestic business. U.S. insurance firms are forbidden to invest in domestic real estate although the restriction on investment in the local stock market was recently relaxed. Proposed revisions to the Insurance Law would lift the annual cap on new licenses, allow joint ventures with domestic non-insurance firms, and permit mutual insurance firms to do business here for the first time.

Non-Chinese language films were formerly subject to a discriminatory entertainment tax which was recently reduced to approximately the rate applied to Chinese language films. Imports of non-Chinese language films are limited to eight prints and are also restricted to four showings on the same date per municipality. U.S. film makers complain that the combination of these restrictions, continuing and widespread video piracy, and the proliferation of MTV (for "Movie Television") houses that show videos to individuals or small groups for a per-person fee prevent them from capturing significant box office receipts, particularly for highly popular new films.

Foreign firms may not hold seats on the local exchange nor may foreign firms or individuals invest in the stock market except via four closed-end mutual funds. The authorities recently ended a freeze on securities house licenses and will permit up to 40 percent foreign equity participation provided that each foreign pa ner (which may be a subsidiary of the same holding company) be restricted to a 10 percent share. Branches of foreign securities houses are permitted in principle but forbidden in practice for an indefinite period.

An aviation dispute over rights to self-handle cargo was temporarily resolved in May 1988 when a U.S. airline was granted this ability on a six-month trial basis. The six-month period passed without incident, and the U.S. airline has been informed that the arrangement will be allowed on a permanent basis.

In the shipping area, U.S. carriers are seeking inland trucking licenses, permission to operate container terminals, increased access to Keelung Harbor, and completion of repairs to a Kaohsiung Harbor berth whose 12-month delay has prevented both U.S. carriers here from moving to better facilities and making full use of expanded container fleets. Despite an ongoing U.S. Federal Maritime Commission (FMC) Section 15 investigation (and the threat of Section 19 retaliation

against Taiwan's shippers in the United States), the authorities continue to refuse to allow U.S. shippers to own and operate domestic trucking businesses, both increasing shipping costs and reducing control over their own operations. Progress on the container terminal licensing issue has been slow but may be satisfactorily concluded in the near future. U.S. shippers suffer from discrimination in favor of Taiwan flag carriers in terms of access to berths in busy Keelung Harbor and have repeatedly complained to AIT/T and FMC on this point. Finally, after 12 months of delay, a technical analysis of the extent of damage to Berth 118 (caused by a Taiwan flag carrier during a storm) will be initiated soon and may result in the initiation of repairs in the next several months. Until these are completed, both of the U.S. carriers are prevented from moving into new facilities and making full use of their large investments in larger container ships.

In the area of standards and certifications difficulties are greatest for agricultural goods. The authorities routinely test imports while local products are rarely if ever tested. Very low E. Coli standards are set for imported meats, although Taiwan has recently agreed to accept the U.S. Department of Agriculture certificate of wholesomeness for poultry. Standards for imported feed corn and cereal corn are high. The authorities determine the purity of imported fruit juices using an amino nitrogen test, a purity standard almost unique in world agricultural trade. Registration procedures for pharmaceutical and certain medical equipment imports are both complex and time consuming. Labeling requirements for imported beer, wine and cigarettes have been criticized as impractical and costly to implement. State monopoly controls on domestic sales have recently been loosened, but there remain strong emotional and cultural sensitivities to the market inroads made by foreign cigarettes in Taiwan.

Taiwan actively promotes foreign investment with special emphasis on capital and technology intensive industries. The agricultural and mining sectors are closed to foreign investment. While investment in the services sector is subject to various restrictions, greater foreign participation is gradually being permitted. Firms with 45 percent or more foreign investment are free from nationalization for 20 years. In fact, however, no foreign owned or controlled firm has been nationalized in the past 40 years and U.S. investors have never filed an Overseas Private Investment Corporation (OPIC) insurance claim on this basis in Taiwan. Repatriation of earnings and capital is approved for approved investments. In practice relaxation of foreign exchange controls in July 1987 lifted most barriers to repatriation of profits for all foreign owned or controlled firms. Capital gains from increased land values cannot be taken out of Taiwan, but the authorities are currently planning to remove this restriction as well. Tax treatment of foreign firms is essentially the same as that accorded local firms. There are currently no countertrade requirements imposed on either public or private sector transactions. Official procurement is divided into domestic and overseas components. Both must be carried out in accordance with local laws. Procurement can be made by open

tender, restricted tender or negotiation. Open tender bids are usually used to solicit foreign bids and require at least three bidders. Under a restricted tender, bidding may be limited to prequalified bidders. Restricted tenders require at least two bidders. Special authorization for negotiated purchases is occasionally granted in cases where there is a sole supplier or where the need is urgent. In principle open tenders are open to competitive worldwide bidding. Local rules stipulate that all public enterprises and public administrative agencies procure locally if the goods and services can be manufactured in Taiwan, if acceptable substitutes are available locally, or if the price of local products is not more than five percent higher than the CIF import price plus tariffs and harbor taxes.

Customs clearance can be a time-consuming and costly process. Shipments are held up until a large and often indeterminate number of "chops" or approvals have been placed on shipping and customs documents. The usual means of overcoming the problem involves hiring one of a vast number of customs brokers to expedite the process. Routine cases often include disputes over customs classification or valuation, delays in processing, and excessive zeal in prosecuting minor discrepancies in documentation. For agricultural goods, import "permits" are required which specify a CIF value and _ad valorem_ tariff rate at the time of issuance. However, customs officials can and do adjust this value -- often upward -- when shipments actually arrive.

6. Export Subsidies Policies

The authorities subsidize indirectly exports of rice and sugar through production incentives, i.e., guaranteed purchase prices. The authorities guarantee the purchase of about one-half of the farmer's rice crop at a set price. The remainder sells on the open market. Taiwan's rice exports are sourced from the authorities' stocks. Current policy encourages reduced acreage and supply/consumption parity. Producers of fruit, poultry, and livestock receive assistance with packaging, storage, and shipping via marketing cooperatives and farm associations.

The tax rebate system designed to encourage exports by repaying import taxes on imported inputs has gradually been phased out. By the end of 1987, about 60 percent of 2,400 eligible import items had been removed from the rebate program. Harbor construction surcharges, formerly imposed on imports only at a four percent rate, were reduced to 0.5 percent in August of 1987 and now apply equally to exports. Export performance requirements for foreign investment ended in 1986 and low interest rate loans for exports suspended. A 0.0015 percent tax levied on exports finances the activities of the official China External Trade Development Council (CETRA) which mounts a variety of export promotion activities both domestically and abroad.

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7. Protection of U.S. Intellectual Property

Taiwan's intellectual property rights (IPR) regime has improved significantly in recent years with revisions of the copyright, patent and trademark laws. In addition a Fair Trade Law is being considered by the local legislature. Nonetheless, problems remain in the interpretation or coverage of some of the new provisions, in enforcement, and in restrictions on certain rights, notably copyright protection for translations of foreign works. The difficulty in obtaining adequate protection is increased by Taiwan's inability to join any of the commonly recognized international conventions on IPR protection.

The 1985 revision of Taiwan's copyright law was a major step forward. It increased the number of protected categories from 4 to 17, included computer software for the first time, and lengthened the term of protection to a minimum of thirty years. The revised law left unclear, however, how the new terms of protection would apply to works that previously had received only 10 years of protection, notably motion pictures and sound recordings. U.S. and Taiwanese authorities are continuing discussions on the application of the new law to pre-1975 works in these categories.

Enforcement of copyright protections remains a concern. Most recently, a local company published a pirated edition of the Encyclopedia Britannica. This edition is based upon a Chinese version published in the People's Republic of China, and is thus a politically sensitive issue. Recently, the case was decided in favor of the U.S. firm and its local representative and the violating firm found guilty under local criminal law. Pirating of computer software and of videotapes is rampant and illegal cable television showing pirated works a growing problem.

In the past year numerous "MTV studios" (for Movie Television) have appeared. These largely unlicensed businesses show videotapes of motion pictures without compensation to the copyright holders. The U.S. motion picture industry believes the advent of MTV's is responsible for a 30 to 50 percent drop in their earnings in Taiwan last year. Little significant action has been taken against MTVs to date beyond an attempt to regulate their construction and location. New rules were promulgated in late April 1988 which essentially legalized MTVs based on a number of conditions, including respect for copyrights. The question of the appropriate copyright authorization for the videos which are the stock in trade of the MTVs revolves around the question of whether they engage in "public performance" of the tapes or not. A recent lower court found that they did not and U.S. firms will continue to mount enforcement efforts based on violation of mechanical (reproduction) rights while the case is appealed.

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Taiwan's revised copyright law provides translation right protection only for Chinese nationals, arguing in part that a 1903 agreement later incorporated into the Bilateral Treaty of Friendship, Commerce and Navigation specifically permits Taiwan compulsorv translation rights for U.S. works. AIT has proposed a bilateral copyright agreement which would extend translations rights to American authors and held negotiations with Taiwan authorities on this in October 1988. Further useful discussions took place in January 1989.

U.S. concerns about Taiwan's 1986 Patent and Trademark Law revision remain essentially unchanged from the 1987 National Trade Estimate Report. In trademarks, the lack of a defined discovery process and evidence code impedes successful infringement prosecution. In patents, the main issues remain hi-tech piracy, compulsory licenses and reversal of burden of proof for imported products covered by process patents. AIT has proposed a bilateral agreement on industrial property protection based on the Paris Convention which would help resolve these issues. Taiwan has provided a counterproposal to AIT's initial draft and is currently awaiting a U.S. response.

AIT submitted in April 1988 a proposed bilateral agreement on mutual repositories for microorganisms. A Budapest Convention-based agreement on protecting such items is under consideration.

AIT will propose a bilateral agreement for the protection of semiconductors in the near future.

Problems with "knock-off" products continue in Taiwan. To some extent, these problems would be rectified by the passage of a proposed Fair Trade Law. Taiwan's Legislature, however, is concerned with a number of non-IPR-related provisions of the draft law and has been debating it for over a year. Recently the Taiwan judicial system set a precedent for convicting "pass-off" offenders based on other local laws. It remains to be seen if this helpful finding will withstand appeal.

Pirating of new technologies is a problem in Taiwan, but U.S. industry sources note a general improvement in attitudes of the Taiwan authorities and local industry in favor of increased IPR protection. Theft of operating system software is a problem. Unauthorized copying of applications software is widespread. In general the authorities have been fairly cooperative in bringing punitive actions against offending firms. Recently, Taiwan's Computer Manufacturers Association increased its efforts to police export applications in order to protect member business interests. Biotechnology is quite new to Taiwan and we are unaware of any infringements in this area as of yet. Satellite signal piracy is increasingly common and exacerbated by the fact that Taiwan is a major manufacturer of the needed equipment.

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Costs to U.S. industries of IPR infringement are difficult to estimate and we have no corroborating evidence for figures supplied us by U.S. firms. However, the motion picture industry has estimated that video piracy, MTVs, and restrictions on screenings cost it a total of about $25 million per year in lost revenues. A 1986 International Trade Commission survey reported that U.S. firms estimated worldwide revenue losses in the areas of publishing, computers, and electronics due to enfringement in Taiwan at some $750 million in lost sales per year.

8. Worker Rights

a. The Right of Association

Labor's right of association is delimited by laws and regulations which require the approval of the authorities to establish unions. Labor unions are free to draw up their own rules and constitutions. These, however, must be submitted to the authorities for review as to whether they are in accord with relevant laws and ordinances. A union may not be officially certified until the authorities have approved these documents. Unions may be dissolved by the authorities if they do not meet legal requirements for their certification or if their activities disturb public order. Civil servants, teachers, defense industry workers, and administrators acting on behalf of employers are prohibited from organizing unions. Public employees particularly guard their political views for fear of jeopardizing job benefits or having promotional opportunities curtailed.

Labor discontent resulted in the Kuomintang's (KMT - Nationalist Party) unexpected 1986 election loss of two labor constituency seats. Furthermore, the lifting of martial law in July 1987 allowed workers greater latitude for organized labor activities. As a result, the number of labor disputes has dramatically risen over the last two years, causing the authorities to place greater emphasis on resolving these conflicts. A cabinet level Council for Labor Affairs was created in 1987 to implement and oversee labor laws and policies.

Since the lifting of martial law, past constraints on union organizations appear to be easing to some degree. Whereas previously almost all union leaders were members of the ruling KMT, the ruling party monopoly over the labor movement no longer is assured. Democratic Progressive Party (DPP) and Labor Party organizers have made important inroads into organized labor as Taiwan's workers have grown increasingly restive over salary issues and working conditions. In the last two years, company workers have sometimes rejected KMT or management-endorsed union slates. Others have formed "friendship associations" to serve as alternatives to sanctioned KMT-controlled unions.

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Due to the lifting of restrictions formerly imposed on labor under martial law and a concern for labor's potential political role, the authorities in 1988 moved to clarify laws regarding workers' right to strike. Revisions to Taiwan's labor disputes law, which became effective in June, recognize labor's right to strike but place serious restrictions on it. Both labor and management are forbidden from taking actions that could disrupt "working order" when either mediation or arbitration is in progress. Stiff penalties may be levied should no-strike/no-retaliation clauses be violated, although the authorities have thus far appeared reluctant to exercise these sanctions fully. Regardless of legal limitations placed on the right to strike, workers have struck or staged slowdowns with increasing frequency. Workers of different companies are for the first time banding together to establish emergency funds in anticipation of future strikes or lawsuits.

Article 34 of the Labor Union Law permits unions to affiliate with international labor organizations, provided that such affiliation is approved by the union membership and by the authorities. The Chinese Federation of Labor, the only legal union federation on Taiwan, is affiliated with the International Confederation of Free Trade Unions.

b. The Right to Organize and Bargain Collectively

As of June 1988, 2.07 million workers, or approximately 39 percent of Taiwan's paid employees, belonged to 2,758 unions. Under the Labor Union Law, employers may not refuse employment to, dismiss, or otherwise unfairly treat workers because they are union members. However, there have been occasional reports of antiunion discrimination in several disputes.

Laws governing union activities have equal application within Taiwan's export processing zones.

Collective bargaining is provided for under the Collective Agreements Law but is not mandatory. Only about 280 collective agreements, representing 12 percent of the 2,400 medium and large enterprises in Taiwan, were in effect as of June 1988. The other enterprises have no such agreements. Legal restrictions on the free exercise of the right to strike and provisions for involuntary mediation or arbitration seriously weaken the practice of collective bargaining on Taiwan.

c. Prohibition of Forced or Compulsory Labor

Taiwan does not allow forced or compulsory labor, and there have been no reports of the practice.

d. Minimum Age for Employment of Children

The minimum age for employment is 15, and interaction between the law stipulating this and a compulsory education law effectively keeps the level of child labor to a very low level.

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e. Acceptable Conditions of Work

The Taiwan Labor Standards Law, promulgated in 1984, was "enacted to provide a minimum standard for labor conditions, protect workers' rights and interests, and promote social and economic development." About 3.5 million of Taiwan's 5.26 million paid workers, mostly in blue collar jobs, public utilities, construction, agriculture, transportation, and communications fall under its purview. The law has enjoyed limited success in several areas, and there is a growing sentiment that it should be revised. The authorities plan to extend the coverage of this and other labor laws to protect the rights and interests of other workers.

By law the workweek is limited to 48 hours (8 hours per day, 6 days per week) with certain provisions for overtime. Taiwan has a legislated basic wage which is currently approximately $282 per month. The average manufacturing wage is well over $500 per month. Most large firms provide their employees with allowances for transportation, meals, housing, and other benefits which can amount to another 60 to 80 percent of base salary. There are minimum standards for working conditions and health and safety precautions. Unemployment insurance is being studied and may be offered to a small segment of workers in a pilot program.

Efforts on the part of the authorities to increase workers' awareness of their rights through union education programs and the establishment of complaint channels appear to be bearing fruit, as manifested by an increasing number of legal suits filed against employers by workers.

Despite the establishment of the Council on Labor Affairs, many provisions of labor legislation have not been enforced because the number of inspectors is far too small to ensure regular checks on compliance. There are 190 inspectors for over 200,000 enterprises in Taiwan. Thus far, the Council has concentrated its limited resources on monitoring working conditions and provisions for legally mandated retirement funds in state enterprises and larger private companies. Inspections of small and medium-sized businesses are infrequent and action is rarely taken unless a worker complains formally to the authorities. Further, since many companies are small, family-owned operations employing relatives who will not report violations, actual adherence to the hours, wage, and safety sections of various labor laws is hard to document and is thought to be minimal.

f. Rights in Sectors with U.S. Investment

Cumulative U.S. investment in Taiwan at the end of 1987 was estimated at $2.3 billion. About half was invested in the electric and electronic equipment sector. About one-quarter of the investment is in the chemicals and related products sector, of which the petrochemical industry is the most capital intensive. Labor conditions in these two sectors are discussed below.

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When foreign companies began investing in the production of electric and electronic equipment some twenty years ago, the sector had been targeted for development into a model industry in all aspects, including labor relations. U.S. companies in the industry were cognizant of this and their workers have enjoyed all the rights stipulated by law. Employees of such companies are free to join unions, but legal unions are company or plant unions. There is no industry-wide union for the electric and electronic equipment sector, although there is a regional cross-industry union in the industrial city of Taoyuan (near Taipei) where many U.S. electric and electronic equipment manufacturers are located.

The extent to which these plant unions bargain collectively with management varies from company to company. In some cases labor and management negotiate a collective agreement that covers all workers. In other cases management often signs standardized individual work contracts with each worker which specify conditions of work. The plant union is often looked upon as a consultant which advises, rather than confronts, management on labor matters. Since Taiwan has only a 1.8 percent unemployment rate and production workers are increasingly scarce and likely to move on to other employment if conditions are not to their liking, management is increasingly willing to be accommodating.

The basic or minimum wage in Taiwan is now New Taiwan Dollar (NTD) 8,130 per month ($289 at the current exchange rate of NTD28.09/$1.00). This mandated floor wage is lower than actual average compensation at all U.S. companies in this sector. Entry level compensation (basic wage plus fringe benefits such as meals, transportation, insurance, and in some cases dormitory accommodation) at these U.S. companies generally exceeds the minimum wage by a few hundred NTD. A standard industry practice of giving two months bonus every year adds another 17 percent to base pay, raising total compensation for each worker in the industry to a range of NTD10,000 to NTD15,000 a month. The Labor Standards Law defines a regular work week as 8 hours a day, 6 days a week for a total of 48 hours per week. Overtime rates have to be paid for work above the daily and weekly ceilings and the total number of permissible overtime hours per month is subject to limits for female and male workers. A normal schedule at U.S. electric and electronic equipment plants varies from 40 to 48 hours. The manufacturers also pay for compulsory labor insurance which provides worker hospitalization, disability, severance, and pension benefits. The industry is a generally low-risk, low polluting one. The main danger lies in contact with lead used in soldering. The companies comply with local requirements for regular testing of soldering workers to determine the level of lead in their blood.

The chemicals and related products sector is much more capital intensive than electronics manufacturing. Workers here have the same right to form and join unions under the Labor Standard Law. There is no industry-wide union although the China Petroleum Workers Union at the state-run China Petroleum Company is the largest single union on the island

with 20,000 members. Workers belong to company unions. The method of negotiations between management and unions varies from company to company. Some bargain collectively for a group contract that covers all workers for a certain period of time. Others negotiate continually to address labor problems as they arise. Forced or compulsory labor is unknown in the industry. There is no child labor. Women workers also seem to be a rarity in this industry. Petrochemical companies generally offer an excellent compensation package which reflects the tight general labor market and the industry's high capital-labor ratio.

Because of the technology involved, workers in this industry tend to have vocational and technical education. In addition companies offer training for new employees. Entry pay at NTD13,000 to NTD15,000 per month ($463 to 534) far exceeds the legal minimum wage of NTD8,130. It is not unusual for workers with several years of experience to earn NTD20,000 to NTD30,000 per month, substantially higher than the NTD15,000 to NTD16,000 average for the manufacturing sector. It is standard industry practice to pay workers for more than 12 months a year regardless of the profitability of a company. There is an additional bonus when a company does turn a profit. The companies are eager to satisfy workers for fear of losing them to competitors. The health and safety of the working environment varies according to product line. Manufacture of some petrochemicals requiring precision instruments tends to offer clean, safe working environments.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-14
Total Manufacturing		983
Food & Kindred Products	29	
Chemicals & Allied Products	273	
Metals, Primary & Fabricated	20	
Machinery, except Electrical	181	
Electric & Electronic Equipment	379	
Transportation Equipment	43	
Other Manufacturing	58	
Wholesale Trade		161
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,130

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of U.S. Dollars

	1986	1987	1988(est)
Income, Production, Employment			
GNP (current prices)	40,855	47,124(est)	56,667
GNP per capita (current prices)	776	879(est)	1,039
GDP by Sector (pct) (current pcs)			
Agriculture	19.1	17.1(est)	16.7
Manufacturing	21.7	22.6(est)	22.6
Wholesale and Retail trade	16.3	17.1(est)	18.1
Services	14.0	14.1(est)	13.8
GNP Constant (1972) Prices	15,403	17,159(est)	19,428
Gross Fixed Capital Formation (current prices)	8,956	10,717	N/A
Labor force (000s)	28,040	28,940	29,553
Unemployment Rate (pct)	6.8	6.8	6.4
Money and Prices			
Money Supply (M1)	4,068	5,150	6,077
Commercial Prime Rate (pct)	13.51	11.50	11.50
Producer Prices (1976 = 100)	168.4	178.4	194.5
Consumer Prices (1976 = 100)	197.7	202.6	211.7
Exchange Rate ($/baht)	26.27	25.71	25.30(est)
Balance of Payments and Trade			
Total Exports fob	8,884	11,663	15,810
Exports to U.S.	1,607	2,168	2,938
Total Imports cif	9,188	13,004	19,447
Imports from U.S.	1,314	1,618	2,421
Balance of Trade	-304	-1,341	-3,637
Earnings from Tourism	1,421	1,946	2,490
Remittances of Overseas Workers	796	840	N/A
Current Account Balance	248	-530	-1,739
Net Capital Movements	432	825	N/A
Overall Balance of Payments	1,278	707	1,581
Net International Reserves	4,259	5,372	7,200
External Public Debt	11,015	12,957	12,800
Annual External Debt Service	2,397	2,586	2,629
Debt Service Ratio (pct)	20.1	16.9	12.5

Notes:

Leading import items from U.S., 1987 (million of dollars): electrical components and parts (389.1); aircraft and spacecraft (362.6); synthetic resins, rubber & plastic (55.2); cotton and cotton waste (47.1); organic chemicals and related products (45.6); telecommunications equipment (45.4); parts of office machines (42.0); precious stones (30.1).

THAILAND

1. General Policy Framework

Royal Thai Government economic development policies are based on a competitive, export-oriented, free market philosophy. Exports have been and will continue to be the engine behind Thailand's rapid growth. The success of these policies is evidenced by Thailand's real gross domestic product (GDP) growth rate, which reached seven percent in 1987 and is estimated to have exceeded 10 percent in 1988. Since overcoming the serious fiscal and trade imbalances of the mid-1980s, the Royal Thai Government has deliberately pursued a policy of encouraging diversification toward export-oriented light industries and increased reliance on tourism. The government welcomes long-term foreign investment and provides promotional assistance through the board of investment. In recent years 80 percent of the projects approved by the board of investment have involved the production of goods for export.

The fiscal performance of Thailand's central government showed marked improvement in both fiscal year (FY) 1987 and FY1988. As a result of a cautious policy on expenditures and unexpectedly strong growth in revenue collections, the cash deficit of the national (central) government was reduced from 2.6 percent of GDP in FY1986 to 1.5 percent of GDP in both FY1987 and FY1988. The deficit is projected to remain at that level through FY1989. Central government revenues increased by about 16.5 percent between FY1986 and FY1987 and an estimated 24 percent between FY1987 and FY1988. A higher level of economic activity accounted for much of the improvement in revenue collections as both business tax revenues and collections of import duties grew strongly. Better tax administration also played a role.

Since 1987 the Bank of Thailand has officially described itself as promoting a "more relaxed and flexible" monetary policy as part of a government effort to promote higher economic growth. The bank permitted the broad money supply (M2) to grow by some 20 percent in 1987 versus a growth of 13.4 percent in 1986. Significant excess liquidity prevailed in the banking system through most of 1987 -- which kept downward pressure on interest rates -- because of large foreign exchange inflows and lags in translating higher levels of business activity into higher loan demand. Liquidity began to tighten during late 1987, however, as loan demand increased and many depositors shifted their assets to the securities exchange of Thailand. Liquidity has further tightened in 1988 as rapid economic growth and strong investment growth have increased loan demand, putting upward pressure on interest rates.

2. Exchange Rate Policies

Thailand devalued the baht by 14.8 percent in November 1984. Since then the value of the baht has been determined according to a basket of the currencies of Thailand's major trading partners. Although the composition of the basket is a

closely guarded secret, the U.S. dollar probably represents over 80 percent of the value of the basket. Global currency realignment since 1985 has tended to make U.S. exports to Thailand more price competitive. The Exchange Equalization Fund (EEF), chaired by the deputy governor of the Bank of Thailand, determines the value of the baht each working day. There is no legal parallel market in Thailand.

While Thailand has an extensive system of exchange controls established in law, the system is implemented flexibly in practice. The remittance of investment funds into Thailand is free from any restriction. Repatriation of such funds and the returns therefrom requires the approval of the bank of Thailand's exchange control officer. Applications for repatriation that contain evidence that the applicants registered their investment funds at the time such funds were remitted into Thailand are processed without undue delay. Businesses receiving investment incentives from the government are given guarantees regarding the repatriation of funds.

3. Structural Policies

As noted above, cautious spending policies and increased revenue collections reduced the fiscal deficit to 1.5 percent of GDP. Although the nation's trade deficit continues to expand, the balance of payments remains in surplus due to growing tourism earnings and large net capital inflows. This healthy balance of payments situation has allowed the Royal Thai Government to liberalize somewhat its import regime and avoid new restrictions on imports for balance of payments purposes. In general the government's principal economic policies in the late 1980s will be directed towards managing the current expansion and directing business activity towards more orderly, deliberate growth with a view to distributing the benefits of increased affluence to a wider segment of Thai society.

With the exception of minor reductions in income tax rates, there have been few changes to the tax code in recent years. This may change within the next year if, as expected, the government takes action on a proposal for a value-added tax (VAT). Under the proposal, the present complicated business tax system, which has more than 10 rates ranging from 1.5 percent to 40 percent, would be eliminated. The VAT would have a uniform rate and require strict accounting standards. The Thai Government has indicated its intention to make the VAT revenue neutral.

In spite of the difficulties faced by two of Thailand's commercial banks in 1987, Thai financial authorities have been generally successful in improving the soundness of Thailand's commercial banking system.

Successive Thai governments during the 1980s have articulated support for the privatization of selected activities undertaken by state enterprises. In a few cases, this has included the outright sale of small state enterprises, but more frequently "privatization" has meant the

provision of services by private vendors under government contracts or multi-year concessions. Currently, the Thai Government is examining actively the means for expanding the role of the private sector in the provision of public services, including infrastructure such as toll roads, electric power, rail transport, and port management services. The privatization of new enterprises and activities poses fewer political problems for the government than reform of existing state firms in the face of stiff opposition from vested interests in state enterprise labor and management.

4. Debt Management Policies

Thailand has followed prudent external debt management policies in recent years, including fixing an overall ceiling on public sector external borrowing, successfully prepaying a portion of the country's debt that was contracted at high interest rates, and significant switching of debt obligations among currencies. The stock of public sector external debt rose to almost $13 billion at the end of 1987, equivalent to about 28 percent of GDP at the end of that year. With the addition of private sector debt, the total stock of debt ($17.5 billion) would amount to slightly more than one-third of GDP. Total debt service in 1987 was close to $2.6 billion. Booming Thai exports and declining international interest rates helped push the debt service ratio down from 22 percent in 1985 to a projected 12.5 percent in 1988.

Thailand has cordial relations with its creditors. Private financial institutions, very upbeat about Thailand's economic management and future prospects, are eager to offer loans and financial services. Thailand decided to suspend its International Monetary Fund (IMF) standby arrangement at the beginning of 1987, in part because of the significant improvement in the country's economic situation and in part to avoid the accumulation of more debt to the IMF. During the period of its standby, Thailand had temporary difficulty meeting the agreed fiscal targets, but otherwise had a good compliance record. In recent years Thailand has de-emphasized borrowing from the multilateral development banks, partly because of the extensive project preparation and relatively high interest rates involved. At the same time, Japan has become an even more significant provider of concessional assistance.

There is growing public recognition that increasingly inadequate infrastructure in the Bangkok area could become a major bottleneck to sustained economic growth and development. In response Thailand is likely to relax somewhat its ceiling on public sector external borrowing.

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5. Significant Barriers to U.S. Exports

Arbitrary customs valuation procedures sometimes constitute a serious import barrier. Thai customs keeps a record of the highest price of any product imported from any given country from invoices of previous shipments. That price is then used as the "check price" for assessing tariffs on subsequent shipments of similar products from the same country. Often customs will disregard actual invoice value in favor of the check price. For products shipped from other than the country of origin, customs reserves the option of using the check price of either the country of origin or the country of shipment, whichever price is higher. These practices are applied to all countries and are not discriminatory except in the case of certain "black ports," e.g., Hong Kong, whose invoices are challenged automatically.

In the area of standards, food and pharmaceutical product importers are required to apply for import licenses from the Thai Food and Drug Agency (FDA). The cost of applying is Baht 15,000 ($600) per item. If food items, for example, are imported in sealed containers (air tight and moisture proof cans, bottles, foil packaging, etc.), they are subject to product analysis at a cost of Baht 1,500 per item. In addition the FDA requires the importer to provide the actual product formulation for drugs or foodstuffs. Many U.S. manufacturers are reluctant to reveal this information. If the FDA's analysis is satisfactory, some food items must be registered as "controlled products" at the cost of additional Baht 5,000 per item. Altogether the importer may have to pay approximately Baht 23,000 to Baht 24,000 ($920 to $980) before the import license can be issued. It takes at least three months and frequently over six months to process the clearance if all documents are in order. Pharmaceutical product clearances can take up to two years. As a result of the Chernobyl disaster, the FDA now requires that exporters of food items to Thailand certify that the radioactivity level of those food items is within limits allowable under FDA regulations.

Thai Ministry of Commerce licenses must be obtained for certain import items, including foods, pharmaceuticals, as noted above, and some raw materials, and industrial products. In general, items requiring import licensing may be divided into three categories: goods whose import is restricted through high duties to protect local industries; goods whose purchase is subject to a requirement for concurrent purchase of similar, domestically produced goods; and goods whose import is controlled for health, security or other reasons. Among items in the first category are: fruit and vegetable juices; pastry, biscuits and other bakery items not containing eggs, sugar, honey, fats, cheese, fruits; onions; instant coffee; processed potatoes and potato products; and sugar confectionery not containing cocoa. Items in the second category include soybeans and soybean meal. In addition several items, such as fresh citrus, fresh potatoes, and roasted and ground coffee, are effectively banned to protect local products while other items, such as soybean oil, are subject to import quotas. A state monopoly controls the domestic Thai cigarette market. U.S. brand cigarettes cannot

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be imported legally into Thailand, although they are widely available in Bangkok and other large cities through smuggling.

Largely by restricting foreign bank entry, branching and acquisition of Thai banks, Thai authorities limit all foreign banks to a very small share of the total Thai banking market. That share comprised 4.1 percent of total commercial banking assets in 1986. Foreign banks are limited to a 25 percent participation in Thai banks. Foreign branches (except for certain grandfathered branches) are legally precluded from establishing subbranches in Thailand. Automatic teller machines (ATMs) are considered equivalent to branches so foreign banks are precluded from joining domestic Thai bank ATM systems or opening their own ATM systems. However, Thai authorities regularly approve representative offices of reputable foreign banks, and there are some indications that restrictions on the opening of foreign bank branches and ATM systems may be loosened.

Thai regulations limit foreign equity in new local insurance firms to 49 percent or less. This denies new U.S. property/casualty and life insurers access to the local market on terms equal to local insurers. A long established U.S. firm, however, controls about 40 percent of the Thai life insurance market. In almost all cases state-owned enterprises are insured with Thai companies. Insurance companies are faced with discriminatory capitalization requirements. However, Thai insurance companies frequently function largely as agents. Only rarely do they retain risk; they commonly sell their portfolios on the international reinsurance market, where Thai risk can be easily added to the portfolios of foreign insurance companies.

6. Export Subsidies

Thailand maintains several programs which benefit manufactured products or processed agricultural products and may constitute export subsidies. These programs fall into three main categories: tariff and tax concessions on imports to be used for the production of goods for export; preferential financing for exporters in the form of packing credits; and reductions in electricity rates for manufacturers of goods for export.

7. Protection of U.S. Intellectual Property

Improved protection in Thailand for U.S. copyright, patent, and trademark holders has become one of the most prominent trade issues between the United States and Thailand. As part of the U.S. Government's global effort to ensure adequate and effective protection, the United States has been involved in a continual exchange of views with the Royal Thai Government on these issues. Thailand is a party to the Berne Convention and has had a body of law dating back many years that provides intellectual property protection. However, there are complaints about the coverage and about enforcement efforts. In January 1989 pursuant to petitions

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filed by U.S. industry, the U.S. Government removed U.S. Generalized System of Preferences (GSP) competitive need waivers and denied Thai requests for other waivers because of inadequate protection of U.S. intellectual property.

Thailand and the United States have a bilateral copyright relationship going back to 1921, but court decisions in Thailand raised questions about the validity of the relationship under Thai law. Unauthorized copying of works copyrighted in the United States is widespread. In June 1987 the International Intellectual Property Alliance complained to the U.S. Government about lack of protection and estimated that unauthorized copying resulted in losses to U.S. copyright holders of at least $45 million annually. United States' accession to the Berne Convention on copyright protection on March 1, 1989 should provide the basis for assuring national treatment copyright protection for U.S. works in Thailand. The juridical council has rendered an advisory opinion that computer software is covered by the Thai copyright law but this opinion has not yet been tested in the courts, nor is it implemented by Thai police agencies. Effective copyright protection should serve as an inducement to the sale of additional goods and services from the United States. The United States intends to continue discussing its longer term copyright concerns with the Royal Thai Government in an effort to make further progress.

Thailand enacted a patent law in 1979. Pharmaceutical products, agricultural machinery, and food products are among items ineligible for patent protection. The U.S. Pharmaceutical Manufacturers Association has estimated that unauthorized copying of their members' products in Thailand resulted in lost sales for the United States of $10 million in 1986. During 1988 Thai officials recognized the need for a strengthening of the system of patent protection in Thailand, including making pharmaceutical products eligible for protection and extending the patent term. However, progress in effecting needed changes has been slow.

Thailand has offered trademark protection for over 50 years, although the current law does not protect service, certification, and well known marks. Enforcement remains a problem. There is widespread unauthorized copying and sale in Thailand of products with foreign trademarks. The Thai Commerce Ministry has told the United States that the government will push for adoption of a revised trademark law, which includes strengthened penalties for infringement, during the spring 1989 session of parliament. In late 1987 the Thai Department of Commercial Registration and Customs Department announced new procedures to crack down on the import and export of counterfeit goods. The U.S. Embassy is not aware of any industry estimates of losses to U.S. trademark holders arising from piracy of their products in Thailand.

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8. Worker Rights

a. The Right of Association

Most internationally recognized worker rights, including the right of association, were recognized legally in 1975, when the Thai Labor Relations Act was passed. The Act affirmed, among other things, the rights of employees to form and join unions or employee associations of their own choosing; decide on the constitutions and rules of their associations and unions; formulate their views without government or employer interference; confederate with other unions; be protected against discrimination, dissolution, suspension, or termination by any outside authority because of union activities; and have employee representation in direct negotiations with employers.

All rights under the 1975 Act specifically do not apply to government workers at any level. Civil servants, therefore, may not unionize, though they may form "employee associations." Under Thai law, state enterprise workers may unionize, and in fact the state enterprise sector is the backbone of the Thai labor movement. The right to strike, however, is not extended to state enterprise workers regardless of the nature of their activity. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) has reported that there are several limitations on the right of association, including restrictions on the right to strike in the private sector, the prohibition of unionization and strikes by civil servants, the prohibition on strikes in state enterprises, the requirement that union leaders also be full-time workers in the plants or industries which they represent, and reported abuses of child labor. Despite their illegality, strikes do occur in the public sector and are usually tolerated by the Government. Several major strikes in June 1988 were centered in state enterprises, notably strikes carried out by the state railway and the port unions. The government negotiated in good faith with the concerned unions and reached a negotiated settlement in response to the strikers' demands without particular reference to the "illegal" nature of the strikes. No strikers were arrested or detained by government authorities. In most of the private sector, 24-hour notice to management is the only legally mandated prerequisite to a strike. However, the government has the authority "to restrict the right to strike whenever a strike would affect national security or cause severe negative repercussions for the population at large."

Thai labor has organized slowly since basic worker rights were affirmed in 1975. In 1988 about 12 percent of the industrial work force claimed union membership, mostly in the state enterprise sector, and membership is expanding very slowly. A cultural factor in this phenomenon is the historically benign and paternalistic relationship between employer and employee, reducing the inclination toward confrontation between labor and management. A provision of Thai labor law permitting the formation of labor unions with as few as 10 members also contributed to a high degree of fractionalization at both the union and confederation levels.

This manifested itself in a steady increase in the number of registered unions to over 500, while overall union membership remained virtually constant. It has been claimed that the above-cited law promoted the existence of company unions beholden to management and was thus an infringement of the right of association. The government effectively protects the person and property of unionists in Thailand. Following expressions of foreign labor union interest in the murder of one unionist in 1988, the government reportedly arrested two policemen in connection with the case, which has yet to be prosecuted.

Thai unions generally operate independently of the government and other outside organizations. There has been a history of voluntary association and common cause between Thai unionists and military elements, but the importance of such connections appeared to decline in 1988 with a rise in the relative political strength and independence of Thai unions. Labor leaders recognized that fractionalization weakened their overall impact and were largely successful in 1988 in consolidating and coordinating the activities of the four leading federations. Their overall influence on policy issues increased as a result. Thai unions have tended to be apolitical, in part because the 1975 act withholds certain protections in cases of "political" activity. Debate on labor's role in Thai politics has been particularly lively since the alleged involvement of several prominent labor leaders in a 1985 coup attempt. The last official links between a Thai political party and labor federation were severed in 1988.

Unions made a strong effort to influence political parties during the 1988 national election campaign, although the unions maintained their independence from the parties themselves. Key issues were safety legislation and enforcement, resistance to the privatization of state enterprises, and labor's call for amendment of the Labor Relations Law. On some of these issues, notably minimum wages and privatization, unionists exerted some influence on policy in 1988 under the newly elected government of Prime Minister Chatichai. Historically, prominent unionists have been appointed to the Thai Senate, although none have been elected to the more influential House of Representatives.

Labor unions in Thailand have maintained generally unrestricted relations with recognized international labor bodies, such as the International Labor Organization (ILO), the International Confederation of Free Trade Unions (ICFTU) and its associated International Trade Secretariats, the ASEAN Trade Union Congress, and various national labor bodies, notably those from the United States (AFL-CIO), the Federal Republic of Germany, Japan, and Israel. Thai unionists have also participated in meetings and seminars sponsored by the World Federation of Trade Unions (WFTU), both abroad and on Thai soil. In 1988 the government implemented a new regulation requiring the approval by an interministerial body headed by the Permanent Secretary of Interior of applications by foreign organizations to either hold meetings or open offices in Thailand. While there were no cases of approval being denied,

some critics claimed that the bureaucratic involvement was itself a deterrent to free association with international labor organizations.

b. The Right to Organize and Bargain Collectively

Thai labor, whether unionized or represented by "employee associations," is guaranteed the right of collective bargaining. Thai law prescribes procedures to ensure employee participation in the determination of working conditions, wages, and benefits. In 1988, as before, such bargaining focused more on benefit packages and working conditions than on wages. Both labor and management in Thailand usually seek to resolve potential differences through informal channels before turning to formal collective bargaining. The 1975 Act also defined the mechanisms for such negotiations and for conciliation and arbitration under government auspices in cases under dispute. The conciliation and arbitration procedures are mandatory for state enterprises.

A system of labor courts implemented in 1980 exercises judicial review over most aspects of Thai labor law. There is a tripartite labor relations committee under the Ministry of Interior at which unionists may also seek redress for their grievances. Thai law does not fully protect unionists against antiunion discrimination and retribution. The law requiring union leaders also to work full time in the plants or industries which they represent tends to make them vulnerable to employer action in cases of conflict. Unionists have no explicit protection against dismissal for unionizing activities prior to the formal registration of their union. The Thai Court Law of 1980 prohibits "unfair dismissal," but Thai courts have not been uniform in their interpretation of this law.

There are no special export processing zones, and labor legislation is applicable uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor except in the case of national emergency, wartime, or martial law. There were no allegations of forced or compulsory labor. The ILO's Committee on Application of Conventions and Recommendations at its 1988 session expressed the hope that the government will bring its legislation into compliance with ILO Convention 105 on the Abolition of Forced Labor, which Thailand ratified in 1969.

d. Minimum Age for Employment of Children

Child labor continued to be a source of considerable domestic and foreign criticism in 1988. Foreign interest groups have focused heavily on the alleged exploitation of working children. Thai law prohibits the employment of children under age 12, and limits their employment between the ages of 12 and 15 to "light work." Employment of children at night (10 p.m. to 6 a.m.) is prohibited. Complaints against Thailand alleged that both Thai standards and their enforcement

were inadequate. The Cabinet, acknowledging the seriousness of child labor problems, in June 1988 approved in principle the revision of Thai labor protection regulations applicable to working children in the nonagricultural sector. Key features of the cabinet recommendation included an immediate increase in the minimum age to 13 and a long-term increase to 15; improved inspection and enforcement; increased penalties for violators; an increase in the resources allocated to keeping children in school; and a broad campaign to sensitize the Thai public to the problems of child labor. Thai authorities expected the strengthened regulations to be issued shortly as an announcement of the Interior Ministry.

e. Acceptable Conditions of Work

Working conditions vary widely in Thailand. Medium and large factories, which produce most of Thailand's export goods, generally work 8-hour shifts under conditions which meet international standards. Health and safety standards are maintained, minimum wages are met or exceeded, no underage laborers are employed, and employees enjoy various additional benefits. Outside this formal sector, standards can deteriorate significantly. Unskilled laborers who pour into Bangkok from the far poorer countryside often are willing to work at less than the minimum wage ($3.16 per day in the Bangkok area, less in most other provinces).

A 1988 Thai Government report stating that 32 percent of laborers received less than the legal minimum wage resulted in a call from the then Prime Minister for employers to comply with the law and for the Labor Department to enforce it more vigorously. The new Prime Minister indicated in August 1988 that he favored an early increase in the minimum wage, which had last been raised in April 1987. In late 1988 organized labor sought and won a two-stage increase in the Bangkok area which will raise the minimum wage to $3.16 by April 1989.

Thai workers often have no leverage for insisting upon minimum standards of health and safety. This is particularly so in industries such as construction and dockwork where casual labor often is engaged on a short-term basis. The collapse of a building under construction in September renewed the call for tighter regulation of construction practices and increased protection for workers. Government programs for industrial safety have relied primarily on informational campaigns and voluntary compliance.

While the programs themselves have been praised as among the best in the region, more resources are required to meet health and safety challenges posed by rapid industrialization. A nationwide force of labor inspectors was inadequate to the task of investigating and pursuing all potential violations under Thai law, especially in the absence of complaints. Another impediment was the fact that the businesses in question often were unregistered, evading taxes and operating outside the sphere of government inspection and regulation.

AUSTRIA

Key Economic Indicators

Billions of Austrian Schillings Unless Stated

	1986	1987	1988(est)
Income, Production, and Employment			
GDP (1976 prices)	890.8	904.5	936.1
GDP by Sector			
Agriculture	41.5	41.7	42.6
Manufacturing and Mining	271.2	270.4	284.6
Energy and Water	28.3	30.6	30.6
Construction	54.7	55.8	58.3
Trade, Hotel and Food Services	148.0	150.2	156.2
Transportation/Communication	57.7	59.4	61.5
Banks, Insurance, Real Estate	113.0	116.3	119.3
Other Private Services	35.2	36.3	37.0
Public Services	117.0	118.4	119.0
Import Duties and VAT Less Imputed Bank Services	24.1	25.5	27.0
GDP Real Growth Rate (pct)	1.4	1.5	4.0
Real per capita Income (net per employee pct chg)	3.2	3.9	-0.5
Labor Force (000s)	2,932.1	2,949.0	2,967.0
Unemployment Rate (pct)	5.2	5.6	5.4
Money and Prices			
Money Supply (M1)	221.5	242.3	264.0
Commercial Interest Rates (pct annual avg)			
Call Money	5.3	4.4	4.5
Secondary Bond Market	7.3	6.9	6.7
Savings Rate (pct)	11.2	12.7	11.3
Investment Rate (investment sales ratio in mfg industry-pct)	7.4	7.6	7.4
CPI (pct change)	1.7	1.4	1.9
Wholesale Price Index (pct chg)	-5.3	-2.0	0.0
Exchange Rate (AS/US$)(avg)	15.27	12.64	12.50
Balance of Payments and Trade			
Total Exports fob	342.5	342.4	376.7
Total to U.S.	13.8	12.2	13.2
Total Imports cif	408.0	412.4	447.5
Total from U.S.	13.1	14.2	15.3
Federal Govt External Debt (AS billions yr-end)	124.6	124.7	129.8
Federal Govt Debt Service Paid (AS billions)	20.7	19.5	20.3
Gold and ForEx Reserves (AS billions yr-end)	123.5	123.4	135.00
Balance of Payments (AS bils)	3.7	-2.7	-1.1

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1. General Policy Framework

Austria, a member of the European Free Trade Association (EFTA) and the Organization for Economic Cooperation and Development (OECD), has a free market economy but one with a highly significant state sector. The state-owned sector includes energy production, major heavy industries, and state-owned monopolies such as postal services, railroads, tobacco, and gambling. The state-owned industries alone produced about 18 percent of Austria's gross domestic product (GDP) and employed an equal share of Austria's workforce in 1987. Foreign trade in goods and services accounts for 36 percent of GDP. About 70 percent of Austria's trade is with the European Communities (EC), primarily with the Federal Republic of Germany (FRG), and another 18 percent is with Austria's EFTA partners. Another eight percent of Austrian trade is with Council for Mutual Economic Assistance (CMEA) countries. This openness, combined with the fact that Austria's economy is much smaller than that of its Western neighbors, particularly that of West Germany, means Austria is strongly affected by economic developments outside the country. For example, concern about how EC efforts to establish a unified internal market will affect Austria is a primary factor behind Austrian consideration as to whether or not to apply for EC membership.

While the government was able to keep the economy growing steadily through the 1970s and early 1980s, its practice of using the state industries to help ensure full employment and its expansionary fiscal policies resulted in government budget deficits that reached 5.5 percent of GDP in 1983. As a result, the conservative/socialist coalition government which took office in early 1987 moved to reverse these policies. This present government is restructuring the state-owned industries to make them more efficient and competitive, particularly in light of the EC's plans for establishing a unified market by 1992. The government is privatizing where possible and has announced that it will only continue subsidizing the state sector until 1991. The government is also streamlining regulations to encourage overall economic growth and efficiency. These policies are taking place within the framework of Austria's postwar Social Partnership, the system whereby the government, business management and labor come to a consensus on broad economic policy questions.

The Austrian Government has traditionally used its budget as the primary tool to stimulate the economy and achieve full employment as well as to pay for and expand social programs. New and higher taxes, however, did not keep pace with increasing expenditures and the federal debt grew as a result, especially in the early 1980s.

The current coalition government completely changed Austrian fiscal policies. Through its budget consolidation and austerity programs, the government hopes to cut the federal budget deficit as a percent of GDP from 4.9 percent in 1987 to 2.5 percent in 1992. It hopes to do this by cutting expenditures and through receipts from privatizations, not by

raising taxes. The parliament has approved a major income/corporate tax reform to take effect in 1989, something which will cause a drop in government revenues but which it also hopes will stimulate the overall economy. The government has yet to take a number of difficult and unpopular steps, such as pension reform. The government also shows a tendency to finance some items off-budget in order to reduce the deficit. Domestic and international capital markets are used to sell bonds or borrow funds to cover the deficit.

2. Exchange Rate Policies

The Austrian National Bank follows a "hard schilling policy" of pegging the schilling to the Deutsche Mark. The hard schilling policy is designed to avoid exchange rate fluctuations vis-a-vis the FRG, Austria's most important trading partner, and to dampen inflation. By adjusting interest rates to maintain the hard schilling the policy discourages capital outflows. Money supply targets are not set by the Austrian National Bank. Its major policy elements are adjustments in the rediscount rate and open market transactions.

Although the Austrian National Bank still has a number of reservations to the OECD's code of capital movements, it clearly intends to withdraw these reservations through step by step liberalization of Austrian foreign exchange controls. Major restrictions still in effect concern private capital transfers, gold transactions, purchase of foreign securities, purchase of land abroad for speculation, prohibiting use of credits to finance foreign direct investment, and the admission of securities to capital markets. The Austrian National Bank is expected to announce further capital movement liberalization steps at the beginning of 1989.

3. Structural Policies

As a result of Austria's 1989 income/corporate tax reform, the tax burden is expected to decline from about 23.9 percent of GDP in 1988 to 23.4 percent in 1989. The reform will have a positive impact on economic growth by stimulating consumption and investment. Major taxes in Austria are the income tax (for private individual and businesses, except limited liability companies and joint stock corporations) with tax rates ranging from 10 percent to 50 percent (the latter applying to incomes exceeding AS 700,000); the corporate tax (for limited liability companies and joint corporations) with a uniform 30 percent tax rate; the value added tax with a standard rate of 20 percent (a 10 percent rate for food and certain basic services; and a 32 percent luxury rate for cars, motors, motorcycles, boats, and airplanes); the mineral oil tax; trade tax; and property tax. There are various other taxes in addition to customs tariffs.

Embassy is not aware of any government policies affecting the market for U.S. exporters specifically. The same rules and regulations on investments apply to both foreign investors

and Austrians. It is impossible to describe all regulations covering investments, particularly because some apply only to specific industries. Important generally applicable regulations cover real estate acquisition (the purchase of real estate is controlled by the provincial governments) and include the business code of 1973 (regulating independent business activity in production or services with some exceptions, e.g., banking, insurance). Parliament is now discussing a major overhaul amendment of the 1973 Business Code; the limited liability company act; the joint stock corporation act; the cartel act (a new one is also now under discussion in parliament); and the Product Liability Act. There is no screening mechanism for investors who do not require financial or other assistance from the Austrian government. Investments in high-tech fields and those contributing to restructuring of Austrian industry are given priority. Investment is discouraged in sectors where there is overcapacity. Otherwise, there are no sectoral preferences. Also, there are no geographic restrictions on the location of new investments but preference is given to projects in economically depressed areas and in districts bordering on Austria's East European neighbors.

The Austrian Government offers a wide program of investment incentives ranging from tax incentives and interest subsidies to premiums and grants. Domestic and foreign investors are equally eligible for all incentive programs.

4. Debt Management Policies

Austria's external debt management has no implications for U.S. trade. At the end of 1987 Austria's external federal debt amounted to AS124.7 billion (8.4 percent of GDP), 74.5 percent bonds and 25.5 percent credits and loans. Thirty-five percent of the foreign debt is denominated in Deutschemarks, 41.4 percent in Swiss francs, 16.4 percent in yen, 6.6 percent in Netherlands guilders, and 0.6 percent in U.S. dollars. In 1987 the average maturity of the foreign obligations was 7.4 years and the average interest rate 5.7 percent.

The Government of Austria enjoys an excellent relationship with domestic and foreign creditors. This is also reflected in Austria's triple A rating as a borrower and in the institutional investor's country rating where Austria ranks ninth. Austria is a creditor country and cooperates with the United States and other international creditors in rescheduling less developed countries debt in the International Monetary Fund (IMF), the Paris Club, and other fora.

5. Significant Barriers to U.S. Exports

In general there are no major political, cultural, tariff, nontariff, or other barriers that restrict or inhibit the import of goods and services. The average tariff rate on imports from non-EFTA and non-EC countries is 4.9 percent. In a few cases, Austrian regulations exist which can discourage imports from the United States.

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A so-called "import declaration" is required for imports of certain steel and textile goods if their amounts exceed AS4,000 (for iron and steel) and AS10,000 (for blouses and shirts) as part of the mechanism enforcing restrictions on imports of these goods. Austrian customs houses may issue automatic import licenses. Antibiotics and medicines containing antibiotics remain subject to discretionary licenses which are issued within annual quotas. Licensing is also used to facilitate bilateral agreements. Licenses are required for imports of those dairy products, red meats, poultry, grains (except rice), fruits, and vegetables grown in Austria.

A rather limited number of barriers apply in the services area. Certain restrictions exist relating to the right of establishment in the insurance, banking, and legal service sector. Those foreign exchange controls applied in Austria have only marginal impact on tourism. The Austrian telecommunications law requires that the responsible telecommunication authority (Post und Telegraphendirektion) approve imports and marketing of all radio and television transmitting and receiving equipment. This also applies for private imports for non-commercial purposes. The measure may prevent or delay import and/or processing of license applications of certain products from the United States.

The import of certain products, such as feedstuffs, plant pesticides, pharmaceutical specialities or electrical equipment, is permitted only if the products pass testing by the Austrian testing institute or a government agency. Regulations for marking and labeling textile products, clothing, steel, household chemicals, soaps, toiletries, and cosmetic preparations in German are in effect under Austria's consumer protection law.

In general the Austrian Government welcomes foreign investment and is especially interested in firms that are labor intensive and create new jobs. There are some administrative barriers which often discourage foreign investment, however. The main investment barriers are: relatively complicated procedures for the approval of company facilities which are influenced by an inflexible attitude of Austria's "green movement"; a large number of other bureaucratic barriers, especially for small investors; and political obstacles resulting from the different opinions and programs of provincial governments and city/town administrations, particularly concerning land and water utilization.

Austria ratified and implemented the General Agreement on Tariffs and Trade (GATT) on government procurement. All covered Austrian federal agencies comply with the rules. Austria does not have a restrictive "buy-national" law but the government recommends Austrian products. Moreover, the principle of the best bidder is usually valid. Bidding times have been extended sufficiently to permit foreign firms to submit bids. The quasi-governmental Federal Chamber of Commerce, subsidizes foreign exhibits of Austrian-made products, as well as some business trade.

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6. Export Subsidies Policies

Austria adheres to the OECD export credit arrangement. The Austrian government promotes exports by providing export guarantees which cover economic and political risks, and in a few cases, even exchange risks. The current approach in extending export guarantees is selective and restrictive; i.e., the country risk component receives more attention in guarantee decisions than previously. The Austrian Government assumes guarantees for credit transactions of the Austrian Kontrollbank, the official export credit agency, if the proceeds of such transactions are used for financing exports. Further, the government annually contributes to the Kontrollbank's borrowing costs; the 1987 and 1988 federal budgets showed contributions of AS310 and AS328 million, respectively. Export subsidies are provided for exports of dairy products, breeder and dairy cattle, slaughter cattle and beef, and grain.

7. Protection of U.S. Intellectual Property

Austria is party to the principal intellectual property accords, including the Berne, Paris, Universal Copyright, Brussels Satellite and European Patent Conventions, and is also a member of the Patent Cooperation Treaty and of the World Intellectual Property Organization.

The Austrian Government believes intellectual property protection is of little relevance to Austrian companies because they market few products under exclusive copyrights or internationally recognizable brand names. There is no domestic industry lobby in Austria pushing for better intellectual property regulations in the Uruguay Round.

Austria has a law against unfair competition as well as a patent law, a trademark law and a law protecting industrial designs and models. U.S. investors are entitled to the same protection under Austrian patent legislation as are Austrians. Patents on inventions are valid up to 18 years after application. The protection period for trademarks is 10 years and may be extended indefinitely by another 10 years if registration is renewed in time.

According to a recent study on Austria's copyright industries, the first one on this subject ever performed in Austria, these industries hold an annual share of 2.05 percent of Austria's GDP and employ 76,000 persons. Although protection under Austrian law is not an issue, Austria's copyright rules require a levy for the import of home video cassettes and a compulsory license for cable retransmission. U.S. producers, however, cannot share in resulting revenues derived from the levy because paragraph 96 of the copyright law only protects those works of foreign authors according to the relevant state treaties or whose countries offer reciprocal rights; the meaning and extent of reciprocity is defined by the Austrian Federal Minister of Justice.

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The U.S. motion picture industry claims that their fight against videocassette piracy is severly handicapped in Austria by the inadequate protection afforded under the copyright law, as infringements are only prosecuted after private complaints from the distributors are filed, and maximum penalties do not reflect the actual damages. Additionally, back-to-back copying is estimated to account for over 20 percent of the market.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. Their right to join trade unions and to engage in activities in pursuit of trade union aims is protected under general constitutional guarantees of freedom of association. In practice Austrian trade unions have an important and independent voice in the political, social, and economic life of the country.

Strikes in the postwar period have been comparatively few and usually of short duration. High on the list of reasons for Austria's record of labor peace is the system of "social partnership" -- a nearly unique unofficial forum for cooperation among labor, management, and government. At the center of the system is a commission on wages and prices which has an important voice on major economic questions.

b. The Right to Organize and Bargain Collectively

Unions have the right to organize and bargain collectively. Nearly 60 percent of the work force is organized in 15 national unions, each of which is a member of the Austrian Trade Union Federation (ATUF). This organization has a strong, centralized leadership structure. Individual unions and the federation are independent of government or political party control (although there are formal factions within these organizations that are closely allied with political parties). The labor movement enjoys widespread acceptance and almost all large companies, private and state owned, are strongly organized.

Workers are further protected by membership in the Austrian Chambers of Labor -- compulsory for all employees except civil servants. The Chambers of Labor provide legal representation for workers in their relations with employers and, most importantly, vis-a-vis government agencies and in legislative and social security matters. While there is some overlap in the functions of the Chambers of Labor, on the one hand, and the ATUF, on the other, it should be noted that the latter is exclusively responsible for collective bargaining and wage policy issues. The leaderships of both institutions are elected democratically.

The ATUF is a member of the International Confederation of Free Trade Unions, and also provides the worker delegate for Austria's delegation to the International Labor Organization.

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Austria has no export processing zones; labor law and practice are uniform throughout the country.

c. Prohibition of Forced or Compulsory Labor

There is no forced labor in Austria.

d. Minimum Age for Employment of Children

The minimum legal working age in Austria is 15. The law is effectively enforced.

e. Acceptable Conditions of Work

There is no national minimum wage in Austria, but a worker whose annual income falls below the official poverty line (approximately $5,386 at the current exchange rate) is eligible to receive social welfare benefits. It should also be noted that, typically, nationwide collective bargaining agreements set minimum wage rates by job classification for each industry. The average Austrian has a high standard of living by international comparison, and most of the least well-paid workers still enjoy a decent minimum standard.

Although the legal workweek has been established at 40 hours since 1975, more than 50 percent of the labor force enjoys collective bargaining agreements setting a maximum workweek of 38 or 38.5 hours. Legislation under which a labor inspectorate attached to the Ministry of Justice conducts inspections of occupational health and safety conditions ensures the effective protection of workers in these areas.

f. Rights in Sectors with U.S. Investment

Workers' conditions do not vary in the sectors in which U.S. companies have invested: petroleum (distribution and retail, non-oil production); food and related products; chemicals and related products; machinery, except electrical; electric and electronic equipment; transportation equipment; other manufacturing; and wholesale trade. Unions represent the workers in these sectors. As a result of their negotiations, unions may have won some particular benefits going beyond those enjoyed in other nations, such as working less than the maximum forty hours per week.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		117
Total Manufacturing		109
Food & Kindred Products	(D)	
Chemicals & Allied Products	10	
Metals, Primary & Fabricated	3	
Machinery, except Electrical	43	
Electric & Electronic Equipment	1	
Transportation Equipment	(D)	
Other Manufacturing	17	
Wholesale Trade		46
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		272

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Billions of Belgian Francs Unless Stated

	1986	1987	1988 (est)
Income, Production, Employment			
Nominal GDP	5,149	5,360	5,627
Domestic Demand	4,975	5,125	5,372
Industrial Production	1.227	1.250	1.279
Employment (000s)	3,609	3,606	3,640
Unemployment (000s)	501.0	500.7	471.5
Unemployment Rate (pct)	11.5	11.4	10.8
Population (Millions)	9.859	9.865	9.870
Money and Prices			
CPI (pct change)	1.3	1.5	1.5
Wholesale Price Index	-5.5	-3.5	0.6
Avg Hourly Earnings Index	2.7	1.9	2.[illegible]
Long Term Govt Bond Yield	8.11	7.8	7.9
Discount Rate	8.55	7.6	7.0
Public Debt	5,297	6,486	7,253
Exchange Rate (BF/US$avg)	44.7	37.3	36.3
Balance of Payments and Trade (1)			
Total Exports	3,361	3,394	3,593
Total Imports	3,191	3,156	3,376
Current Account Balance	134	104	118
Trade Balance	26.8	52	72
Service Balance	80.5	108	116
Trade Balance - EC	20.1	56	N/A
Trade Balance - US	9.6	17.2	N/A
Trade Balance - Japan	-56.14	-50.72	N/A
Trade Balance - E. Europe	-24.58	-28.31	N/A
Foreign Debt	1,023	503	540.8
Govt Balance (pct GDP)	11.3	8.1	7.0

Notes: (1) Data are for the Belgium-Luxembourg Economic Union.

Main exports to the United States (1987) Diamonds and jewelry; film; petroleum and motor fuel; transportation equipment, tractors and bicycles. Main imports from the United States (1987Cigarettes; office machinery; coal; aircraft parts; soybeans; diamonds and jewelry; aeronautical equipment; and digital CPU's

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1. General Policy Framework

The overall economic picture in Belgium has improved over the past few years with many of the key economic indicators now on the upswing. A major element in this improvement and contributing to it is the policy of austerity, begun in 1981 with the Martens V Government, a center-right coalition. Austerity was undertaken to control Belgium's ever-growing budget deficit which at its peak had reached a level of 16 percent of gross national product (GNP). The goal of bringing the budget deficit down to seven percent of GNP may be reached by 1989. The prospects may be somewhat doubtful, however, because the current government, in place since May 1988, is a center-left coalition and may find it more difficult to impose restrictions on spending and budget cuts in the politically sensitive social services sectors.

In spite of the budget deficit problem, Belgium continues to offer many advantages for the foreign investor. It is a highly industrialized country; its elaborate infrastructure and extensive transportation, banking, and communications systems combine to make the country a prime location for American firms seeking to establish an office or facility abroad. Another key factor is the availability in Belgium of a highly skilled and productive labor force, a product of a highly developed educational system, including a renowned university network. Further, the Belgian labor force is almost universally multilingual, with English being a common third language.

Belgium has other economic difficulties, however, some of which are long standing, but which are being systematically addressed by the government. These problems arose in the previous decade which saw rising wages and one of the most expensive and extensive social welfare systems in the world combine to drive up taxes and production costs, thereby reducing the competitiveness of Belgium's exports. Additional contributing factors were the marked increase in the price of energy and subsidies to declining industries.

Being perhaps the world's most export-intensive country (according to the Belgian Ministry of Foreign Affairs, the most export-intensive if the data are expressed on a per capita basis), Belgium experienced a decline in the profitability of its enterprises, an increase in unemployment, and an increasing government debt burden. Industry's declining viability brought on the advent of very heavy state subsidies for what are termed the five national sectors: steel, coal, textiles, hollow glass, and shipbuilding.

2. Exchange Rate Policies

Belgium participates in the European Monetary System (EMS), and the Belgian franc is one of the basket of European currencies on which the value of the ECU (European Currency Unit) is calculated. The Belgian franc is equivalent at par with the Luxembourg franc -- the two countries formed the Belgian-Luxembourg Economic Union, or BLEU, in 1919.

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has an unusual system of dual exchange rates: the "free" rate, allowed to float without government intervention, and the "commercial" rate which the government must maintain within a certain range of values vis-a-vis the other European currencies tied into the EMS.

The free rate, used for capital transactions, is usually less favorable to sellers of Belgian francs than the commercial rate. The difference between the rates can be used as an indication of speculators' confidence in the Belgian franc. Just before the 1982 devaluation, the spread between the rates reached nearly 15 percent; since September 1985 and continuing to the present, however, it has been in the range of one percent. This system will almost certainly change by 1992 when the European internal market comes into effect. Indeed, this system must change, and the necessary implementing national legislation to harmonize the system with European Community directives is already being discussed in the Belgian Parliament.

Authority to use the official exchange rate is granted by the Belgo-Luxembourg Exchange Control Institute (IBLC) normally for commercial trade. Investors may also have access to the official rate, when desirable, if such use is considered to be in the national interest. The IBLC will give a guarantee that investment capital and revenues therefrom may be repatriated.

3. Structural Policies

The crucial word in any description of Belgium's structural policies is devolution, or the process of giving responsibility or competency for certain functions to the three regions of Belgium: Wallonia (the French-speaking area), Flanders (the northern Dutch-speaking portion of the country), and Brussels (the national capital region). It should be pointed out, however, that Brussels is not yet autonomous in certain policy areas, and its exact role has not yet been fully agreed upon. The national government will retain responsibility for certain key functions, notably defense, justice, and monetary policy, while the other functions will be taken over by the regional governments. This process is having and will continue to have major implications for economic and financial policy on both a domestic and international level. All government decisions and policies must be viewed in the light of an overall national viewpoint as well as the viewpoints of the individual regions. We will need to be attentive to any efforts by the regions not to extend national treatment to U.S. enterprises, as provided for in the 1961 U.S.-Belgium Treaty of Friendship, Establishment, and Navigation and the Organization for Economic Cooperation and Development (OECD) Code on Capital Movements and National Treatment Instrument.

Belgium depends heavily on exporting, both with and without value added. Thus, Belgium places a premium on maintaining good relations with its trading partners and can be expected to continue to do so. This is particularly true

of the investment climate. Belgium - both on a national and regional basis - actively seeks foreign investment. The national government and the two regions offer a variety of inducements and incentives to foreign firms, particularly those with a heavy R&D component, seeking to locate in Belgium.

With respect to tax policy, Belgium's tax structure is extremely onerous at the personal income tax level with the rates among the highest in Western Europe. The tax structure is seen as an obstacle to economic growth, and certain aspects of it have been cited by representatives of United States companies as a deterrent and a major problem area. The previous government had prepared a tax reform program which was put on hold when elections were called for December 1987. The new government has prepared a revised version which is designed to be revenue neutral.

The United States-Belgium Bilateral Income Tax Treaty dates from 1970 and is now in the early stages of renegotiation. A protocol to this treaty was concluded in December 1987 and is now awaiting approval by the Belgian Parliament. (The United States Senate approved the protocol in October 1988.) This protocol amends the existing treaty in that it provides for a reciprocal reduction of the withholding rate on corporate dividends from 15 to 5 percent, a feature which was actively sought by the American business community here. Another feature of the protocol would restrict the benefits of the reduced rates of tax at source on dividends, interest, and royalties to those persons intended to enjoy those benefits.

With respect to industry, a major cause of the government deficit was the large subsidies granted to the five so-called national sectors in Belgium - those industries which for long had been the basis of the country's economy: steel, coal, hollow glass, textiles, and shipbuilding. These sectors had to receive the subsidies in order to remain economically active - the subsidies are now being phased out, and many of the affected firms have had to undergo an extensive program of restructuring, which in most cases meant loss of employment, or closing down.

4. Debt Management Policies

Belgium continues to have a high credit rating and high creditworthiness standard abroad and has had no difficulty in obtaining new loans. In fact, recent government loans were oversubscribed almost immediately after being announced to the public.

Belgium is an international creditor, but only eight percent of its overall debt is owed to foreign creditors. Further, Belgium is an active member of the International Monetary Fund, the World Bank, and the Paris Club. Additionally, Belgium follows closely developing country debt issues, particularly with respect to Zaire.

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5. Significant Barriers to U.S. Exports

In December 1992, when the European Community single market materializes, Belgium will have harmonized most, if not all of its barriers to both commodity and services sectors with those of the other eleven EC member countries. The market will grow from the present 10 million to one of over 320 million. Thus, the potential for U.S. exporters to take advantage of this vastly expanded market will be far greater than it presently is. Another key point to bear in mind is the concurrent process of devolution, already described above. The 1992 process and devolution are taking place simultaneously, thereby altering greatly the domestic and international business scene as viewed from the Belgian perspective.

The Belgian telecommunications market is more open in theory than in practice to foreign suppliers of telecommunications equipment. In theory, at least, it is undergoing further liberalization but whether the practice will change much remains open to discussion. The Belgian internal market is effectively closed to foreign competition in the enhanced services field, but there are several foreign firms providing enhanced services on an international basis in partnership with the Belgian Regie des Telephones et des Telegraphes (RTT), the state-owned telephone and telegraph company. In July 1987, the Government of Belgium decided that the RTT monopoly in providing the first telephone and telex line would end in three and two years, respectively. The RTT would then have to compete with other suppliers. Review of equipment for technical standards and network compatibility will be done by an independent body. The composition of this technical review organization has not yet been determined.

6. Export Subsidies Policies

There are no export subsidies, per se, offered by the Government of Belgium to industrial and commercial entities in the country. There is, however, an active program of trade promotion undertaken by the Government of Belgium. When combined with the social expenditure break offered to companies by the government, it is difficult to draw a line between what constitutes such an expenditure and a subsidy. If such an expenditure or contribution is made to a company engaged in exporting, it could by extension be determined an export subsidy but definitely not in the strict interpretation of the term.

Certain aspects of Belgium's participation in the Airbus program are pertinent to a discussion of subsidy policy. The February 1988 protocol provides that the recurring costs, due to the long lag in payment from Airbus Industries between delivery of the parts and the first payments will be borne by the Flemish and Walloon Regional Governments. To date, only information on the Flemish Regional Government's plans is

available: the government will subsidize the interest while the manufacturers will repay the loan as they are in turn paid by Airbus industries.

Non-recurring costs of the Airbus program, mainly related to research and development, tooling, prototype, and certification costs will be prefinanced by the national government. Fifty percent of this interest-free development aid comes from the Ministry of Economic Affairs with the balance from that portion of the Prime Minister's budget allocated to science policy.

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. However, the 1886 Belgian copyright law provides insufficient penalties for copyright infringement. There is no patent protection for computer software. Updating of the legislation is under consideration; however, the prospects at the moment are not bright.

There is widespread video cassette and compact disc piracy as well as the importation of copyrighted products into Belgium without royalty payments. An estimated 25 percent of Belgium's video cassette and compact disc markets is composed of pirated cassettes. U.S. exporters are reluctant to sell to Belgium because of this lack of protection.

Belgium issues patent protection for a maximum of 20 years for registered inventions. A new patent law was implemented in 1984. Under the European Patent Convention, registered patents receive national treatment in all of the member states for which protection was sought in the original application. Product trademarks are available from the BENELUX Trademark Office in The Hague. This protection is valid for ten years, renewable for successive ten-year periods. The Benelux office of Designs and Models will grant registration of industrial designs for 50 years' protection. There is also the possibility of international deposit of industrial designs under the auspices of WIPO.

Responsibility for intellectual property issues within the Government of Belgium is fragmented. The Ministry of Economic Affairs retains jurisdiction for patents, models, and trademarks. Copyrights are currently in the Department of Education's portfolio, but may soon shift to the Ministry of Justice due to a proposed government reorganization.

Belgium supports the European Commission's view that there should be a comprehensive agreement to address trade-related intellectual property problems under the General Agreement on Tariffs and Trade.

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8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. With 75 percent of its labor force organized, Belgium is one of the most unionized countries in the world and has a long tradition of democratic trade union elections. Labor unions striking or protesting government policies or actions are free from harassment and persecution, although permits are required for open-air assemblies.

Labor unions are strong and independent of the government but have important informal links with and influence on many of the major political parties. Unions in Belgium are affiliated with the major international bodies representing labor, such as the International Confederation of Free Trade Unions and the World Confederation of Labor.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is recognized and exercised freely, although government austerity measures sometimes limit or alter the results of collective bargaining. Labor legislation and practice are uniform throughout Belgium. The right to due process and judicial review are guaranteed for all protected activity. In the first instance, the Labor Court reviews matters relating to collective bargaining. Parties then have the right of judicial review by the regular courts. Effective mechanisms exist for adjudicating disputes between labor and management.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law and does not occur in Belgium.

d. Minimum Age for Employment of Children

The minimum age for employment of children is 16; children may work and study part time from age 16 to 18. The Belgian Labor Court monitors compliance with national laws and standards.

e. Acceptable Conditions of Work

Belgian working hours, mandated both by law and through collective bargaining agreements, are among the shortest in Europe, averaging about 38 hours a week. There are generous provisions for minimum wage, currently at $873 a month for full-time workers over the age of 21. Generous vacation and unemployment benefits are also guaranteed. Adequate health and safety legislation exists, supplemented by collective bargaining agreements. Health and safety committees are mandated by law in companies with more than 50 employees. Belgium continues to suffer from a large budget deficit,

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deficit, slow economic growth, and high unemployment, currently at 11 percent. Governmental policies to promote employment and an extensive system of unemployment compensation and other social benefits have served to minimize serious individual financial hardship.

f. Rights in Sectors with U.S. Investment

U.S. investment in Belgium is found in the following sectors: petroleum; food and related products; chemicals and related products; primary and fabricated metals; machinery, except electrical; electric and electronic equipment; and wholesale trade. The Embassy is aware of no worker rights problem in any of the specific investment sectors mentioned.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		547
Total Manufacturing		3,486
Food & Kindred Products	263	
Chemicals & Allied Products	1,557	
Metals, Primary & Fabricated	116	
Machinery, except Electrical	292	
Electric & Electronic Equipment	253	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		1,522
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		5,555

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

BULGARIA

Key Economic Indicators

	1986	1987	1988(est)
Income, Production, Employment			
Real GNP (1985 US$ Billion)	61.2	62.5	63.9
Real GNP Growth Rate	2.2	2.2	2.3
GNP by Sector (1)(pct)			
Industry	60	60	N/A
Construction	10	9.3	N/A
Agriculture	15	12.5	N/A
Transport	7	7	N/A
Internal Retail and Wholesale Trade	5	N/A	N/A
Other	3	N/A	N/A
GNP Per Capita (US$)	6,800	7,222	7,126
Labor Force (millions)	4.90(est)	4.083	N/A
Unemployment	N/A	N/A	N/A
Money and Prices			
Money Supply	N/A	N/A	N/A
Savings Rate	N/A	N/A	N/A
Capital Investment(1) (pct of GNP)	35	36	N/A
Inflation Rate(pct)(1)	N/A	5	5
Exchange rate (leva/US$)(1)			
Official (midyear)	.946	.8934	.8285
With trade multiplier	1.419	1.295	1.657
Balance of Payments and Trade			
Total Exports (US$ mil)	14,277	11,515	12,022
Total Exports to U.S., cif	53.2	47.0	23.1(3)
U.S. Share of Bulgarian Hard Currency Exports	5.2	6.4	N/A
Total Imports (US$ mil)	15,093	11,515	11,190
Total Imports from U.S., fas	96.5	88.6	103.7(3)
U.S. Share of Bulgarian Hard Currency Imports	4.4	4.0	N/A
Balance of Trade (Millions leva)(1)	-1,002.8	-265.3	N/A
Gross Debt (US$Bil)(est)	5	6	7
Net Debt (US$Bil)(est)	3	5	6
Debt Service Ratio (2) (Hard currency)(pct)	19	26	29

(1) Official government statistics.
(2) Based on private sector estimates.
(3) Figures for January-October.

BULGARIA

1. General Policy Framework

Bulgaria's economy is the smallest in Eastern Europe. The Bulgarian Communist Party, which has roughly one million members, controls all phases of Bulgarian life. Bulgaria's economic system has been patterned on the Soviet model, and the country's economic strategy is set out in Soviet-type five-year development plans.

The current five year plan (1986-1990) calls for continued strong emphasis on industrial growth, particularly in electonics and machine building. The plan calls for approximately 54 billion leva in capital investment over the five year period, although actual investment is below this target. Housing construction is a priority sector, with 400,000 new housing units scheduled to be completed by 1990, although again actual construction is below set goals.

In the late seventies and early eighties, the Bulgarian economy began to lose steam, in part as the transition from an agricultural to an industrial economy ran its course. Declining population growth, an aging industrial plant, and increasing demands on natural resources and scarce energy (mostly imported) were contributing factors to the economic slowdown.

In response to poor economic performance and, more recently, to a deteriorating foreign trade situation, the party and the government introduced a series of economic reforms which continue and expand reforms of the late seventies. (In the mid-60s, Bulgaria launched a program of economic reform involving decentralization of decisionmaking and a greater reliance on market forces; this earlier trend was reversed in 1968.) The current reform process, which began in 1986, will have a major impact on economic development if fully implemented. Major features include: decentralized management decision-making, financial stimuli to motivate workers, creation of a commercial banking system, greater emphasis on "economic" levers, and more rational pricing policies. Some legislation for the reform program is already in place although the basic legal code for self-managing entities is not expected to enter into force until January, 1991.

At present, Bulgaria conducts 80 percent of its trade with member countries of the Council for Mutual Economic Assistance [CEMA]. Of this, 60 percent is with the Soviet Union, a major energy supplier. The government makes concerted efforts to bring hard currency import expenditures into line with export revenues. Imports from the West consist largely of capital goods. Because of competing claims on scarce hard currency, Western sellers can expect to encounter demands for countertrade in virtually all contracts.

BULGARIA

2. Exchange Rate Policies

The Bulgarian lev is not a convertible currency. All export and import transactions are priced and paid in transferable rubles or convertible currencies. The Bulgarian Government adjusts the official convertible currency rates of exchange monthly (or more frequently) using a currency basket. Since 1971, the Bulgarian Government has applied a trade multiplier to the official rate to determine a "premium" rate, at present twice the official rate, for commercial transactions with Western and other non-socialist countries. On November 1, 1988 a third "cash" rate was introduced to permit tourists to exchange money for some but not all purchases at a rate three times that of the official rate. The official exchange rate is used by the Bulgarian Government to compile statistical data on all trade and international commercial transactions. The official rate is the only rate published by the National Bank of Bulgaria for socialist countries.

Demand for foreign exchange exceeds supply. The National Bank of Bulgaria controls foreign exchange allocation, selling to firms on the basis of availability, import need, general economic conditions, firm efficiency and other criteria. Scarcity of hard currency tends to limit prospects for U.S. exporters.

3. Structural Policies

Prior to World War II, agriculture accounted for 65 percent of national income while industry produced just 15 percent. As a result of directed investment, emphasizing heavy industry and material production, these figures have been reversed; and industry accounts for 60 percent of national income. The Bulgarian Government now wants "qualitative" economic growth and seeks to upgrade the aging industrial base by introducing higher technology production methods (e.g., greater reliance on automation and robotics.)

Traditionally, prices have been set using a "cost-plus" method. Under the current reforms, government bodies would continue to set prices for some basic raw materials and consumer goods. Others would be set by enterprises using prevailing international market prices as a point of reference and adjusting for factors such as quality, services and transportation costs. In those cases where a firm's production costs for essential goods exceed the price determined under these principles, bonuses or subsidies could be granted.

Bulgarian firms may be liable for the following: excise tax, turnover tax, "resource" tax (taxes on fixed assets, use of land, working capital and manpower), municipal tax and profit tax. The profit tax is set at 40 percent of net profit. According to Bulgarian statistics, in 1986, taxes paid by enterprises amounted on average to 62 percent of total

enterprise income. Changes in the tax laws are expected to bring the figure down to 51 percent.

4. Debt Management Policies

It is estimated that since 1985 Bulgarian hard-currency debt has grown from around $2 billion to roughly $7 billion. Bulgaria has had payment difficulties in the past, both in the late 1960s and again in the late seventies. Both times the Bulgarians were able to bring the situation under control with Soviet support. Despite the rapid growth, the volume of Bulgarian debt is still not large in global terms; and as late as 1987, some Western bankers still considered the country to be "underborrowed."

5. Significant Barriers to U.S. Exports

Bulgaria's primary means of restricting imports is through the import licensing system administered by the Ministry of Foreign Economic Relations. Issuance of import licenses depends on availability of hard currency as determined by the Ministry of Finance and National Bank. Thus, enterprises which are able to earn hard currency through exports to the West find it easier to qualify for import licenses.

While Bulgaria has no specific annual quotas on imports from the United States, the U.S. share of Bulgaria's total imports from the West has remained small due to Bulgaria's limited ability to sell in the United States. Bulgaria imports its raw materials, commodities and some industrial products almost exclusively from its other socialist trading partners, with which it conducts an average of 75-80 percent of total trade.

The decline in Bulgaria's hard currency exports to the West since 1980 and concomitant increase in its Western import bill have caused countertrade demands to rise on all hard currency imports, with the exception of those considered essential by the government. The rapid growth in countertrade demands has greatly reduced the availability of high-quality, marketable countertrade goods. In addition, Bulgarian foreign trading companies and manufacturers try to restrict offset agreements to their in-house product lines. These two factors seriously constrain U.S. companies in their efforts to meet their countertrade obligations and add to the cost of doing business in Bulgaria. Although the Bulgarian Government does not officially condone countertrade, this restrictive business practice continues to grow in the face of hard currency shortages.

With some exceptions, business people in Bulgaria have different objectives, motivation, work habits, and time horizons than those living and working in Western market economies. Even under Bulgaria's recently-introduced economic reform program, decision making in Bulgaria continues to be a lengthy bureaucratic process in which vested interests often

obstruct efficient business practices. Consequently, doing business in Bulgaria can be a painstaking process which requires a substantial investment of time, energy and money. The effort required to realize a return on marketing in Bulgaria can be a significant trade barrier, particularly for small- and medium-sized U.S. exporters.

6. Export Subsidies Policies

The Bulgarian Government may grant subsidies to support production of specific products or groups of products. In some cases, subsidies are granted to individual firms. Long-term subsidies may be granted to agricultural producers and to producers in basic industry and/or infrastructure. Short-term subsidies may be granted to restructure inefficient producers.

7. Protection of U.S. Intellectual Property

Bulgaria is a signatory to almost all basic conventions covering the protection of patents, trademarks and copyrights. Bulgaria is a member of the World Intellectual Property Organization and party to the Paris, Berne and Universal Copyright Conventions. The Bulgarians are signatories to the Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods, the Patent Cooperation Treaty, The Madrid Agreement Concerning the International Registration of Marks, and the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration.

In practice, patent protection is available for some but not all products. For some items, including foodstuffs, pharmaceuticals, new crops or animal breeds, and "inventions related to the defense and security of the state," the Bulgarian Government will grant only an "Authorship Certificate" (i.e., inventor's certificate) rather than a patent. Authorship certificates do not provide adequate protection to the holder. Inventions that are contrary to State interests or socialist moral standards are unpatentable.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Bulgaria.

8. Worker Rights

a. The Right of Association

The Communist Party organizes and totally controls all trade unions, which are grouped together in a sole labor central called the Central Council of Bulgarian Trade Unions (CCTU). The head of the CCTU is a candidate member of the Politburo. Among the unions' chief roles are the fostering of their members' devotion to the party, the promotion of patriotism and "internationalism" (i.e., loyalty to the Soviet Union), and the facilitation of the "scientific-technical

revolution" (i.e., the technological modernization of production). The leader of the Bulgarian labor union delegation to a Balkan conference in July declared a main task of unions to be "the turning of the Balkans into a nuclear-free zone."

Workers are not permitted to organize outside the official union structure, nor are they allowed to strike, although disgruntled workers in Mezdra engaged in a week-long stoppage in March 1987. Labor unions have not defended workers dismissed from jobs for political transgressions. Security authorities may blacklist such workers from certain kinds of employment.

The CCTU is affiliated with the Soviet-controlled World Federation of Trade Unions. Bulgaria is a member of the International Labor Organization.

b. The Right to Organize and Bargain Collectively

There is no collective bargaining in Bulgaria. A new labor code, in force since January 1987, and a "restructuring" of unions in the spring of 1987 were putatively intended to shift the locus of union decision from the apex to its base: the much proclaimed arrival of "self-management." There is no indication, thus far, that the role of unions has substantially changed. Bulgaria has established customs-free zones in Ruse and Vidin.

c. Prohibition of Forced or Compulsory Labor

The Constitution declares that "every able-bodied citizen is obliged to do socially useful work." Those who do not work may be charged with "vagrancy" or social parasitism; Article 39 of the statutes of the People's Militia authorizes the imposition of "administrative measures," such as house arrest, on "people who lead nomad lives or beg as opposed to doing social labor." Compulsory labor may be required of prisoners or those in internal exile. Human rights activist Eduard Genov, interned in the village of Mikhalkovo prior to being exiled, reportedly worked in a mine.

d. Minimum Age for Employment of Children

The labor code adopted in 1986 stipulated 16 years as the minimum age for all but certain light work. Persons from 16 to 18 years of age may not be assigned work designated as heavy, harmful, or dangerous; their workweek is either 5 7-hour days or 6 6-hour days. These restrictions are effectively enforced.

e. Acceptable Conditions of Work

The minimum wage is the local currency equivalent of about $120 per month at the official exchange rate, and the average wage is the equivalent of about $210 per month.

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The workweek for adults is 42.5 hours (5 days of 8.5 hours) in most professions and occupations. Paid vacations range from 14 workdays annually, for those who have worked less than 10 years, to 18 workdays annually, for those who have worked more than 15 years. Additional paid vacation is granted those in certain difficult or dangerous occupations. Bulgarian practice appears generally to conform to these guidelines, although participation in unpaid supplementary "brigades" can lengthen working hours on various occasions during the year.

Trade unions are assigned a role promoting job safety and the general social welfare of their members. A national labor safety program exists, but standards of enforcement vary greatly. Newspaper reports in 1988 indicated that over one-third of working women labor in places of "unsatisfactory hygiene," and there is concern over the lack of safeguards for pregnant working women. Over 50 percent of working women reportedly have jobs that do not correspond to their "ergonomical requirements." There is also evidence that safety considerations do not figure prominently in work assignments for prisoners. Eduard Genov reportedly worked on a machine that creates dense dust laden with silicon dioxide particles.

f. Rights in Sectors with U.S. Investment

Currently, there are no industrial sectors with direct U.S. investment in Bulgaria. The U.S. Department of Commerce has not compiled any data on investments in Bulgaria.

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Key Economic Indicators

Millions of Canadian Dollars (C$) Unless Stated

	1986	1987	1988
Income, Production, Employment (1)			
Real GDP (Billions of C$)	407.7	424.1	441.0
Real GDP Growth Rate (pct)	3.2	4.0	4.0
Real GDP by Sector (at Factor Cost) (2)			
Manufacturing	69,971	73,744	78,553
Finance, Insurance, Real Estate	52,414	55,166	58,229
Trade	42,484	45,651	48,363
Community, Business and Personal Services	37,662	38,549	40,117
Transportation & Communications	27,170	28,235	30,430
Construction	25,029	26,453	27,052
Mining	20,907	21,844	23,539
Agriculture	12,823	12,139	11,040
Other Utilities	10,627	11,194	11,437
Forestry	2,556	2,840	2,596
Real per capita Income	10,243	10,512	10,657
Total Labor Force (000s)	12,870	13,121	13,400
Unemployment Rate (pct)	9.6	8.9	7.7
Money and Prices (2)			
Money Supply (M1)	33,081	35,708	37,036
Interest Rates (yr-end) (3)			
Bank of Canada Rate	8.49	8.66	10.54
Chartered Banks' Prime Rate	9.75	9.75	11.75
90-Day Commercial Paper	8.35	8.85	10.55
Personal Savings Rate	11.52	9.58	8.55
Consumer Price Index (1981=100)	132.4	138.2	143.9
Industrial Product Price Index (1981=100)	119.6	122.8	127.8
Exchange Rate (yr-end) (C$/US¢)	72.44	76.96	82.00
Balance of Payments and Trade (4)			
Merchandise Exports	119,889	126,125	69,444
To the U.S.	93,323	96,581	52,119
Merchandise Imports	110,079	115,149	65,079
From the U.S.	76,407	79,154	45,449
Global Merchandise Trade Balance	9,810	10,976	4,365
Balance with U.S.	16,916	17,428	6,670
Global Current Account Balance	-10,496	-10,576	-6,178
Balance with U.S.	4,722	4,556	-486
Gold Holdings (Millions of US$)	844.5	919.5	828.5
Official International Reserves (Millions of US$)	4,095.6	8,203.2	16,244.2
Canada's Gross External Debt	227.2	247.0	N/A
Debt Service Payments	24.0	23.0	N/A

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Footnotes:
(1) 1988 forecast data supplied by the Conference Board of Canada.
(2) End of period, 1988 data as of June, 1988.
(3) End of period, 1988 data as of October 31, 1988.
(4) 1988 data is cumulative total for first six months of the year.

1. General Policy Framework

Canada has a mixed economy. Production and services are predominately privately owned and operated. However, the federal and provincial governments are significantly involved in the economy. They provide a broad regulatory framework and engage in considerable redistribution of wealth from high income individuals and regions to less advantaged persons and provinces. Also important are government-owned Crown Corporations such as Air Canada, the Canadian Broadcasting Company, Canadian National Railway Co., and Petro Canada.

Canada is a major producer of natural resources and related products. Forestry, mining, and the energy sector are leading exporters. The economy is also fully industrialized and produces highly sophisticated consumer goods and capital equipment. Canada is the most important trading partner of the United States, with merchandise exports of US$73.6 billion to the United States and imports from the United States valued at US$61.1 billion in 1987. Vehicles and parts accounted for 35 percent of U.S. exports to Canada in 1987. U.S. exports of capital equipment and machinery also increased markedly in response to sharp increases in Canadian investment spending. The stock of foreign investment in Canada amounted to US$79.3 billion at the end of 1987, and foreign-owned firms represented 41.7 percent of Canadian manufacturing firms.

Federal government economic policies since late 1984 have emphasized reduction of the public sector role in the economy and promotion of private sector initiative and competition. The Canadian Government dismantled the highly interventionist National Energy Program and converted the restrictive Foreign Investment Review Agency into Investment Canada, which was given a mandate to encourage foreign investment. Both federal and provincial governments undertook privatization of selected Crown Corporations.

In addition to limiting its role in the economy, the government has made progress in reducing the growth of federal debt since 1984, reducing the annual federal deficit from C$32 billion in 1985 to C$23.2 billion in 1987. Most observers believe that the deficit and related expansion of government debt remain the most pressing problems facing Canadian fiscal policymakers. Non-discretionary (statutory) programs account for 44 percent of the FY1988-89 federal budget. Even reduction of subsidies for regional development and other remaining discretionary programs would require the government

to make difficult political decisions. Meanwhile, debt service payments, which accounted for 23 percent of net federal expenditures in FY1987-88, take an increasing share of federal revenues with each passing year.

The Bank of Canada is a publicly-owned, quasi-independent central bank. The Governor of the Bank is appointed by the government, while the Bank's Board of Directors are private sector representatives from across the country. The Bank rate or interest charge on central bank advances is set 0.25 basis points above the average yield on 90-day Treasury bills at the weekly auction conducted by the Bank of Canada. The authorities may participate in the auction to influence its outcome. Other tools used to control the money supply include management of the government's cash deposits with the chartered banks, purchase and resale agreements with money market participants, and open market operations. The Bank of Canada has been largely successful in maintaining relatively stable rates of growth in the monetary aggregates.

2. Exchange Rate Policies

The Canadian dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada operates in the exchange market on almost a daily basis for purposes of maintaining orderly trading conditions and smoothing rate movements. In the past two years, the Canadian dollar has appreciated approximately 13 percent against the U.S. dollar and nearly 17 percent on a trade-weighted basis against the G-10 currencies. During the same period, Canada's official foreign exchange reserves increased from US$4 billion to US$15 billion, despite the appreciation of the Canadian dollar.

3. Structural Policies

Prices for most goods and services, including land, buildings, capital equipment, and consumer goods are established by the market without government involvement. Energy prices were decontrolled in 1985 with the dismantling of the National Energy Program. There are some important exceptions, such as prices for health services, which are regulated by the government.

The principal sources of federal tax revenue are corporate and personal income taxes, the manufacturers sales tax, unemployment insurance contributions, customs duties, and energy taxes. In 1988, Parliament approved legislation implementing the first stage of a federal tax reform. Corporate and personal income tax rates were lowered and exemptions and credits were eliminated or reduced. The reform brought Canadian personal and corporate income tax rates more into line with comparable U.S. rates and reduced many of the distortions in the former income tax system. The Tory

government of Prime Minister Mulroney has planned a "Stage II" of tax reform, which would replace the existing manufacturer's sales tax with some form of value-added tax covering most services and imports as well as all domestically produced goods.

Federal government regulatory regimes affect foreign investment and also U.S. firms in the financial services. Although foreign banks are subject to federal restraints on their operations and growth, U.S. banks are to become exempt from these restrictions under the U.S.-Canada Free Trade Agreement (FTA). Provincial reforms in 1987-88 enabled foreign securities firms to open offices in Canada and authorized banks to establish securities subsidiaries. The Mulroney government plans to introduce further reforms to largely eliminate barriers between banks, trust companies and insurance companies. However, trust companies and the Province of Quebec are opposed to proposed restraints on links between financial and commercial companies.

The pro-competitive National Transportation Act and its companion legislation, the Motor Vehicle Transport Act, entered into force on January 1,1988. While underscoring the continuing need to maintain high safety standards, this legislation introduced a greater degree of deregulation in the Canadian transportation industry. Among the provisions of the new Canadian transport laws are the following: the main regulatory body, the Canadian Transport Commission, was replaced by the more streamlined and accessible National Transportation Agency; regulation of airline passenger fares and air cargo tariffs were largely eliminated; market entry for domestic airline operations was eased; a uniform, nation-wide entry test for extraprovincial trucking operators was established, thereby reducing barriers against U.S. trucking operators; collective rate-making among railways has been abolished and shippers have been allowed for the first time to negotiate confidential contracts with carriers. Transportation is not included in the FTA.

Canada has a complex mixture of federal and provincial legislation, policies and regulations regarding telecommunications. The carriers include private, governmental and mixed corporations and organizations. They are regulated either by a federal agency, the Canadian Radio-television and Telecommunications Commission (CRTC), a provincial public utility board, or a provincial or municipal government. The division of regulatory responsibilities between federal and provincial jurisdictions is being examined in the context of a legal proceeding now before Canada's Supreme Court. The allocation and use of the radio spectrum is regulated by the Department of Communications. The present government has expresed its intent to introduce a policy favoring more competition in telecommunications. A new Telecommunications Act, yet to be introduced, would define basic and enhanced services, exempting the latter category from governmental economic regulations.

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4. Debt Management Policies

Canada's net external indebtedness (which excludes the equity component of both external assets and liabilities) rose from C$ 98 billion (22 percent of GDP) in 1984 to C$ 155 billion (28 percent of GDP) in 1987, a relatively high figure for an industrial country. While foreigners have been receptive to holding Canadian securities and such purchases have contributed to the strength of the Canadian dollar, the sharp rise in external indebtedness has made the Canadian dollar and economy increasingly vulnerable to shifts in international investor confidence.

5. Significant Barriers to U.S. Exports.

Provincial Liquor Board policies regulate Canadian retail distribution of alcoholic beverages. U.S. beer, wine and distilled spirit suppliers have difficulty marketing their products since provincial liquor boards often refuse to carry (list) their products. If listed, boards charge discriminatory mark-ups. The FTA will eliminate discrimintory listing requirements and phase-out discriminatory pricing practices for wine and distilled spirits.

The Canadian Wheat Board (CWB) controls all imports of wheat and wheat-based products through an import licensing system. Similar restrictions apply to oats, barley and related products. Under the terms of the FTA Canada agrees to eliminate these import license requirements as soon as the agricultural support levels for these commodities in both countries are equivalent.

Starting in 1988, the Ministry of External Affairs expanded import restrictions on dairy products by implementing a permit system to restrict imports of ice cream and yogurt.

Several restrictions apply to fresh fruit and vegetable imports. High seasonal duties protect many key Canadian produce items during the local fresh marketing season. A "fast track" horticultural surtax can be imposed on ten named commodities when U.S. free-on-board prices fall below specified moving averages. Upon request, other horticultural products can be monitored and made subject to the "fast track." Bulk produce imports are not permitted without a waiver of Canadian packaging regulations. Consignment selling of U.S. fresh produce is also prohibited.

Canada maintains annual global import quotas for chicken, turkey and eggs. The FTA will enlarge the quota quantities.

A preferred supplier relationship between Bell Canada, Canada's largest telecommunications service provider, and Northern Telecom, Canada's largest telecommunications equipment manufacturer, constitutes a barrier to U.S. export sales of telecommunications equipment to Canada.

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Canada denies Canadian enterprises tax deductions for the cost of advertising in foreign broadcast media when the advertising is directed primarily at Canadians. This negatively affects the operations of U.S. border television stations beaming programs into Canada.

Various restrictions on advertising aimed specifically at the Canadian market restrict U.S. access to the Canadian market for publications and print media advertising.

Canada law requires that processing and maintaining Canadian bank operation records must be done in Canada.

Since 1979 the Canada Post Corporation (CPC) has applied higher postal rates to foreign publications mailed in Canada, and to foreign publications printed and mailed in Canada, than to Canadian publications. The lower rates for Canadian publications cost the Canadian Government about C$ 225 million per year in subsidies paid to the CPC to support Canada's cultural policies in the book, magazine and newspaper sectors. In April 1988, the government announced that the subsidies would be maintained at current levels for at least the next five years.

Several problems exist in the area of standards. Entry of most U.S. residential construction plywood is effectively denied because of the Canadian Standards Association (CSA) plywood standards. Uniform minimum size requirements restrict imports of U.S. apple species not grown commercially in Canada.

Under the Investment Canada Act and Canadian policies in the energy, publishing, telecommunications and transportation, broadcasting and cable television sectors, Canada maintains laws and policies which interfere with new or expanded foreign investment. As well, foreign investment in the banking and financial services sectors is restricted under the Bank Act and related statutes.

The Act requires the federal government to review and approve U.S. and other foreign investment to ensure "net benefit to Canada." The Act exempts from prior government approval foreign investments in new ("greenfield") businesses and acquisitions worth less than C$5 million. 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 for similar reasons are foreign investments to establish new businesses or acquire existing ones for the publication of magazines, periodicals or newspapers. Foreign investment in these sectors is potentially subject to review regardless of size or whether the investment is new or through direct or indirect acquisition. Indirect acquisitions outside the cultural area worth C$50 million or more are also subject to review. Under the Free Trade Agreement, Canada commits to phase in higher threshold levels for review of direct acquisitions from C$5 million to C$150 million in constant dollar terms by 1992. Screening of indirect acquisitions will be phased out altogether by 1992.

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Further to the legal position on culture embodied in the Investment Canada Act, Investment Canada enforces specific federal book publishing guidelines. Canada requires forced divestiture of control to Canadians as a condition for approving such indirect foreign acquisitions as transfers of Canadian subsidiary ownership due to foreign mergers and acquisitions. In addition, Canada will approve new investments and direct acquisitions in the sector only if Canadians are given control within two years. Under the FTA, Canada commits to offer to purchase a Canadian subsidiary from a U.S. investor at fair open market value as determined by an independent, impartial assessment in the event of a forced divestiture in the cultural area pursuant to the review of an indirect acquisition.

Investment Canada also has specific policies regarding foreign investment in the film distribution sector which state that: takeovers of Canadian owned and controlled distribution firms will not be allowed; investment to establish new distribution firms in Canada will only be allowed for importation and distribution activities related to proprietary products; and indirect or direct takeovers of foreign distribution firms operating in Canada will be allowed only if the investor undertakes to reinvest a portion of its Canadian earnings in accordance with national and cultural policies.

The Canadian government continues to seek as a long-term policy goal Canadianization (50 percent Canadian ownership) of the country's oil and gas industry. Although many of the provisions of the National Energy program introduced in 1980 have been rescinded, substantial restrictions on foreign investment in the energy sector continue in force. These restrictions have been "grandfathered" in the FTA. Direct acquistion of Canadian-controlled firms continues to be reviewable. Takeovers of healthy Canadian firms valued at more than C$5 million will be rejected. Purchases of unhealthy firms may be permitted subject to discussion of corporate undertakings of equity, investment and employment. Canadians must own at least 51 percent of an individual uranium property when it comes into production. While any foreign firm may begin business in Canada, bid for leases, and explore for and develop oil and gas reserves, a Canadian ownership ratio of at least 50 percent is required before a consortium can receive an oil or gas production license on Canadian lands, including Canadian offshore areas on the west, east and north coasts, the Northwest Territories and the Yukon.

In the banking sector, the Bank Act of 1980 made chartering of foreign banks possible for the first time. However, the Act imposed on foreign banks limitations that do not apply to domestic institutions, e.g., foreign owned banks chartered in Canada are limited to a main office and one branch, but additional branches may be opened with government approval. The Act also restricted the total asset share of foreign bank subsidiaries to eight percent of total domestic assets of all chartered banks in Canada, although a 1984 amendment to the Act raised this to 16 percent. Despite the amendment, the Bank Act still restricts foreign banks' ability to expand in Canada, and is in sharp contrast to the national

treatment (or better) accorded to Canadian banks in the United States. Foreign banks wishing to acquire a Canadian bank also face restrictions, in that any one bank cannot hold more than 10 percent of a Canadian bank's assets (this is nondiscriminatory since the same restriction applies to Canadians). However an additional provision is discriminatory in that no more than 25 percent of a bank's assets can be held by foreigners.

In the securities sector, provincial laws which regulate the sector were recently amended to abolish the "10/25" rules applying to investment in securities firms. In the trust and loan and insurance sectors, which are regulated by both the federal and provincial governments, foreign investors wishing to establish in either of these two areas may do so, but acquisitons of Canadian firms are still subject to both provincial "10/25" rules and to the federal "10/25" rule as described above.

The FTA eliminates all discriminatory restrictions on U.S. bank subsidiaries in Canada. It also exempts U.S. firms and investors from the discriminatory aspects of the federal "10/25" rule so that they will be treated as Canadian firms. The FTA as well eliminates the federal "10/25" rule for acquisitions in the non-bank financial sector.

As already noted, Canada reserves the right to review certain foreign investments and consider any conditions investors "volunteer" consistent with the Investment Canada Act. Once an investor "volunteers" to meet various performance requirements, the undertakings are de facto preconditions to entry. The FTA ends the imposition of most performance requirements on U.S. investors and third-country investors when U.S. interests would be affected. Under the FTA, export requirements, import substitution, domestic content and local purchasing requirements are prohibited.

Investment Canada offers ample administrative authority to deny national treatment to foreign-owned investors in certain sectors, e.g., book publishing, and also permits considerations based on nationality (rather than antitrust)for indirect acquisitions of some Canadian firms. Limitations on national treatment as reported to the Organization for Economic Cooperation and Development include: discriminatory federal and provincial grants and other types of financial assistance for oil and gas exploration, minerals exploration, agriculture, publishing, and retail and wholesale commerce; discriminatory federal and provincial provisions on income tax and land transfer taxes; several discriminatory government procurement practices; and right of establishment restrictions on new investment by already established investors.

Where GATT Government Procurement Code requirements do not apply, Canadian government entities maintain a preferential sourcing policy by soliciting bids according to a system favoring Canadian- over foreign-based firms. If there is sufficient competition from Canadian-based sources, foreign-based firms are not invited to bid. Single-source procurements are alsc used to favor Canadian firms.

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The major federal procuring entity, Supply and Service Canada, administers a source development fund to establish domestic supply sources and encourages domestic suppliers with published information in procurement outlook conferences (generally open to foreign supplers).

For purchases not covered under the GATT Procurement Code, SSC maintains an informal 10 percent price preference level for "Canadian content." Canada's federal and provincial quasi-government (Crown) coporations follow strong "buy national" or "buy provincial" policies. Products affected include telecommunications, heavy electrial and transportation-related products.

6. Export Subsidies

The Canadian government subsidizes rail transporation of wheat, barley, oats and many other agricultural commodities intended for export. Since 1984, the Canadian government has extended rail rate subsidies to exports of these and an enlarged list of commodities destined to the western United States. The Free Trade Agreement will eliminate subsidies on agricultural products shipped to the United States through West Coast ports, though not on shipments to third markets or through Thunder Bay.

7. Protection of U.S. Intellectual Property

Canada is a party to the Berne, Paris and Universal Copyright Conventions.

The Canadian Government has long-standing legislation to protect intellectual property rights and effective law enforcement. The Canadian Patents Act, first passed in 1869, was most recently amended on November 19, 1987. By significantly improving protection for patented drugs, this amendment was a positive step in resolving some of the complaints voiced by the U.S. pharmaceutical industry concerning alleged Canadian bias in favor of generic drugs. One remaining concern is the lack of adequate legislation to protect semiconductor chip design and lay out. However, the Canadian authorities are actively participating in multilateral negotiations to achieve a viable regime to adequately protect this high technology sector.

Copyright legislation has also been strengthened. The amendment of June 8, 1988 to the Canadian Copyright Act provided explicit protection to computer programs, increased criminal penalties for commercial piracy, and clarified several ambiguities in the extent of the coverage provided by the earlier copyright and industrial design protection statutes. A further copyright amendment has been drafted and is pending enactment. This proposed amendment and its corresponding implementing regulations address the issue of retransmission of radio and TV signals. Once passed, the legislation will be the basis for settling a major bilateral dispute by securing adequate compensation for U.S. copyright

holders whose signals are being retransmitted into Canada from the United States by certain Canadian cable operators.

Regarding multilateral efforts to strengthen intellectual property protection, Canada has generally shared the views of the United States. Most recently, Canadian authorities have been working together with the United States to bring about a stricter regulatory regime in the context of the Uruguay Round.

8. Worker Rights

a. The Right of Association

Workers in both the public and private sectors have the right to associate freely and to strike. These rights are protected--at the Federal level--by the Canada Labour Code, which covers all employees under Federal jurisdiction. All other organized workers are protected by Provincial labor legislation. Trade unions are independent of the Government and may freely affiliate with international organizations.

In practice, certain groups of essential public sector employees are not allowed to strike. Restrictions vary from province to province. Eleven thousand members of the Alberta Nurses Association, barred from striking by Provincial legislation designating them "essential workers," went out on strike in January-February 1988, ignoring court orders to return to work. The Nurses Association was ordered to pay unprecedentedly high fines for the action, and some members were charged with contempt for refusing to return to work.

b. The Right to Organize and Bargain Collectively

Workers in both the public and private sectors have the right to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights which vary from province to province. All labor unions have full access to mediation, arbitration, and the judicial system. Canada has a limited number of export processing zones, and labor laws and practices within them are consistent with Federal and relevant Provincial laws and practice.

In 1987 the Security Intelligence Review Committee began an investigation of allegations that a person charged with conspiracy to bomb four Quebec hotels involved in a labor dispute had been acting as an agent provocateur for the CSIS. The Committee found no evidence to indicate that the CSIS had directed or encouraged this person in the perpetration of the illegal acts for which he was later convicted. The Committee found in addition that the CSIS had never assigned him to report on any labor organization or on the labor-related activities of any person.

c. Prohibition of Forced or Compulsory Labor

There is no forced labor practiced in Canada.

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d. Minimum Age for Employment of Children

Child labor legislation differs among the provinces. The Federal Government generally prohibits those under 17 years of age from working for the Federal Government while school is in session. Provinces generally prohibit those under age 15 or 16 from working without parental consent, working in any hazardous employment, or working at night. These prohibitions are effectively enforced through inspections conducted by the Federal and Provincial labor ministries.

e. Acceptable Conditions of Work

Labor standards vary from province to province, but all limit the standard workweek to 40 or 48 hours and guarantee a sufficient minimum wage. The Province of New Brunswick's minimum wage of about $3.33 per hour is the lowest in Canada. Federal and Provincial legislation, which is effectively enforced through inspections conducted by the respective labor ministries, protects employees from hazardous working conditions.

f. Rights in Sectors with U.S. Investment

U.S. investment in Canada is found in the petroleum, food and related products, chemicals and related products, primary and fabricated metals, machinery, except electrical, electric and electronic equipment, transportation equipment, other manufacturing, and wholesale trade sectors. In the protection of workers' rights, Canadian law and practice do not provide for different standards in different sectors. Workers in all industries and employment categories benefit from the same high standards of protection, with small distinctions depending on whether a particular worker is protected by federal or provincial legislation and practice.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		11,931
Total Manufacturing		25,800
Food & Kindred Products	2,276	
Chemicals & Allied Products	4,916	
Metals, Primary & Fabricated	1,862	
Machinery, except Electrical	2,923	
Electric & Electronic Equipment	2,237	
Transportation Equipment	6,556	
Other Manufacturing	5,030	
Wholesale Trade		3,178
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		40,909

Source: U.S. Department of Commerce, Survey of Current Business
August 1988, Vol. 68, No. 8, Table 13

CYPRUS

Key Economic Indicators

Millions of Cyprus Pounds (CP) Unless Otherwise Noted

	1986	1987	1988
Income, Production, Employment			
Real GDP	1,607.7	1,791.5	1,971.0
Real GDP Growth Rate	4.1	7.2	5.4
GDP by Sector			
Agriculture	7.8	7.9	7.9
Manufacturing/Mining	16.9	16.1	16.2
Construction/Electricity	12.8	11.9	11.9
Trade, Hotels & Rest.	19.6	21.0	21.2
Transport	9.8	10.0	9.9
Finance	14.7	14.4	14.2
Services (incl. Govt.)	18.4	18.7	18.7
Per Capita Income (CP)	2,886.5	3,167.3	3,400.0
Labor Force (000s)	251.6	256.3	260.0
Unemployment (pct)	3.7	3.4	2.9
Money and Prices			
Money Supply (M1)	283.4	314.9	344.0
Commercial Interest Rates (pct)	9.0	9.0	9.0
Savings Rate (1)(pct)	30.0	30.5	29.7
Investment Rate (2)(pct)	23.8	22.6	23.0
Consumer Price Index (pct)	1.2	2.8	3.0
Wholesale Price Index (1986=100)	-4.5	-0.3	1.0
Exchange Rate (avg) (US$/CP)	1.93	2.08	2.13
Balance of Payments and Trade			
Total Exports, fob	234.0	272.5	298.0
Total Exports to U.S.	5.0	5.0	5.0
Total Imports, fob	591.5	638.3	678.0
Total Imports from U.S.	27.8	32.2	36.0
Aid from U.S. (US$)	15.0	15.0	15.0
Aid from Other Countries (est, US$)	23.0	17.0	17.0
External Public Debt	638.0	649.1	655.0
Annual Debt Service (paid)	107.5	118.9	129.0
Gold and ForEx Reserves	477.9	501.3	525.0
Balance of Payments	65.8	62.4	65.0

(1) = Private domestic savings ratio, as a percentage of GDP.
(2) = Gross fixed capital formation as a percentage of GDP.
As of 10/31/88 CP1=US$2.11)

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1. General Policy Framework

The Republic of Cyprus enjoys a generally open, stable and prosperous free-market economy. It is closely associated with the European Communities (EC) by tradition and by agreements in 1973 and 1988 providing for gradual movement to a Customs Union. Cyprus runs a modest balance of payments surplus, as merchandise trade deficits are generally offset by earnings from a flourishing tourism sector. (Note: Since 1974 the northern 34 percent of the island has been occupied by troops of the Turkish Army. The population in the North is almost exclusively of Turkish Cypriot origin; the per-capita income there is less than a third of that in the South and the area is heavily dependent on Turkish aid. Comments in this report deal exclusively with the policies in effect in the areas controlled by the Government of Cyprus.)

The government sector in Cyprus traditionally runs a deficit, which has been steadily growing since 1985. It increased from 4.0 percent of the gross domestic product (GDP) in 1985 to 4.1 and 4.3 percent in 1986 and 1987, respectively. During 1988, the deficit is projected at Cyprus Pounds (CP)85.4 million, or 4.3 percent of GDP.

President Vassiliou has pledged to cut the deficit to a third of today's level within the next few years. He has been quoted as saying that he intends to beat tax evasion and cut down on "non-productive" expenditures. The main fiscal policy tools now available to the Cyprus Government are a graduated income tax, corporate tax and customs duties. The government intends to introduce a Value Added Tax (VAT) which should significantly improve its fiscal position.

The largest chunk of government expenditure (85 percent) in 1987 went to current expenditure. About 46 percent of current expenditure was spent on goods and services, mainly wages and salaries. Interest payments accounted for 15 percent of current expenditure, while social security fund payments absorbed 17 percent of current spending. Development expenditure comprised 12 percent of total spending during 1987.

The financing of the deficit is done mostly through domestic borrowing. Net domestic borrowing increased by CP78 million in 1987 (through Treasury Bill issues, new issues of Development Stock, and Savings Certificates). Treasury Bills held by the Central Bank and the commercial banks at the end of 1987 amounted to CP2.3 million and CP180.8 million respectively, while advances from the Central Bank totalled CP79.2 million. The government also has recourse to a syndicated line of credit in the Euromarkets as a means of supplementing its financing.

The Central Bank of Cyprus tightly targets monetary and credit policy to promote monetary stability. During 1987, with a recorded real rate of growth of 7.2 percent the specific targets were an increase of 7.6 percent in total liquidity and an increase of 6.8 percent in bank lending to the private sector. Since interest rates are fixed by law at

nine percent, the main tool left to the central bank to control inflation is adjustment of the minimum bank reserve requirement, which averaged 28 percent in 1987. Commercial banks have responded to the interest rate cap by charging various "service fees" which raise the effective interest rate. Cooperative credit institutions are exempt from the reserve requirement and currently handle about a third of the credit to the private sector. Another monetary tool the Central Bank uses is the exchange control restrictions.

2. Exchange Rate Policies

The central bank uses a single exchange rate for the Cyprus Pound, adjusted daily at the Bank's discretion. The value of the Cyprus Pound is pegged to the average value of a basket of currencies of Cyprus' main trading partners. Local residents are not allowed to hold foreign currency except with permission. When travelling abroad, a resident is allowed to obtain up to CP450 in foreign currency per trip. Receipts from exports must be repatriated within a maximum of 180 days. Payments abroad for imports and all other current payments may be executed through commercial banks without any restrictions. Exchange control restrictions are aimed at limiting portfolio investment abroad by Cypriots. They do not affect price competitiveness of U.S. exports.

Non-residents may maintain external accounts in Cyprus Pounds as well as foreign currency accounts with authorized commercial banks. There is no control over transfer of foreign funds to these accounts or to their retransfer at any time in any currency to any part of the world. Permission for the repatriation of capital, profits, dividends and interest arising from a non-resident investment in Cyprus is freely granted. There is no prescribed maximum percentage of profits that may be repatriated each year or minimum period before which the non-resident may dispose of his investment. Any capital invested along with any capital gains arising from the disposal of shares can be freely remitted overseas. Exchange control permission is necessary for the transfer of shares from non-residents to other non-residents or to residents; it is readily given on presentation of accounts. Royalties and other payments on the transfer of technology must be approved in advance. Once approved, they can be freely remitted abroad.

3. Structural Policies

Purchasing decisions are made mostly through a free market process. Government control on prices is minimal and applied principally to fresh produce and foodstuffs. When dumping is involved the government may ban outright the import of a product posing unfair competition for local manufacturers.

The government subsidized two products -- grain and grapes -- to the tune of about $62 million in 1987. The Government Grain Commission provides domestic and imported grain at subsidized prices to millers and consumers after

purchasing it at prevailing world market prices. The government subsidizes operating costs of vineyards, grape prices and the export of wine. The government aims gradually to reduce subsidies and to help the farmers stay competitive without them. These subsidies do not affect the competitiveness of U.S. products.

International studies show that the overall level of taxation in Cyprus is less than two-thirds of the average of other countries enjoying the same per capita income and half that of many developed countries. In 1986, total taxes stood at only 23.7 percent of the island's GDP. Moreover, taxes on corporations comprised about 3.7 percent of total fiscal revenue. The most important taxes levied are a company income tax, taxes on royalties, dividends and interest, income tax on individuals, capital gains tax, and property taxes.

Tax incentives for the resident and non-resident investor alike include a ten-year tax holiday to manufacturers of "New Products"; write-offs on investment expenditures; tax shelters for deposits of foreign capital and investment accounts; and tax shelters for income generated by the operation of a Cyprus-registered ship in international waters.

Cyprus uses European standards (especially British) in construction and manufacturing. None of these regulations directly affects U.S. exports.

4. Debt Management Policies

The debt of the Government of Cyprus is mostly domestic. No rescheduling or adjustment programs have been necessary. At the end of 1987 public and publicly guaranteed medium and long-term domestic and foreign debt totalled CP762.8 million, equivalent to 42.6 percent of GDP. The debt situation does not affect Cyprus' trade with the United States.

5. Significant Barriers to U.S. Exports

Cyprus has given preferential tariff treatment to the European Communities (EC) since its Association Agreement in 1973. During the first stage of the Agreement, tariffs on imports from the EC were reduced by 35 percent, as compared with imports from all other countries. Beginning in 1988 a Customs Union agreement instituted further annual reductions designed to complete the unification in ten years. (EC countries now receive 41 percent of Cypriot exports and provide 57 percent of imports.) Cyprus will adopt the EC's Common Customs Tariffs schedule and upon mutual consent the rules of origin requirement will be abolished.

Any application for foreign investment in Cyprus must be approved by the central bank. Priority is given to new products, new technologies and new methods of production.

Export-oriented production is encouraged. Other factors considered include the effect on existing units of production, the extent of Cypriot participation, use of local materials and creation of new employment opportunities.

The extent of allowable foreign participation depends mainly on the sector or activity of the investment:

- for export oriented businesses in the Larnaca Free Zone: up to 100 percent;
- for new products: up to 49 percent, but for highly desirable projects up to 100 percent;
- for tourist projects: up to 49 percent for certain favored types and areas (otherwise prohibited);
- for "Traditional Activities" (including agriculture, fishing quarrying, manufacturing of food, beverages, tobacco, furniture, footwear, paper, leather, chemicals, pumps and solar energy heaters): usually 24 percent, but in very few cases up to 49 percent;
- for "Saturated Sectors" (retail trade, construction, restaurants, cafes and real estate) no permission is usually granted;
- for "Residual Activities" (accounting, data processing and manufacturing of certain types of goods): usually up to 49 percent; and
- for "Sectors of Specific Treatment" (public utilities, such as banking, insurance, telecommunications, electricity and others) treatment is on a case-by-case basis.

Non-residents wishing to take up employment in Cyprus must have a permit under the "Aliens and Immigration Law". In cases of approved foreign investment or in particular offshore companies, the granting of such a permit is a matter of course.

Foreigners are excluded from purchasing more than one piece of real estate. The purchase of real estate property by a non-resident must be vetted by the Central Bank in order to establish that payment has been made in foreign currency. In addition, the approval of the Council of Ministers and of the Central Bank must be secured before a non-resident purchases real estate property (of more than 600 applications made in 1987, 462 were approved). On sale of such property, non-residents are allowed to transfer abroad the amount originally paid through external funds for the acquisition of the property, with the remainder being released in accordance with the regulations governing the operation of blocked accounts. These regulations currently provide for the release abroad of CP5,000 per annum from the capital plus the whole amount of interest earned during the year.

Current regulations generally stipulate that the following products are subject to an import license: foodstuffs, alchoholic beverages, construction industry raw materials (cement, gypsum, tar, etc.), oil and its by-products, various types of equipment (such as for road construction, food processing, printing, clothing industry, metallurgy and others) electric power generators, oil products, fertilizers and various chemicals. The Minstry of

Commerce has the authority to turn down any application for an import license, with a view to protect either the public or local manufacturers and producers. The trend, however, is towards simplifying trade and shortening the list of products requiring an import license.

Imports from Eastern Bloc countries are subject to the bilateral agreements in force, while imports from South Africa are completely banned.

6. Export Subsidies

The only export the government seeks to subsidize, though indirectly, is wine. Every year it pays about CP9 million in subsidies to the local wineries. Despite government efforts to promote wine export sales or barter, wine represents only about two percent of exports originating in Cyprus.

7. Protection of U.S. Intellectual Property

Intellectual property rights are protected in Cyprus, which is a signatory of the Berne and Paris Conventions.

There have been reports of substantial film piracy on Cyprus, a significant amount of which may be occurring in Northern Cyprus.

According to the U.S. motion picture industry, Greek cinema prints are an important source for pirate Cypriot cassettes. In addition, unauthorized public performance is a problem, with unauthorized diffusion to hotel rooms and pirate television stations in operation. The videocassette market is estimated to consist 100% of pirated material.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely on both sides of the cease-fire line which divides the two communities. Over 80 percent of Greek Cypriot workers and 50 percent of Turkish Cypriot workers belong to independent trade unions. In both communities, trade unions freely and regularly take stands on public policy issues affecting the workers. Most unions are affiliated either with the International Confederation of Free Trade Unions or with the World Federation of Trade Unions. Unions in both parts of Cyprus freely take part in international meetings. The Government of Cyprus has taken a particularly active role in the International Labor Organization. Labor unions, more than most other organizations on Cyprus, attempt to maintain contact and cooperation across the dividing line.

All Cypriot workers have the ght to strike. In general, however, strikes are rare and usually of short duration. Both the Government of Cyprus and the Turkish

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Cypriot authorities have the power to curtail strikes in what are deemed to be essential services.

b. The Right to Organize and Bargain Collectively

Under law and in actual practice, trade unions and confederations, both non-Communist and Communist, are free to organize and to bargain collectively in both parts of Cyprus. In both the north and the Republic, parties to a dispute may request mediation by the authorities. In both sectors legislation prohibits dismissal for participation in trade unions. There are no zones in either the Greek or Turkish Cypriot areas where the right to organize and bargain collectively are barred.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not occur.

d. Minimum Age for Employment of Children

The Government of Cyprus has set the minimum age of employment of children in an "industrial undertaking" at age 16. In the north, the age is 15. The law is effectively enforced in both sectors through labor inspection.

e. Acceptable Conditions of Work

In the Republic, minimum wage laws exist for apprentices between the ages of 16 and 18. The wage set for this group is equal to about $250 per month. Minimum wages for other groups are fixed through collective agreement. In the north, the minimum wage equals about $80 per month. It is effectively enforced. The Government of Cyprus has set a 40-hour workweek as the maximum, except for shop workers and drivers who work no more than 42 1/2 hours. In the north, the maximum hours of work in the winter are 38, and in the summer, 36. Occupational safety and health regulations are effectively administered in both sectors.

f. Rights in Sectors with U.S. Investment

U.S.- based international petroleum companies have invested in facilities for distribution and retail sale of their products. Workers' rights as defined in Sec. 502(B)(4) of the U.S. Trade and Tariff Act of 1974 are guaranteed by law and strictly enforced by the government.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-6
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

CZECHOSLOVAKIA

Key Economic Indicators

	1986	1987	1988
Income, Production, Employment			
GNP (Bil.'85 US$)	139.2	140.7	143.4
GNP Real Growth (pct)	N/A	1.1	1.9
GNP by Sector (Bil. '85 US$)			
Industry	56.1	56.6	57.7
Agriculture	20.7	21.5	22.0
Other	62.4	62.6	63.7
GNP per capita ('85 US$	8,912	8,990	9,140
Labor Force (Millions)	8.4	N/A	N/A
Unemployment	0	0	0
Money and Prices			
Money Supply (M1)	N/A	N/A	N/A
Interest Rates	N/A	N/A	N/A
Consumer Prices	0	N/A	N/A
Wholesale Prices	0	N/A	N/A
Official Exchange Rate (Crown/US$) (commercial)	6.1	5.4	N/A
No legal parallel rate			
Balance of Payments and Trade (Millions US$)			
Total Exports	20,644	N/A	N/A
Hard currency	4,243	4,503	N/A
Total to U.S.	93	86	N/A
Total Imports	21,254	N/A	N/A
Hard currency	4,015	4,707	N/A
Total from U.S.	72	47	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
Net Hard Currency Debt (yr-end)	2,900	3,700	4,300
Debt Service Payments	N/A	N/A	N/A
Reserves	N/A	N/A	N/A
Hard Curr. Trade Balance	228	-204	N/A

1. General Policy Framework

Czechoslovakia generally follows command-economy policies, and the state owns and controls most production in all key sectors. The private sector currently has a limited role in the services sector, for example in repair shops and restaurants. This role is not expected to increase significantly in the next year. In 1988, some economic reform measures were introduced, which resemble developments in the Soviet Union in their stress on greater autonomy for individual enterprises and on setting enterprise operations on

a self-financed, non-subsidized basis. The government remains reluctant, however, to stray too far from the classic socialist economy model characterized by state ownership and central planning.

The Government of Czechoslovakia does not make data on its macroeconomic policy objectives in the fiscal and monetary areas available to the public. Nor are reliable figures on implementation of monetary and fiscal policies published. The government's periodic (five year) economic plans set targets for production, consumption, investment and trade. Traditionally, profits from state enterprises, when they occur, have been returned to the state and used to fund other objectives determined worthy by the state plan, including for example subsidizing loss-making state-owned enterprises, providing subsidies for key producer and consumer goods, and funding various social and national security programs such as education, health, housing and national defense. There is no personal income or value added tax in place.

On the monetary policy side, the central bank performs both traditional central banking as well as commercial banking functions, and probably does not employ Western-style monetary policy tools such as discounting, open market operations and reserve requirements to control the volume of money in circulation. Prices are set by enterprises in agreement with government officials, often on the basis of social rather than economic objectives. The Czechoslovak economy may have a considerable amount of so-called "forced savings," which represents that part of aggregate individual income which is unspent due to lack of availability of goods demanded by consumers. A bank reform, which will separate commercial from central banking functions including creating two new state owned commercial banks, will be introduced in 1989. In general, the lack of market mechanisms such as prices and profit motives in Czechoslovakia, has led to some serious economic problems such as high energy and raw material consumption per unit of output, slow application of new technologies and low production quality. The Government of Czechoslovakia is in the process of introducing some economic reforms which are designed to encourage Czechoslovak enterprises to finance their own needs out of their earnings.

2. Exchange Rate Policies

There is little transparency in current Czechoslovak official exchange rate policy, and public information on the various rates is not available. The Government of Czechoslovakia has established numerous exchange rates covering a wide variety of transactions; for example, there are separate rates for tourism, and various categories of imports and exports. The government plans to consolidate and streamline the exchange rate structure early in 1989.

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3. Structural Policies

The government has announced plans for certain economic reforms which will affect Czechoslovak economic performance depending on the implementation phase. Among the most important reforms are: streamlining the central government economic bureaucracy; enterprise autonomy and self-financing; banking reform which will separate commercial and central banking including creating two new (state-owned) commercial banks; and a new foreign investment code which will permit, theoretically at least, majority foreign ownership, possibly as high as 99 percent, and resident foreign management. The government is also expected to streamline its multiple exchange rate structure, although unification to one simple rate will probably not be the result. The changes in the foreign investment regime may encourage increased U.S. investment, although many potential investors will probably review implementation before proceeding with new investments. Over the long term, greater autonomy for individual enterprises and the resulting slight reduction in the role of central planning might help increase trade opportunities for U.S. firms. However, 80 percent of Czechoslovakia's trade is with socialist countries and this is expected to remain the case over the next few years.

4. Debt Management Policies

Czechoslovakia's hard currency borrowing remains minimal and is largely connected with trade financing. In 1987, the country arranged for a syndicated borrowing of $200 million. The country's low level of indebtedness and its nominal hard currency surpluses have made it an attractive customer for Western bankers. Czechoslovak authorities continue to indicate they have no plans to increase sharply their foreign borrowing, though some moderate increase has been forecast in connection with industrial modernization under the Eighth Five Year Plan. The country's gross hard currency indebtedness has been estimated at between $2 and $3 billion. Czechoslovak authorities point out that much of this debt is offset by claims owed them in developing countries. This point, as some western commentators note, is of only theoretical importance in view of Czechoslovak debt collection problems with these countries.

5. Significant Barriers to U.S. Exports

Czechoslovakia's trade is strongly oriented toward the Council for Mutual Economic Assistance (CEMA) for both political and economic reasons. In 1987, approximately 80 percent of Czechoslovakia's foreign trade was with socialist countries, principally the USSR. Intra-CMEA trade is governed by a series of bilateral agreements, and is denominated primarily in "transferable rubles," a non-convertible currency. To the extent that Czechoslovakia does trade with the West, the Federal Republic of Germany and Austria, which have the advantages of geographic proximity and traditional

ties, are the major partners. As in many centrally planned economies, Czechoslovak foreign trade organizations usually seek opportunities for countertrade, although their approach is generally flexible.

There are two other barriers to increasing U.S. trade with Czechoslovakia: Czechoslovakia does not receive Most Favored Nation (MFN) treatment, and we have restricted exports of sophisticated technology to the Warsaw Pact, of which Czechoslovakia is a member. The Government of Czechoslovakia, which through government-owned foreign trade organizations (FTOs) controls Czechoslovakia's trade with the West, objects to the lack of MFN status for Czechoslovak goods.

Other potential barriers to U.S. and other Western exports might include a provision in the new trademark law which allows the owner of a trademark in Czechoslovakia to prevent importation of a good or service bearing a similar trademark. In addition, Czechoslovak standards on labeling for machinery and instruments differ from U.S. standards, which might cause problems for U.S. exporters. We are not aware, however, of any specific sales which have been lost as a result of either of these two measures.

6. Export Subsidy Policies

We are not aware of any Czechoslovak subsidies specifically designed to increase exports to Western countries. However, because subsidies are inherent in the socialist command economy structure, it is impossible to know if the price on any given export reflects its real cost of production.

7. Protection of U.S. Intellectual Property

Czechoslovakia is a party to the Berne, Paris and Universal Copyright Conventions.

The Czechoslovak record on protection of intellectual property is generally good. The passage of a recent trademark law is indicative of an awareness of the on the part of the Czechoslovak Government of the importance of intellectual property. While the law focuses on domestic trademarks, it does sanction granting trademarks to enterprises in which there are foreign partners. There have been occasional allegations that Czechoslovakia has used bidding procedures or loans of machinery to copy technology without permission. Overall, however, we are not aware that concerns about protection of U.S. intellectual property have had a negative impact on U.S. trade.

Thus far, the trade associations have not flagged any specific problems regarding copyright protection in Czechoslovakia.

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8. Worker Rights

a. The Right of Association

Workers do not have the right to associate freely or to strike. They may not establish and join organizations of their own choosing without previous authorization. An attempt to establish an independent trade union in the early 1980's was suppressed. The Czechoslovak labor union umbrella organization, the Revolutionary Trade Union Movement (ROH), is a mass organization strictly controlled by the Communist Party. Membership in official trade unions is virtually obligatory for workers. The ROH is affiliated with the World Federation of Trade Unions, whose headquarters are in Prague.

b. The Right to Organize and Bargain Collectively

Workers do not have the right to organize or engage in collective bargaining. Special economic incentive zones do not exist in Czechoslovakia.

c. Prohibition of Forced or Compulsory Labor

Forced labor does not exist in Czechoslovakia, but "work education" is required of prisoners. Former prisoners report that convicts face higher norms (quotas), lower pay, and poorer working conditions than do ordinary workers.

The Constitution affirms the right and duty to work. In practice, persons considered politically unreliable are barred from professional positions and forced into menial, low-paid jobs such as coal stokers and nightwatchmen. The International Labor Organization has condemned this practice.

d. Minimum Age for Employment of Children

The minimum age for full-time employment is 16, although younger persons may accept part-time employment. The law is effectively enforced.

e. Acceptable Conditions of Work

The average workweek is 42.5 hours. Beyond 45 hours, workers are paid overtime, and there are additional bonuses for some shift and weekend work. The retirement age is 57 years for women and 60 years for men. The average pension is 55 percent of the average wage, an amount which can be insufficient to meet a citizen's needs if not supplemented from other sources. A welfare system does exist to supplement these resources if need can be demonstrated.

There is a nominal labor shortage induced by low productivity and the underutilization of the labor force. The need for unskilled and semiskilled labor is filled in part by workers from other Communist countries.

Working conditions appear generally acceptable, although far less attention is paid to occupational safety and health than in most advanced industrial economies. The problem of

environmental pollution, especially in heavily industrialized areas and in industries in which environmental safeguards have been neglected, has become acute for the working population.

Czechoslovakia does not have a state-wide, legally mandated minimum wage. However, individual ministries establish wage scales of economic enterprises.

Amendments enacted on December 14 to the labor code generally strengthened the powers of management, which now may: terminate a worker's employment with 2 months' (instead of 6 months') notice, giving no reason; terminate a worker's employment for any serious infringement of work discipline (instead of for major or repeated infringements); search the work force coming to and leaving work; check for alcohol intoxication and drug use; reduce workers' wages for producing substandard products; extend a worker's probationary period from 1 to 3 months; and determine independently timework, piecework, and other wages, bonuses, and rewards. The Labor Ministry is to fix stricter criteria for time off from work. Under the amendments, workers are eligible for leave after 60 days on the job instead of 5 months, and maternity leave without pay is lengthened to 3 years.

f. Rights in Sectors with U.S. Investment

No U.S. capital is invested in Czechoslovakia.

DENMARK

Key Economic Indicators

Millions of Danish Kroner Unless Otherwise Stated

	1986	1987	1988 (est)
Income, Production, Employment			
Real GDP (1986 prices)	667,141	660,146	663,500
Real GDP Growth (pct)	3.3	-1.0	0.5
Real GDP per capita (Kr)	130,287	128,758	129,289
GDP by Sector (1)			
Agriculture	5.5	4.9	4.5
Manufacturing	20.1	19.8	20.0
Raw materials	0.8	0.9	1.0
Utilities	1.3	1.2	1.3
Building/Constr.	6.7	7.0	7.0
Market Services	47.5	47.2	47.2
Public Services	22.2	23.4	23.5
Overlap Correction	-4.1	-4.4	-4.5
Labor Force (000s)	2,803	2,823	2,840
Unemployment Rate (pct. of 16-66 years)	8.0	7.9	8.7
Money and Prices			
Money Supply (M1)	221,058	241,145	265,000
Money Supply (M2)	347,779	364,415	372,000
Bank Lending Rate (pct)	12.3	13.3	12.5
Savings Rate (pct disposable income)	7.8	[illegible].5	8.7
Investment Rate (pct GDP)	20.7	18.7	18.1
Consumer Price Index (1980=100)	152	158	165
Wholesale Price Index (1980=100)	138	138	143
Exchange rate (DKr/US$)	8.09	6.84	6.75
Balance of Payments and Trade			
Commodity Exports, fob	171,791	175,302	186,000
U.S. Share	14,558	12,377	10,500
Commodity Imports, cif	184,733	174,066	171,000
U.S. Share	9,700	9,297	10,000
Govt External Debt	119,913	127,637	127,000
Govt Debt Service	12,660	11,499	19,900
Gold and ForEx Reserves (2)	33,328	68,072	80,000
Balance of Payments Deficit	34,658	20,103	17,500

(1) Percent by gross factor income distribution.
(2) End of period.

DENMARK

1. General Policy Framework

The economic slowdown that set in towards the end of 1986 continued throughout 1987, and economic growth for the year as a whole turned negative. The downturn came after four years of strong activity with real growth rates of three to four percent annually. For 1988 a continued fall in private sector investment and in consumer demand will be offset by a continued increase in exports and a modest increase in public sector spending resulting in a nominal increase in the Gross Domestic Product (GDP). The May 10, 1988 general elections results are not expected to produce major changes in economic policy. In preparation for the European Communities (EC) single market by the end of 1992, the government will be forced, however, to pursue an economic policy designed to improve Danish competitiveness and keep a tight lid on public finances.

The government's cap on public spending was maintained successfully in 1987. Since the center-right government led by Prime Minister Schlueter took office in September 1982, it has ensured a significant improvement in the central government budget, which had a deficit of more than 10 percent of GDP in 1982. In contrast the budget showed a surplus of 3.6 billion kroner in 1987. Unfortunately, because growth in income, and thus tax revenue, has been lower than expected, the budget will return to a slight deficit in 1988 of between 8 and 10 billion kroner. Expenditures, on the other hand, have been held almost stable.

Danish monetary policy has traditionally attempted to keep domestic interest rates high in order to dampen demand and promote borrowing abroad to protect foreign exchange reserves. An adjustment of the discount rate as a monetary policy tool has not been used in the last five years during which time the discount rate has remained stable at seven percent despite volatile domestic interest developments. The central bank controls money supply through the management of commercial banks' liquidity by a day-to-day open-market lending system introduced in August 1987 replacing a former relending system based on central bank deposit certificates. While money supply (M1) increased by a stable rate of 9 percent since 1986, the M2, which includes time deposits, increased only marginally in 1987 thus reflecting the economic recession and not least the dampening effect on private borrowing of the tax reform and of the fiscal restraint measures, the "potato diet". This dampening effect continued into 1988 and by June the increase in the M2 was reduced to 2.1 percent.

Following record deficits in 1985 and 1986 of 4.7 and 5.2 percent of GDP, the balance of payments' (BOP) current account deficit was almost halved in 1987 to 20.1 billion or 2.9 percent of GDP, as the 1986 merchandise trade deficit of 12.9 billion kroner was turned into a surplus of 1.2 billion in 1987 due to a strong reduction in imports and a nominal increase in exports. Net interest payments on Denmark's external debt in both years were stable at 28 billion kroner. For 1988 the BOP deficit will likely be reduced to between 17

and 18 billion kroner. Following 25 years of consecutive BOP deficits, Denmark's total net foreign debt at the end of 1987 reached 272 billion kroner or 39 percent of GDP.

2. Exchange Rate Policies

Since the present right-of-center government took office in 1982 it has maintained a firm krone exchange rate policy supported by its participation in the European Monetary System (EMS). On a trade-weighted basis the krone in September 1988 was at the same level as in late 1982. The appreciation in the krone versus the dollar since 1985, however, has had a major impact on particularly Danish exports to the United States which are now at a level 40 percent below that of 1985. Despite a continued drop in Danish business investment in plant and equipment - traditionally an important market for U.S. exporters - the depreciation of the dollar vis-a-vis the krone has led to an increase in U.S. sales to Denmark of more than 30 percent in current dollar values since 1985. This development has resulted in a significant narrowing of the U.S. trade deficit with Denmark which is now approaching equilibrium viewed against a deficit of about 7 billion kroner in 1985.

As one of the first EC member countries responding to the EC directive calling for full liberalization of foreign exchange flows, Denmark in October 1988 repealed its few remaining restrictions in that area.

3. Structural Policies

Due to its heavy dependence on foreign trade, exports and imports each account for about one-third of GDP, Denmark has always pursued a policy of non-discriminatory or national treatment of its foreign trade partners. This also applies to foreign direct investment in Denmark which with a very few exceptions (arms production and hydrocarbon exploration) receives national treatment. At present an obstacle to U.S. companies' interest in participating in hydrocarbon exploration and exploitation is the long pending U.S. Senate approval of hydrocarbon tax provisions in a new Danish/U.S. double taxation agreement.

Danish taxes are high by international standards - the corporation tax is 50 percent; the marginal income tax about 68 percent; the value-added-tax (VAT) 22 percent; and there are a number of very high excise taxes, particularly on tobacco, liquor, and automobiles. U.S. sales of automobiles to Denmark, for example, are at a competitive disadvantage versus imports from EC and EFTA countries, as the VAT is imposed on the duty-paid value increased by the registration tax (imports from EC and EFTA are duty-free). This in fact means that the cost of automobiles exported to Denmark from third countries is about five times the base price. By contrast, auto exports from the EC and EFTA countries are only triple the original value. It is still uncertain to which extent Danish taxes and excise taxes will be harmonized with

those of the other EC countries in connection with the creation of the EC single market by 1992.

Except for EC agricultural export subsidies, Denmark has no direct subsidies for its exports. Indirectly, however, Denmark has programs to assist export promotion, research and development, regional development and a limited number of preferential financing schemes aimed at increasing exports. All these programs, however, apply equally to foreign companies operating in and exporting from Denmark. A 50 percent relief of the company tax relating to income from a permanent establishment abroad has shown to be an incentive for foreign firms, including some from the United States, to set up "regional headquarters" in Denmark. The most important recent change in the otherwise nominal Danish tax incentives relating to exports is a change in employers' social contributions, which effective from January 1, 1988 shifted from a per-employee contribution to a 2.5 percent tax on the VAT turnover. As exports are exempted from VAT, the new system constitutes a de facto indirect export subsidy, and importers, who normally have a large VAT turnover relative to the number of employees, are hit hard by the new system forcing them to either absorb these extra costs themselves or add them to their prices.

4. Debt Management Policies

Although Denmark belongs among the richest countries in the world, its external debt has reached a level (close to 40 percent of GDP) which compares to that of many less developed country debtor nations. Due to its economic standing, Denmark so far has had no problems in obtaining new loans to finance its recurrent balance of payments (BOP) deficits, but the servicing of the debt is now the major obstacle to an improvement in the Danish BOP. Since the present government took office in 1982, the BOP deficit has purely been a function of the interest payments on the external debt. The government recently set a goal to attain equilibrium on the Danish BOP by 1992, but this will require not only improved competitiveness for Danish exports but also an increased private export sector role in the economy and a reduction of the public sector's role.

5. Significant Barriers to U.S. Exports

When the EC single market materializes by the end of 1992, many if not all of the existing Danish barriers to both commodity and services trade will have been harmonized with those of the other EC countries. Although the characteristics of the trade barriers may not change radically as a result of the harmonization, the creation of a large single EC market with a population of 320 million people versus the present Danish market with 5 million people should increase the opportunities for U.S. exporters to exploit both the Danish and other EC markets much more effectively than they can today. Below is a listing of present Danish barriers to both services and commodity trade.

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Enhanced telecommunication text and data services were liberalized to some extent in June 1988, when the former waiver system for use of leased lines was replaced by a mere notification requirement. Resale of space on leased lines for data traffic only was also liberalized provided such sale does not exceed 5 percent of the traffic between the company providing the service and its individual customer. Responding to the EC's green paper on the development of a common market for telecommunication equipment and services, enhanced services in Denmark will be deregulated as new common EC regulations are adopted.

Foreign insurance companies and brokers, including U.S. owned, view the Danish insurance legislation as lagging far behind international developments in this important services trade sector. The Danish insurance market in particular differs from, for example, the U.S., U.K., and Dutch markets in that both underwriting and servicing in general rests with the underwriter. The use of brokers is relatively limited, but growing.

One major obstacle to an increased exploitation of the market by brokers is that the legislation prohibits any resident company or person from acting as a middleman (except on a re-insurance or on a co-insurance basis) for arranging insurance between and for a Danish resident, a Danish ship, or property located in Denmark and a non-resident underwriter. By contrast, the legislation neither permits nor prohibits non-resident brokers, etc. to perform such business. This could be viewed as a "positive discrimination" of foreign firms, but from a marketing point of view it is of utmost importance for a broker to have his base in Denmark.

In addition, Denmark at present has no legislation outlining requirements for insurance brokers. Branches of foreign insurance companies are taxed on the world-wide profits of the parent company based on the turnover of the branch versus the parent company. This may present a problem in the start-up phase for a branch operation, which in many instances results in a loss and thus should be exempted from taxation.

A change in the Danish credit card act from 1984, which became effective in 1987, has excluded foreign credit card companies from operating in Denmark on international terms, as the new Danish legislation prohibits any credit card company, whether foreign or domestic, from charging vendors for costs related to the use of credit or charge cards held by Danes. As a consequence, American Express has stopped issuing credit cards to Danes for use in Denmark.

Danish and Greenlandic cabotage provisions which have been in place for many years have shown to be of very limited importance to U.S. shipping interests.

Outstanding issues in the aviation field are at present a matter of bilateral negotiation between U.S. and Scandinavian authorities. A technical problem, also found in Scandinavia, is compatability of computer reservation system languages

which may be worth exploring in the General Agreement on Tariffs and Trade (GATT) context as a technical barrier to services trade.

Danish work permit rules applicable to foreign citizens, except those from the EC or Nordic countries, distinguish between standard laborers and managerial, technical and administrative staff and are also influenced by whether employment involves a foreign subsidiary or a Danish company. Work permits for standard laborers are virtually impossible to obtain due to restrictive labor market tests, while work permits for managerial jobs in a foreign subsidiary, which are not subject to a labor market test, in general are granted freely. In addition the lack of international harmonization of "certified or compulsory skills" remains an obstacle to freer transborder labor flows.

Danish standards are generally the same as those of the EC, although there are some areas where Denmark uses stricter criteria. Those standards particularly concern the work environment, environmental protection, food, building and construction, and the telecommunications area. Many of those are now gradually being liberalized in preparation of the EC single market by 1992.

If the EC fails to adopt environment standards with the same high level of protection as the Danish standards, Denmark is likely to stick to its present standards. As an example of the importance Denmark attaches to environmental protection, the Ministry of Environment recently decided to implement January 1, 1990 the more restrictive (and also more costly) U.S. standards for reducing automobile pollution via the use of catalysts versus an implementation of the more lenient standards proposed by the EC commission. At the same time the ministry proposes that the costs of such anti-pollution equipment be exempted from the very high automobile registration tax. Both sets of legislation, however, are pending parliamentary approval.

The Danish mandatory return bottle system for beer and soft drinks was recently endorsed in a ruling by the EC court of justice sustaining Danish arguments about the system's positive environmental effects and rejecting the EC commission's arguments that the system distorts trade. Although the Danish ban on marketing of beer and soft drinks in cans or other disposable containers was also included in the case, the EC court did not deal specifically with this issue in its ruling, and the Danish Government now believes the EC commission will not raise it again. As a result of the ruling, one could speculate on a scenario which in the long run, and to meet EC single market harmonization objectives, could trigger the establishment of a mandatory Ec-wide return bottle system.

Danish standards for telecommunications equipment are set by the Danish PTT after consultation with the either the state-owned or concessioned telecommunications entities. Although based in general on international standards, they in some instances include functional requirements and thus go

beyond the prevention of "harm to the network" approach taken by the United States. It remains an open question whether the European Telecommunications Standards Institute (ETSI) set up to establish a series of new European telecommunication standards (nets) will provide sufficient access for, inter alia, U.S. parties to influence the drafting of those standards. If at all possible U.S. companies would like to see acceptance of U.S. test data in Europe.

The large number of mandatory standards contained in the Danish building regulations appear of minor importance to U.S. companies as they relate to projects performed entirely by domestic handicraft-type firms; but also many of those standards will be harmonized within the EC as the single market emerges.

With a very few exceptions foreign investors in Denmark receive national treatment in all aspects.

A present ban on foreign participation in Danish arms production is likely to be liberalized in the near future, probably allowing for a 40 percent equity participation, but only a 20 percent controlling interest. Mandatory government participation on a carried basis in connection with Danish hydrocarbon exploration activities and on a non-carried basis in the production and exploitation phase has not been a major obstacle to foreign, including U.S., interests in participating. This requirement is likely to be relaxed in the third hydrocarbon licensing round starting in January 1989 and should increase the incentive for U.S. firms to participate.

Local content requirements are only imposed on companies applying for export credit insurance or guarantees and the minimum local content is normally about 60 percent. Export performance requirements are indirectly imposed on companies applying for certain types of preferential investment loans which, however, are only available to a limited extent.

The only examples of the government requiring offset deals concern military purchases, including the procurement of the F-16 military airplane from the United States. The government's directorate for government procurement (under the Ministry of Finance) negotiates umbrella agreements for general office supplies which stipulate which suppliers must be used and which should receive special preferences. These agreements contain names of qualified suppliers, but are not purchasing contracts in that they do not stipulate or guarantee the individual supplier a certain amount of sales. The umbrella agreements run between one and three years each and in that period the agreement is generally closed to new "entrants".

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6. Export Subsidies Policies

Denmark has no direct subsidies for exports. However, the government indirectly supports a number of programs aimed at increasing exports:

- The government normally covers between 40 and 50 percent of approved export promotion costs.

- Preferential financing of shipowners' purchase of ships built at Danish shipyards under programs to assist the shipbuilding industry has also, in some instances, supported export of ships, but the large majority of contracting has been by Danish shipowners. As a consequence, however, the support to Danish shipowners has assisted an improved competitive position of the Danish commercial fleet, of which 90 percent operate in cross-trade.

- The shift in employers' social contribution from a per-employee contribution to a 2.5 percent tax on the VAT turnover constitutes a de facto indirect export subsidy as exports are exempted from VAT.

7. Protection of U.S. Intellectual Property

Denmark is a party to the Berne, Paris, and Universal Copyright conventions, as well as the Patent Cooperation Treaty.

Intellectual property is adequately protected in the country, and U.S. nationals are entitled to receive national treatment. Videocassette piracy, formerly a problem, now constitutes only 2% of the market.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 85 percent of Danish wage earners belong to unions. Trade unions operate freely domestically and internationally without government interference. They are an essential factor in political life and represent their members effectively.

Greenland, an autonomous island with the Danish realm, has the same respect for worker rights, including full freedom of association, as does continental Denmark.

b. The Right to Organize and Bargain Collectively

Workers and employers acknowledge each other's right to organize. Collective bargaining is widespread. Salaries, benefits, and working conditions agreed on in biennial negotiations between the Danish Employers' Confederation and the Danish Trade Union Federation, which has 1.4 million

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members (half of Denmark's labor force), are used as guidelines by the rest of the labor market. In case of disagreement, an issue may be referred to a labor court, made up of representatives of management, labor, and an independent member. The decisions of the court are binding. Labor legislation and practice are uniform throughout Denmark and Greenland.

Labor relations in Greenland are conducted in the same manner as in Denmark. Working conditions are negotiated through collective bargaining, usually led by the largest Greenlandic union, SIK, which represents approximately 8,000 workers, or practically the entire indigenous salaried work force (out of a total of 23,000 wage earners). In the case of labor disputes, the Greenlandic courts are the first recourse, but the parties in dispute may also avail themselves of Danish mediation services or of the Danish labor court.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited and does not exist.

d. Minimum Age for Employment of Children

The minimum age for full-time employment is 15. The law, which is observed in practice, describes in detail specific limitations applicable to work which may be performed by those between 15 and 18 years of age.

e. Acceptable Conditions of Work

Danish law prescribes acceptable conditions of work, including safety and health; the general duties of employers, supervisors, employees, and suppliers; the performance of work; rest periods and rest days; and medical examinations. The law also provides for a labor inspections service which ensures compliance with labor legislation. There is no minimum wage, but the lowest hourly wage level set in any national labor negotiation is roughly equal to nine dollars. Danes are guaranteed five weeks' vacation per year. In 1988, the workweek was reduced to 38 hours.

Similarly, wages, hours, vacations, and work conditions are negotiated by means of collective bargaining in Greenland. The pattern is similar to that of Denmark with some variations because of different levels of development. A major issue in collective bargaining negotiations within Greenland is the wage differential between indigenous and temporary Danish workers which arises because of the need to attract skilled workers from Denmark. This differential is being discontinued. Another major difference is that no unemployment compensation is paid in Greenland unless a collective bargaining agreement specifically includes it. The Greenlander's tradition of spending part of his work year in hunting and fishing has slowed the evolution of the concept of unemployment. Because of this phenomenon and the lack of

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resources, Greenland has postponed establishing a legislatively mandated unemployment compensation system.

f. Rights in Sectors with U.S. Investment

Worker rights conditions are equally applied in all goods producing sectors in Denmark.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		170
Total Manufacturing		253
Food & Kindred Products	155	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	17	
Transportation Equipment	(*)	
Other Manufacturing	38	
Wholesale Trade		562
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		985

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

EUROPEAN COMMUNITIES (EC)

1. General Policy Framework

Important changes are occurring throughout the European business landscape as a result of the EC's single market program. The EC aims to create a single market among the twelve member states in which all goods, services people and capital can move without restriction across national borders; the moves are also affecting trade laws in neighboring European states. EC member states (France, Germany, UK, Italy, Spain, Netherlands, Denmark, Ireland, Portugal, Greece, Luxembourg, and Belgium) retain independent authority for macroeconomic policies at present. While elements of the single market program are already in place, the bulk of the integration effort will be phased in over time.

If the single market is implemented in a liberal manner, the European market in 1992 could be significantly more open to U.S. goods, services and investors. However, this paper is an overview of EC policies as presently constructed which affect U.S. interests, and does not discuss the full scope of the evolving EC plans or all the potential impacts (positive and negative) of the single market program.

2. Exchange Rate Policies

The European Monetary System (EMS) has an exchange rate mechanism through which seven members have agreed to maintain the cross-rates of their currencies within a narrow band of fluctuation. The EMC is not used as an instrument of trade policy.

3. Structural Policies

The Treaty of Rome generally prohibits anti-competitive behavior, including predatory pricing. State aids are also prohibited in principle by the EC (except to correct regional disparities or as temporary measures for distressed industries) because they distort competition within the Community. Any new member state aid to an industry must be notified to the Commission, which can block/amend the program. In practice, while the EC has amended some new aid packages by member states, state aids to industry are still widespread.

The EC Commission has increased its funding of industrial research. While EC programs are only a small fraction (less than three percent) of the total EC-12 research budget, the Commission has concentrated its funds in the area of applied industrial research. The central goal is to foster European cooperation by requiring participation from firms in two or more member countries. Nonetheless, a direct outcome is that European industries' competitiveness is increased by having access to public research funds to invent or improve products and processes.

EUROPEAN COMMUNITIES (EC)

The European Community's role in tax policy is limited and member states have retained individual veto-power over any EC-sponsored tax proposals. Overall, the EC is trying to harmonize indirect tax rates and assessment bases among the twelve member states. There is no strategy at the Community level to influence macroeconomic variables through tax policy.

EC legislation affecting member state product standards or company regulations is aimed, chiefly, at harmonization around standards which provide what is considered to be a minimum acceptable level of consumer protection. In a sense, the EC is promoting "competitive deregulation" through its 1992 program by setting and requiring only essential standards to be met, and thereafter calling upon members to recognize each other's goods or services (which conform to the EC minimums).

4. Debt Management Policies

N/A

5.&6. Significant Barriers to U.S. Exports and Subsidies Policies

Agriculture. EC agricultural susidies and the associated export restitutions have engendered a series of trade conflicts with the United States, which has found itself progressively losing its markets in the Community and in third countries as a result of subsidized EC exports. For the most part, the EC uses the variable levy as its basic form of import protection in the agricultural sector. Variable levies apply to grains, sugar, dairy products, beef, poultry, eggs, pork and processed products made from these commodities. Although the EC Commission calculates the variable levies differently for each product group, their purpose is to impose a charge sufficiently high to raise imported product prices to the EC price levels, which are often far above world levels. To enable the sale of EC agricultural products on world markets, the Community provides exporters with restitutions to compensate for the higher EC price of a commodity, allowing them to sell the commodity at the world price.

EC spokesmen have argued that the Community's February 1988 decision to place limits on agricultural expenditures will put a substantial brake on output, eliminate surpluses and mitigate conflicts with trading partners. The budget plan lowers support prices if output exceeds certain levels in various products and provides incentives for land set-asides. Critics have charged that the plan is insufficient in scope to curb output. So far the budget plan has not resulted in lower production.

The U.S. is currently challenging EC oilseed subsidies in the General Agreement on Tariffs and Trade (GATT, charging that by encouraging local production and thus cutting back imports, the subsidies impair a previously negotiated GATT zero tariff binding on soybeans. Other recently adopted EC

EUROPEAN COMMUNITIES (EC)

programs which could reduce U.S. exports include subsidies to encourage the production of long grain rice and tree nuts. Similarly, a plan to favor the use of grains in compound animal feed would likely cut into U.S. sales of corn gluten feed to the Community.

A number of agricultural disputes have been resolved through bilateral agreements. In 1987 we agreed on compensation for losses of U.S. markets in the Iberian peninsula following accession to the Community by Spain, and Portugal. The U.S. and the EC resolved differences over the impact of subsidies for Mediterranean products in the citrus agreement and over subsidies for the production of pasta through the pasta agreement. An agreement resolving differences over subsidies for fruit canning has been reopened as the U.S. has determined the Community is not complying with the 1985 bilateral agreement.

The current EC ban on hormone-treated meat constitutes a clear trade barrier to U.S. meat exports. Moreover, the EC has blocked the U.S. Government's request for a GATT panel under the Technical Barriers to Trade Code to examine the issue. The EC may, however, refrain from engaging in a spiral of retaliation with the U.S. in the interest of avoiding a wider trade conflict. If the hormone dispute can be resolved, differences over allocation of licenses for the import of U.S. high-quality beef under a special 10,000 ton annual quota negotiated in the Tokyo Round will again come to the fore.

Industry. U.S. goods will generally benefit from easier circulation within the Community and a single set of product standards as the 1992 program progresses. However, important U.S. export interests can be adversely affected by standards (such as the EC ban on hormone-treated meat discussed above) and our exporters have little say in the European standards-setting or certification process.

EC member states (France, the Federal Republic of Germany, The United Kingdom and Spain) provide the government support for development of Airbus aircraft. These supports have allowed Airbus to develop and expand a technologically competitive family of aircraft without achieving profitability. U.S. industry is concerned that the continuation of these supports will infairly undermine its comparative advantage in this sector. The U.S. has long sought to limit these supports through negotiations with the four member states and the EC. Discussions continue.

The Commission has proposed directives to open up government procurement in four hitherto excluded areas -- telecommunications, water, energy and transport. If adopted as drafted, the directives would require fair consideration for any bid with at least 50 percent EC content, with a 3 percent preference for such bids. Entities in these sectors are not currently covered by the GATT Procurement Code, but the U.S. will push the EC to extend the competitive requirements. The proposals provide for extending full coverage in these sectors to third countries on a reciprocal basis.

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In the 1987 EC action paper, significant steps toward reform in the telecommunications sector were proposed; the Green Paper was roundly applauded by U.S. interests. The EC has made fair progress in implementing its proposals, mandating liberalization in services and terminal equipment, but significant barriers remain in some member state markets, especially in terms of procurement. In addition, a proposal for "interoperability" in telecommunications and computer standards may ask U.S. firms to divulge proprietary protocols. The U.S. has held discussions with the EC and key member states on telecommunications trade issues.

The EC maintains quotas on the export of copper scrap which we believe are illegal under the GATT. U.S. industry maintains that the EC quotas serve to lower the price of copper scrap artifically within the Community and allow EC firms to export copper products to the U.S. with an unfair advantage. We recently opened a Section 301 investigation of the quotas.

Generally, the EC Commission is strengthening its position as the overall arbiter of Community trade policy. Certain import restrictions maintained now at the member state level (for instance on footwear or Japanese auotmobiles) may be replaced by EC-wide protection. The EC also may revise its rule-of-origin requirements, potentially affecting goods manufactured in the U.S. but with a low "American" content.

7. Services, Intellectual Property and Investment

Recent EC draft legislation in the financial services area includes an ill-defined reciprocity concept which could potentially limit the access of U.S. financial institutions to a truly integrated EC financial market. The EC has said it would extend its vision of reciprocity into other areas not covered by GATT, and the new directive on life insurance contains such a provision.

EC leaders have considered a television directive which would require minimum quotas of European programming. The proposal has subsequently been folded into a broader effort undertaken by the Council of Europe. However, the overall impact on U.S. exports of programming is difficult to assess, since at the same time European states are significantly liberalizing their broadcasting regimes. More channels and more private ownership could substantially increase demand for U.S. products.

Recent EC proposals in intellectual property are consistent with U.S. goals of stronger intellectual property protection. EC policies have already led to stronger legislation in some member states, and the adoption of full copyright protection for computer software should bolster U.S. arguments in the GATT and elsewhere.

EUROPEAN COMMUNITIES (EC)

In terms of investment, EC legislation generally supports the concept of freedom of establishment. The Treaty of Rome specifically requires national treatment for firms in the Community, and there are no EC rules limiting foreign ownership, foreign personnel, or repatriation of profits. However, the concept of reciprocity as currently being discussed could compromise the access of non-EC companies to the single market, in violation of the principle of national treatment. Local content requirements also can distort patterns of investment by outsiders. Finally, U.S. agencies continue to scrutinize the emerging EC policies on mergers and acquisitions, to ensure EC actions do not discriminate against non-EC firms.

As was earlier noted, the U.S. Government and industry must continue to monitor carefully the EC single market program, and be alert for policies which could -- unintentionally or not -- harm our trade and investment interests.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		19,098
Total Manufacturing		64,914
Food & Kindred Products	6,659	
Chemicals & Allied Products	12,839	
Metals, Primary & Fabricated	1,984	
Machinery, except Electrical	18,193	
Electric & Electronic Equipment	3,770	
Transportation Equipment	7,644	
Other Manufacturing	13,825	
Wholesale Trade		10,629
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		94,641

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Billions Finmarks Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production Employment			
Real GDP	344.5	357.6	390.0
Real GDP Growth Rate (pct)	2.4	3.8	4.0
GDP by Sector			
Agriculture	12.2	9.7	N/A
Forestry	9.8	10.4	N/A
Industry	76.8	79.4	N/A
Utilities	8.8	9.4	N/A
Construction	22.9	23.1	N/A
Communications	23.8	25.9	N/A
Commerce	30.7	32.6	N/A
Financial Services	14.3	15.9	N/A
Government Services	50.9	52.6	N/A
Misc Services	62.9	65.7	N/A
Indirect Taxes (1)	31.2	32.4	N/A
Real per capita Income (FIM)	70.0	72.5	75.0
Labor Force (000s)	2,569	2,554	2,551
Unemployment Rate (pct)	5.5	5.1	4.8
Money and Prices			
Money Supply (M1)	27.8	30.3	36.6
Commercial Interest Rate (2)	N/A	10.02	9.85
Savings Rate, Households (pct of GDP)	2.2	1.5	1.5
Investment Rate (pct of GDP)	23.2	23.4	23.5
CPI (1985=100)	102.9	107.1	113.0
Wholesale Price Index (1985=100)	103.8	106.7	110.4
Exchange Rate (FIM/US$)	5.077	4.404	4.20
Balance of Payments and Trade			
Total exports, fob	82.6	85.3	88.9
Total to U.S., fob	4.5	4.4	4.7
Total imports, cif	77.6	82.8	91.1
Total from U.S.	3.7	4.3	5.9
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt (Central and Local Govts)	27.5	29.2	27.8
Annual Debt Service Payments	13.5	14.2	16.0
Gold and ForEx Reserves (3)	14.1	28.6	28.9
Balance of Payments (current account deficit)	3.8	8.5	12.0(est)

Notes: (1) Less subsidies and bank service charges.
(2) 3-month Helibor rate; Helibor (Helsinki Interbank Offered Rate) is Finland's new commercial reference rate, as of May 1987.
(3) Convertible and non-convertible reserves.

FINLAND

1. General Policy Framework

The Finnish economy is a healthy, modern market economy which has enjoyed one of the highest rates of growth in the Organization for Economic Cooperation and Development (OECD) over the past few years. In terms of per capita gross national product (GNP), Finland ranks tenth in the OECD, passing West Germany last year. The country's only major natural resource, forests, provided the original basis for industrial development and is still one of the most important sectors, both in terms of pulp and paper output and in papermaking and forestry equipment production. Other manufacturing fields, principally metal engineering (including shipbuilding), have been the main engine of economic growth. Increasingly, industry has expanded into high technology fields, especially electronics. Finland is a world leader in such products as cellular telephones and display electronics. As in other modern post-industrial economies, the service sector is growing in Finland, now accounting for 60 percent of total gross domestic product (GDP).

Finland provides an extensive system of social services for its citizens: unemployment benefits, education, health care, etc. Personal income taxes are correspondingly high, but still lag behind Swedish and Danish levels.

Although the government plays a significant role in this mixed economy, 80 percent of manufacturing capacity and 90 percent of banking services are privately owned. Seventy percent of the service sector is in private hands. Finnish industrial policy is aimed at facilitating industrial structural adjustment in response to market forces, and at improving Finnish external competitiveness through investment in human resources, and not through industrial targeting or production subsidization. An important exception is the agricultural sector, which receives substantial support aimed at maintaining urban migration and self-sufficiency in food production.

An industrial exception arose in 1988 when the government initiated a program of limited interest rate subsidies to domestic purchasers of Finnish ships. The policy was undertaken as a direct challenge to heavily subsidized European Communities (EC) competition for the Finnish passenger ferryboat orders.

During the past two years, Finnish economic policy has been formulated with a view towards letting steam off of the country's rapidly growing economy. To offset the tendency of the public sector budget in 1988 to be too expansionary, the government implemented a number of demand-management measures in January 1988 aimed at reducing consumer purchasing power with higher excise taxes, dampening brisk construction activity in southern Finland with an investment tax, and absorbing corporate cash liquidity through mandatory, interest-bearing "counter-cyclical" deposits at the Bank of Finland.

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The 1989 draft budget was drafted on the assumption that economic expansion will taper off in the latter half of 1989, and therefore is mildly expansionary. Budget expenditures will nominally increase 9.0 percent, but only 5.5 percent in real terms over last year. The major sources of the increase are social expenditures, leaving a budget deficit of 0.5 percent of GDP. The Finnish Government finances its deficit primarily through domestic bond issues, but also through a regular program of medium and longterm foreign bond placements.

The Finnish monetary authority, the Bank of Finland, elected to adopt a fixed exchange rate regime in 1986, concommitantly with extensive deregulation of domestic money markets and relaxation of capital controls. The result is an open economy where interest rate policy is subordinated to supporting the exchange rate policy, i.e. monetary policy has only limited use as a tool to influence the domestic economy. To support the external value of the Finnmark, and to finance the growing current account deficit, the Bank of Finland has helped maintain a positive interest rate differential with world money markets, resorting to increases in commercial bank cash reserve requirements and open market interventions to sterilize the resulting capital inflows. Additionally, the bank raised its "base" interest rate in May 1988. The base rate's main significance is that it serves as a reference rate for most consumer loans, mortgages, and savings accounts..

The effect of the 200 basis point positive interest rate differential was an increase in the country's convertible reserves to a record FIM 30.2 billion at the end of June 1988. A subsequent narrowing of the differential in late summer and early fall has led to a reduction in reserves to FIM 23.6 by the end of October, still a very comfortable cushion which is higher that at the beginning of the year.

2. Exchange Rate Policies

The value of the Finnish mark is determined by a trade weighted basket of foreign currencies. The Finnmark may fluctuate within a range of 4.5 percentage points and the cabinet must approve any change outside that range. The Bank of Finland pursues a fixed-rate policy to keep the Finnmark stable. Strong capital flows have caused the Finnmark to be pushed upwards against the U.S. dollar, a favorable development for U.S. exporters.

The relaxation of foreign exchange regulations has eliminated most foreign exchange controls. All companies, except financial and insurance institutions and housing and real estate companies, are allowed to raise foreign loans with a maturity of at least five years for the financing of their operations. As of August 1, 1988, private individuals and companies may acquire publicly quoted foreign securities up to the total value of FIM 300,000 ($75,000), as opposed to the previous FIM 50,000. Individuals have a foreign exchange ceiling for private travel of FIM 10,000 ($2,500), which can be waived, almost automatically, by application to the Bank of Finland.

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3. Structural Policies

The Finnish Government has pursued a policy of "controlled" structural adjustment aimed at facilitating the streamlining of industry and increasing the competitiveness of the Finnish economy. These reforms have been mostly market-oriented and include partial privatization of state-owned industries through listing their stock on the Helsinki exchange, and labor market and tax structure reforms. These measures are complemented by gradual reductions in budgetary and tax support for the farm, as well as incentives for early retirement, quotas on agricultural production and a commitment to phase out export subsidies.

The complicated income tax system is undergoing a modest reform aimed at eliminating distortions in savings and investments and simplfying personal taxation by offsetting elimination of some deductions and exemption with lower marginal rates. The result is planned to be revenue neutral. In addition to income tax, Finland has a "turnover tax", which will probably be replaced by a conventional value added tax (VAT) by 1992. This will also mean the elimination of the import equalization tax.

Finnish business has an ostensibly light tax burden which compensates for the extremely heavy load of employers' social security contributions. In addition to favorable depreciation rules, such provisions as the operation allowance, tax-deferred investment reserves, and research and development allowance reduce the effective corporate tax rate to just a few percent of operating income. As part of the policy to discourage relocation to or expansion in the Helsinki area, a 40 percent tax was imposed last year on new building in the Helsinki metropolitan area.

Persons who are not residents of Finland, or foreign corporate bodies that have permanent establishments in Finland are liable for taxation only on income derived from Finland. This liability does not extend to income from interest on bonds, debentures, other debt instruments, and other foreign loans which are not considered as capital investments assimilated into the borrower's own capital, nor the income from interest on funds deposited in a bank or other financial institution, nor to interest on receivables in foreign trade.

As of October 1, 1988 the Finnish Government terminated its old system of price controls. This system included controls on essential dairy products, margarine, sugar, fertilizers and petroleum products. The new legislation on prices emphasizes research and monitoring of price development, promotion of competition, reduction of unnecessary bureacracy, and prevention of market power abuse. All commodities except for petroleum, margarine, and alcohol are freed from price controls. As a contingency measure, the State Council is empowered to implement price freezes for periods not to exceed four months in the event of economic crisis.

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4. Debt Management Policies

The Republic of Finland holds Triple-A ratings from both Moody's and Standard and Poor's. Net external debt in 1986 was 17.1 pct of GDP and the corresponding net debt service ratio was 13.9 pct. An active member of the International Monetary Fund (IMF) and the World Bank, Finland recently concluded a framework agreement with the International Bank for Reconstruction and Development (IBRD) for co-financing of projects in less developed countries (LDCs). The World Bank also made a Finnmark-denominated bond issue which is listed on the Helsinki Stock Exchange. Finland is a member of the Paris Club as a creditor country, and has maintained a perfect record of repaying its foreign obligations. There are no adverse implications for U.S. exporters of Finnish debt management policies.

5. Significant Barriers to U.S. Exports

Finland uses import licenses and seasonal tariffs to protect its heavily subsidized domestic farm sector. U.S. products are not treated any differently than other foreign agricultural producers and are actively sold here. The purpose of the licensing system, which itself is a relic of the post-war forced industrialization years when Finland had to regulate all imports and exports, ensures that domestic supplies are used up before competing foreign products are imported. Import of coal is also subject to licensing to allow the government to direct purchases to specific countries. First priority is usually given to Eastern Bloc suppliers, especially Poland. The United States is a residual supplier of coal, and shortfalls in the Council for Mutual Economic Assistance (CMEA) production have resulted in significant, if unpredictable, sales in some years.

Presently the areas where U.S. companies operate at a disadvantage are banking and related financial services, insurance, tourism/air transport and telecommunications.

While financial market restrictions have been liberalized in recent years to permit the establishment of banking subsidiaries and the acquisition of limited interests in indigenous commercial banks, foreign banks may not enter as branches of their parents, or acquire control of an indigenous bank (without special permission). The level of capital of a foreign banking subsidiary is also subject to control by the authorities. However, Finland's small, and heavily banked economy has been of little interest to U.S. banks, with one of two U.S. subsidiaries withdrawing two years ago and the remaining unit cutting staff back by 50 percent this year.

In the insurance sector, market reservations policies prohibit foreign companies from providing life, pension and automobile policies. The entry of a U.S. subsidiary in 1988 was the first new foreign insurer in decades, and reflected the intent of the government to increase competition in the sector at least in corporate and international insurance business.

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Official policy reserves the tourism and telecommunications to Finnish nationals and state-owned companies, respectively.

Finland is a signatory to the General Agreement on Tariffs and Trade (GATT) Standards Code and is in the process of harmonizing its technical standards, etc., with EC norms, an action which should actually favor U.S. exporters. We currently have a dispute with Finland over its prohibition of the import of softwood chips due to nemetode infestations.

Foreigners are restricted from investing in mineral extraction and forestry industries, and are partially restricted from investing in shipping, other transportation, forwarding, publishing, securities brokering, and auditing activities. Furthermore, the state has reserved for state-owned companies postal and telegraph services, (excluding telephone), production and sale of alcohol, and petroleum refining.

Although Finnish law does not forbid foreign ownership of insurance companies, it does require that the Finnish cabinet decide on the foreign company's application to operate in Finland. Legislation pending in Parliament would permit 40 percent foreign ownership in insurance companies (20 percent of voting shares) without government approval. Certain types of insurance activities could have a larger degree of foreign ownership.

Unless waived by the Ministry of Trade and Industry, foreign ownerhip of voting stock is limited to twenty percent of all limited liability companies in Finland. Foreigners may own up to 40 percent of share capital, however.

Foreign control of real estate, either directly or through a business entity, is restricted. Foreign acquisition of real estate or a lease for a period longer than two years requires the permission of the Council of State, which is obtained through the Ministry of Trade and Industry or the Ministry of the Interior.

There are a number of areas where U.S. economic interests do not receive national treatment -- principally, the limitation on foreign ownership of Finnish corporations to 20 percent of voting stock and 40 percent of total capital unless specifically waived by the Council of State. In practice, most American companies have received permission to hold higher stakes in Finnish firms which are connected to the parent's business. There are no local content requirements, restrictions on foreign personnel, forced divestment, profits/capital repatriation restrictions or downstream services. Land ownership is in principle restricted without special government permission.

Finland is a signatory to the GATT Goverment Procurement Code. Countertrade/'Buy National' provisions apply only to major defense procurement contracts, which are excluded from the GATT Code coverage. Competitive bidding is the rule in Finland.

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Finland's customs procedures are relatively streamlined, reflecting the importance of foreign trade for this natural resource poor country.

6. Export Subsidies

The only direct export subsidies are for agricultural products (meat, butter, cheese, eggs), which are in the process of being reduced through managed reductions of exportable surpluses. The government intends to completely phase the subsidies out over time. Industry "K" guarantees were made available in the 1960's to protect longterm delivery contracts for exports of metal engineering products against high inflation. Due to prevailing low inflation and structural adjustment within the Finnish shipbuilding sector, the former major user of the fee-based guarantees, the system currently has negligible usage.

7. Protection of U.S. Intellectual Property

Finland has ratified the Paris, Berne and Universal Copyright Conventions and is a signatory to the Patent Cooperation Treaty.Finland is also a member of the World Interational Property Organization (WIPO) and of the International Patent Classification Union (IPCU). Finland has ratified the Locarno Agreement establishing an international classification for industrial design as well as the Nice Agreement concerning the international classification of goods and services for the purposes of registering trade marks.

Finnish patent and trademark laws are similar to those of other Scandinavian countries. Finnish legislation is in conformity with the new principles of the European Patent Convention. A patent is in force in Finland for twenty years from the date of application.

Copyright for a design may be obtained by entering it in the register of the National Board of Patents and Registrations. The registration of a design is effective for a period of five years. The right of a trademark is obtained by registering it in the trademark register of the National Board of Patents and Registrations, or by using it unregistered a length of time during which the trademark becomes generally known in Finland. The registration of a brand name is effective for ten years at a time.

Finland is one of the last countries to still apply process patents instead of product patents for pharmaceuticals. Recent legislation, however, has initiated a ten year transition period to product protection. The old patent procedure will be applicable to all applications made before January 1, 1995. Due to the long time before an actual product is marketed, it is estimated that the first product patent medicines will not be available until the year 2000.

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8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. Trade unions enjoy a protected status and play an important role in Finnish political and economic life. While a one-million-member blue-collar confederation--the Central Organization of Finnish Trade Unions (SAK)--dominates the trade union movement, three other central organizations provide membership opportunities to white-collar, professional, and technical employees. Finnish trade unions are independent of the government and are democratically organized and managed. Most unions maintain strong relations with their Nordic counterparts. The SAK and one white-collar confederation are members of the International Confederation of Free Trade Unions (ICFTU). Two affiliates of the SAK have ties to Communist-dominated trade union internationals. Finnish trade unions participate in the International Labor Organization.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is protected by law and is exercised extensively in Finland. Over 80 percent of both workers and employers are members of trade unions and employers' collective bargaining associations respectively.

With few exceptions, all collective agreements since 1968 have been based on incomes policy agreements between central employees' and employers' organizations and the State. The central agreement covers the general level of wage and salary increases, other terms of employment, and a "social policy package" which provides for vacation, holidays, sick pay, maternity and paternity leave, travel costs, taxes, rents, etc. Labor legislation and practice are uniform throughout Finland.

As of January 1, 1988, Finland had ratified 76 ILO conventions many of which, in addition to local legislation, provide protection against antiunion discrimination and which encourage trade union organization.

c. Prohibition of Forced Labor

Forced or compulsory labor does not exist in Finland.

d. Minimum Age for Employment of Children

It is prohibited to employ persons under the age of 15.

e. Acceptable Conditions of Work

Although there is no national minimum wage in Finland, national collective bargaining agreements set the "floor" for wages in virtually all employment sectors and for all workers, whether they are members of unions or not. As a result, collective bargaining agreements guarantee minimum wages of

about $9.00 per hour at current exchange rates. Extensive legislation protects the worker's health and safety, ensures reasonable working conditions and limits the maximum hours they work. All aspects of Finnish labor law are effectively monitored and enforced by the Ministry of Labor. Compliance with labor legislation in Finland is effected through the Ministry of Social Affairs and Health and the National Board of Labor Protection. Regional and local supervision is delegated to 11 labor protection districts, each employing several inspectors. On the other hand, labor disputes concerning the interpretation of collective agreements are heard by labor courts or by arbitration. General courts of law have jurisdiction over labor disputes not relating to collective agreements.

f. Rights in Sectors with U.S. Investment

U.S. direct investment in goods producing sectors in Finland is miniscule (estimated book value less than $25 million) and concentrated in the chemicals and related products and electric and electronic equipment sectors. The bulk of U.S. investment in Finland is in the wholesale trade, banking and finance sectors. In all industries Finland consistently follows international standards regarding working conditions, child labor, and occupational safety and health.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		25
Food & Kindred Products	0	
Chemicals & Allied Products	5	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	7	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	13	
Wholesale Trade		303
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

FRANCE

Key Economic Indicators

Billions French Francs Unless Stated

	1986	1987	1988
Income, Production, Employment			
Real GDP	3,084.6	3,155.8	N/A
Real GDP Growth (pct)	2.0	2.2	3.1.
Manufacturing (pct)	0.0	1.2	N/A
Agriculture (pct)	-0.2	0.9	N/A
Services (pct)	4.1	3.0	N/A
Real per capita Income (pct)	9.6	0.4	N/A
Labor Force (Millions)	24.0	24.1	N/A
Unemployment Rate (pct)	10.5	10.3	N/A
Money and Prices			
Money Supply (M1)	1,406.7	1,467.7	N/A
Base Bank Lending Rate (pct)	9.60	9.60	9.25
Savings Rate (households, pct)	13.3	12.0	12.3
Investment Rate (pct)	2.9	3.4	N/A
CPI (yr-end)	2.1	3.1	3.0
Wholesale Price Index (1)	N/A	N/A	N/A
Exchange Rate (FF/US$)	6.93	6.01	5.96
Balance of Payments and Trade			
Total Exports, fob	864.4	888.9	N/A
Total Exports to U.S.	61.1	62.4	N/A
Total Imports, cif	867.4	920.5	N/A
Total Imports from U.S.	67.0	67.7	N/A
External Public Debt	7.0	3.6	N/A
Gold (FF Millions)	218.5	223.5	N/A
ForEx Reserves (FF mil)	421.0	377.6	N/A
Current Account Balance	-20.5	-24.5	N/A

Note: 1988 figures are French Government projections as of September 1988
(1) France does not report comparable statistics.

1. General Policy Framework

France is the fourth largest industrial economy, with a gross domestic product (GDP) of around $880 billion in 1987, about one-fifth the size of the U.S. economy. As a member of the European Economic Community (EC), imports into France are subject to the EC's common external tariff and to the restrictions of the common agricultural policy. In addition, as the EC puts in place its ambitious program to remove all barriers to the free circulation of goods, services and capital by the end of 1992, national competence in a growing number of economic areas, including certain aspects of fiscal policy and investment policy will necessarily transfer to the

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EC. France has a centuries-old tradition of highly centralized administrative and governmental control of its essentially market economy, including: 5-year plans, a big nationalized industrial sector, and reliance on industrial subsidies and credit control. Government influence over the economy was further extended in 1981-82 with additional nationalizations, particularly in the banking sector. In the course of the last five years, however, the government (both socialist and center-right) has reversed course, emphasizing a reduction of its involvement in the economy in favor of market forces as the best way to turn around the sluggish French economy and to reduce still rising unemployment. To this end, the government implemented a comprehensive program of market-oriented reform and deregulation: eliminating the majority of price and exchange controls; reducing subsidies; modernizing French financial markets, particularly the stock exchange; reducing taxes; and cutting the budget deficit. Under the center-right government (1986-88) this trend accelerated, with the privatization of 31 industrial and financial companies. The Socialist Government, which returned to power in May/June 1988, ended the privatization program; several of the largest French banks, most of the major insurance companies, and several large industrial concerns remain state-owned.

Cutting the deficit, curbing expenditure growth, and easing the tax burden have been the government's principal budgetary priorities over the last few years. As a result of a very restrictive expenditure policy -- negative or slight real growth in overall spending, including net reductions in public sector employment -- the deficit as a percentage of GDP has significantly dropped. At the same time, in 1987-88 taxes were reduced by some FF70 billion (from what would otherwise have been collected). The top income tax bracket of 65 percent was lowered to 56.8 percent in 1987, while the corporate tax rate dropped to 42 percent in 1988 from 45 percent. In preparation for the single European market of 1992, the government has begun to bring its high valued added tax (VAT) rates more in line with European norms and has made other tax changes to ensure French firms are not fiscally disadvantaged. Despite tax reduction, an increase in social security contributions to fund growing expenditures (levied primarily on individuals) has resulted in an increase in the overall tax burden, which at almost 45 percent of GDP is one of the highest rates in the Organization for Economic Cooperation and Development(OECD). The government finances the deficit by issuing government bonds at a weekly auction.

Until 1985, the government relied almost solely on quantitative credit controls to manage money supply. Since then, it has adopted a more flexible policy relying on open market operations and reserve requirements. The government engages in weekly repurchase operations at a fixed rate to regulate the supply of liquidity available to the banking sector. The official government intervention rates serve as benchmarks for other money market rates. Over the last few years, France has pursued a neutral or even restrictive monetary policy, as an integral part of its efforts to bring inflation under control. Real interest rates in France are

high compared to some of its principal trading partners, as the substantial decline in inflation has not been reflected in nominal rates. When market conditions have been favorable, the government has given priority to reducing official interest rates in order to boost economic activity and promote employment. However, consistent with its anti-inflationary policy, the government's strong Franc policy has taken precedence and it has not hesitated to raise interest rates to defend the Franc within the European Monetary System (EMS), of which France is a member. (The objective of the EMS is to stabilize member currencies, whose fluctuations against each other are limited, except for Italy, to plus or minus 2.5 percent.)

2. Exchange Rate Policies

The foreign currency value of the French Franc is set by international market forces, although it is occasionally influenced by macroeconomic policy actions or central bank interventions. These actions are usually concerted with those of other governments, both within the EMS and as part of broader international economic policy coordination efforts among industrialized countries, including the United States. France maintains two residual foreign exchange controls: a ban on citizens' opening financial accounts abroad and limits on French banks' holdings of foreign currency. These restrictions are not believed to significantly distort the value of the Franc and are scheduled to be removed by mid-1990.

3. Structural Policies

While putting off comprehensive tax reform, the government has begun fine-tuning its tax code to achieve its priorities: investment, job creation and increasing competitiveness of French companies in the context of the European single market. The 1989 budget incorporates a number of tax incentives to help achieve these objectives including: reducing the tax on reinvested profits to 38 percent (from the standard 42 percent corporate rate); a tax exemption for establishment of new companies; tax credits for hiring and training new workers; and reductions in the professional tax rate and in the tax on the transfer of corporate assets. Various taxes on financial institutions are also slated to be abolished or reduced. As part of the EC single market exercise member governments are negotiating the harmonization of VAT rates. With some of the highest rates in the EC, the French Government has begun to reduce and consolidate VAT rates, which currently range between a low of 5.5 percent to a high of 33 percent. In 1989, the 7.5 percent rate will be eliminated, with all goods and services currently taxed at that rate to be subject to the lowest 5.5 percent rate. Likewise, the maximum 33.3 percent rate levied on "luxury" goods will be abolished and such items will then be subject to the new maximum 28.8 percent rate.

FRANCE

4. Debt Management Policies

France's debt management policy is not a significant element in French economic policy and performance.

5. Significant Barriers to U.S. Exports

U.S. companies sometimes complain of complex technical standards in France and of lengthy testing procedures. Testing usually must be done in France, and standards sometimes appear to go beyond reasonable requirements needed to insure performance and safety. Complaints have been loudest concerning electronics, telecommunications equipment, medical/veterinary equipment and products, and some agricultural phyto-sanitary standards.

French Government agencies and state-owned corporations not covered by the General Agreement on Tariffs and Trade (GATT) government procurement code have traditionally followed strong "buy national" policies. Government agencies covered by the code generally follow code provisions but make use of the noncompetitive, single tendering exceptions. Although the value of code-covered procurement has increased, the incidence of U.S. company complaints and unreasonably short bid deadlines has remained high. The EC is formulating new EC-wide regulations concerning government procurement in services and in the sectors still excluded from the government procurement code, including energy, water, telecommunications, transport, and cinema and television. French regulations specify minimum percentages of TV broadcast time and cinema showings that must be devoted to French or European productions. The market share of U.S. films and television shows remains high, however, and these regulations have not been enforced rigorously.

France maintains no review or prior notification requirements on foreign investment in new economic activities. France does require prior approval of proposed foreign investments of over FF 10 million in existing activities. Prior to giving such approval, the French Government often consults with investors regarding their plans for the activity. Restrictions exist on foreign investment in certain sectors, including agriculture, air transportation, and energy. France does not maintain formal local content or performance requirements. However, receipt of investment incentives and preferential credits may depend on the percentage of French equity.

6. Export Subsidy Policies

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding concessionality of foreign aid. The French Government maintains a foreign commercial service to promote French exports and to provide assistance to French businessmen abroad. The government has begun examining ways to

concentrate the benefits of its export promotion efforts more on small and medium-sized businesses.

7. Protection of U.S. Intellectual Property

France is a strong defender of intellectual property rights and an advocate of improving protection. It is a party to the Berne Convention on copyright, the Paris Convention on patents, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks.

Until 1984 French law did not provide for injunctive relief prior to final judgment in patent infringement disputes. An amendment to the patent law that year permitted judges to grant injunctive relief in cases where the patent holder manufactures the product in France. The French patent law permits a judge to grant a compulsory license in cases where a patent is not worked in France and where the patent holder has refused to license it in France. In practice, French courts have been strict in their interpretation of this statute, and compulsory licenses have been granted in very few cases. A 1985 amendment to the French copyright law extended protection to computer software, although it limited protection to 25 years. It also improved the protection of video recordings.

8. Worker Rights

a. The Right of Association

The Constitution affirms the principle of freedom of labor union association, the right to a job, the right of equal opportunity for education and training, social security, and workers' participation in the operation of the enterprise in which they are employed.

Although only one-fifth of the work force is unionized, trade unions exercise significant economic and political influence. They participate actively in numerous tripartite (government, employer, and worker) bodies dealing with social matters, including labor courts and the Economic and Social Council, a constitutionally mandated consultative body. All unions are technically independent of the political parties, but many leaders of France's largest union, the General Confederation of Labor, belong to the Communist Party. (The General Secretary traditionally is a member of the Communist Party Political Bureau.) Leaders of most other unions are members of one or another faction of the Socialist Party, although members of other parties are also active in the labor movement. All unions and employer associations are active in the International Labor Organization and other international organizations, including all three world trade union confederations.

French workers are free to strike, with a few minor exceptions in cases where strikes are determined to be a threat to public safety.

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b. The Right to Organize and Bargain Collectively

Workers have the right to organize and bargain collectively. The principle of free collective bargaining was reestablished after World War II by a law of 1950, with separate statutes applying to public enterprises. The legislation, as amended in 1971 and 1978, encourages collective bargaining at the national, regional, local, or plant level. It sets procedures for dealing with labor disputes and defines two forms of collective contracts--extendable and ordinary. Amendments added in 1982 require at least annual bargaining on wages, hours, and working conditions at both plant and industry levels. France has no export processing zones, and labor law and practice are uniform throughout the country.

The government encourages management and labor organizations to negotiate on issues important to public policy--such as adjustment plans for dislocated workers, training, retraining, unemployment compensation, and supplementary retirement schemes. The "social partners" sometimes invite the government to participate in these negotiations, particularly if legislation will be needed for implementation or if public financing is involved.

The 1950 law sets forth procedures for resolving labor-management disputes. These are frequently arbitrated by labor inspectors. Conciliation boards, composed mainly of management and labor representatives, have proved ineffective. The higher court of arbitration is rarely used. Mediation of wage issues at the national, regional, and local levels has been more successful. Outside mediators, drawn from the upper ranks of the civil service, impose solutions that are binding, unless formally rejected by either side within 8 days. In 1987 some 969,063 man-days of work were lost in France because of strikes, 7 percent less than in 1986.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in France.

d. Minimum Age for Employment of Children

With a few minor exceptions for those enrolled in recognized apprenticeship programs, children under the age of 16 may not be employed. Certain categories of work considered to be arduous and night work (10 p.m. to 5 a.m.) may not be performed by persons under the age of 18 or by women in manufacturing, mining, the public sector, unions, and nonprofit organizations--with the exception of women with managerial responsibilities. This prohibition does not apply to women in commercial establishments, entertainment, or the health sector, since no heavy manual labor is involved.

e. Acceptable Conditions of Work

France has a minimum wage of about $4.45 an hour. The

standard workweek is 39 hours, and overtime is controlled. In general terms, French labor legislation and practice, including that pertaining to occupational safety and health, are fully comparable to those in other industrialized market economy countries. The minimum wage is somewhat less in the overseas departments, and not all social legislation applies in overseas territories.

f. Rights in Sectors with U.S. Investment

There is no differentiation of basic worker rights by industrial sector in France.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		531
Total Manufacturing		8,374
Food & Kindred Products	543	
Chemicals & Allied Products	1,703	
Metals, Primary & Fabricated	163	
Machinery, except Electrical	3,384	
Electric & Electronic Equipment	308	
Transportation Equipment	436	
Other Manufacturing	1,837	
Wholesale Trade		1,726
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		10,631

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

GERMAN DEMOCRATIC REPUBLIC

Key Economic Indicators

Billions of Marks Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production Employment			
Produced National Income (1)	252.2	261.2	271.6
PNI by Sector (1)			
Industry	167.8	174.4	N/A
Construction	18.9	19.7	N/A
Agriculture/Forestry	30.0	30.0	N/A
Transportation/Communication	14.3	14.3	N/A
Commercial	22.8	23.6	N/A
Other	9.2	9.5	N/A
Per Capita Income (Marks)	15,172	15,696	N/A
Employment (Millions)	8.55	8.57	8.55
Real GDP	N/A	N/A	N/A
Unemployment Rate	0	0	0
Money and Prices			
Money Supply	14.330	15.014	N/A
Commercial Interest Rates (2)	N/A	N/A	N/A
Savings	132.2	141.8	N/A
Gross Investment (3)	65.9	71.2	74.1
Retail Price Index (1970-100)	99.5	99.5	99.5
Wholesale Price Index	N/A	N/A	N/A
Official Exchange Rate (Marks/US$) (4)	2.17	1.80	1.69
Balance of Payments and Trade			
Total Exports (Billion Valuta Marks) (5)	91.5	89.9	42.0(6)
Exports to U.S. (Million US$)	95.5	96.2	130.0(7)
Total Imports (Billion Valuta Marks)	90.5	86.6	39.0(6)
Imports from U.S. (Million US$)	67.9	53.9	115.0(7)
Aid from U.S. and Others	N/A	N/A	N/A
Gross Debt (Billion US$) (8)	15.98	18.59	19.06(6)
Net Debt (Billion US$) (8)	8.58	9.59	9.56(6)
Trade Balance (Billion Valuta Marks)	1.04	3.24	2.0(6)

Notes: 1) PNI is the GDR macroeconomic aggregate most closely corresponding to GNP, but it omits "non-productive services and depreciation charges." Due to these omissions, as well as a presumption that GDR statistics are not fully inflation-adjusted, most analysts believe that real GNP growth is consistently lower than official PNI growth.

2) The GDR has no capital market to equilibrate demand and supply of credit. However, see John E. Parsons, Credit

GERMAN DEMOCRATIC REPUBLIC

Contracts in the GDR: Decentralized Economics of Planning, Vol. 20, No. 1, 1986. "Interest rates on industrial investments may vary in the GDR from the standard charge of five percent upward by eight percentage points and downward by 1.8 percentage points."

3) In constant 1985 prices.

4) The GDR mark (EM) is not convertible and no one exchange rate adequately reflects its value versus the deutschemark (DM). For the inner-German trade, 1 EM = 1 DM. A recent study of the German Institute for Economic Research had 1 EM = .98 DM in purchasing power, although lower nominal GDR incomes put real GDR income at 53 percent of the FRG. In western exchange facilities, roughly 6-7 EM = 1 DM.

5) The valuta mark (VM) is a GDR foreign trade accounting unit in which 4.67 VM = 1 transfer ruble. The relationship to the domestic mark of the GDR is not known.

6) Half-year results.

7) Projection, US Dept. of Commerce.

8) Gross debt = debt with BIS banks + supplier credits + dollar value at OECD exchange rates of cumulative inner-German deficit. Net debt = gross debt less GDR positive balances with BIS banks.

1. General Policy Framework

The German Democratic Republic (GDR) is a highly industrialized country with perhaps the highest standard of living in Eastern Europe. The GDR is a non-market economy and centrally planned. Industry accounts for more than 80 percent of the GDR's Produced National Income (PNI). Most major industrial products are manufactured locally, but some of the more important sectors are steel, chemicals, general machinery and machine tools, electrical and precision engineering products. The major natural resources are lignite coal, potash and uranium. Despite its primarily industrial character, the GDR is also moving toward self-sufficiency in most agricultural products. Significant domestic production includes wheat, rye, potatoes, sugar beets, meat and dairy products. The PNI (in constant 1985 marks) for 1987 was 261 billion marks. With a population of 16.6 million, that amounted to a per capita PNI OF 15,700 East German marks, or roughly, $9,300 at the official exchange rate. (Unofficially, the East German mark can trade at a rate of more than six to the dollar.) Until recent time, the country had an official growth rate that averaged 4.7 percent. A 4.5 percent rate of growth was projected for the current five-year-plan through 1990. However, in the first two years of the plan, 1986 and 1987, the rate has been 4.3 and 3.6 percent respectively. GDR planners projected growth in 1988 at 4.1 percent but only achieved "around three percent growth" due in part to drought and subsequent crop failure. However, as in any other economy, three fundamental factors will influence the GDR's growth outlook through 1990 and beyond.

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The first is the GDR's declining population. In rough terms, the GDR's population declined from 1950 to 1962, then stabilized for six years before beginning another 20-year decline. The extreme scarcity of labor is strongly felt throughout the economy, so that one Politburo member was moved to rebuke enterprise directors at the end of 1987 that they should stop asking for more workers that they were not going to get. Increased output should be produced through increases in labor productivity. A practical example of this phenomenon was recounted by one GDR city councilman who noted that in 1980 his town received 1,300 new apprentices per year, but now could only count on 600 per year. One result of the extremely tight labor situation has been that women are fully employed -- accounting for 49 percent of the workforce. This, and the growth over the last 27 years of the GDR's populace into the working years, have helped to stabilize and even slightly increase the absolute size of the workforce.

GDR planning officials and economists say that the economic leadership has now recognized that investment funds cannot be reduced further. From 1975 to 1985, the share of national income represented by net investment fell from 23.6 percent to 17.6 percent as the GDR economy began to absorb the second oil price shock and the Eastern European credit crunch of the early 1980s. But in 1986, the GDR reported investments of 65.9 billion marks, a rise of 5.3 percent; in 1987 a reported 71.2 billion marks, up 8 percent; and for 1988, the GDR planned to invest 74.1 billion marks, for a rise of 4.1 percent. In these last three years then, it appears that investment will have grown faster than the economy, in 1987 considerably faster, and may be absorbing a larger share of total output. One has to state this in such a qualified manner because the true extent of inflation in the industrial sector will not be revealed until 1991 when the GDR is expected to revise its statistics to a 1990, rather than 1985, price basis. Anecdotal evidence from western businessmen suggests a somewhat bleaker investment picture than outlined above. They complain that even small investments that would yield benefit to the GDR are not being undertaken for lack of funds, or a different perception of investment priorities.

The GDR tends to rely upon technological change as the wellspring of its economic growth. Industrial product innovation rates of 30 to 35 percent per annum are commonly claimed by GDR kombinats and enterprises. The GDR sought to enhance technical innovation in the early 1980s by subordinating research institutes and independent institutes, e.g., those attached to the Academy of Sciences, do much more contract work for industry. This means that a very large share -- perhaps as much as 80 percent -- of the GDR's research and development funds, 11.5 billion marks in 1987, tend to go to applied, not basic, research.

One thing that will not be found in the GDR are radical economic reform proposals. The bulk of GDR economic activity is carried out by 126 kombinats (sectoral monopolies). Since the early 1980s, kombinats have had foreign trade organizations and research and development institutes

subordinated to their direction. Allocating production inputs, the selection of goods and services and the direction of foreign trade is the annual economic plan. Longer range economic decisions determining, e.g., the allocation of investment over time, the emphasis of research and development activity, the share of goods to be devoted to foreign trade, or the overall shares of consumption and investment are described in the five-year-plan. This means that there is very little interest here in some of the newer thinking from the USSR, China or Hungary, such as currency convertibility, joint ventures or direct investment.

2. Exchange Rate Policies

The GDR maintains a State monopoly on foreign trade activity and the use of foreign exchange. In practical terms, this means that foreign exchange transactions are carried out on the basis of the plan, that the transactions are made through the State bank and its subsidiaries, The German Foreign Trade Bank (DABA) or the German Commercial Bank, and that the import or export of the domestic GDR mark is forbidden. The GDR, like other centrally planned economies, uses several price structures and units of account in the export and import of its products and services. However, it is difficult to be too specific about these structures. The domestic mark of the GDR is not legally convertible. Furthermore, GDR foreign trade statistics are presented in terms of a statistical accounting creation -- the valuta mark (VM). The relationship of the valuta mark to the domestic mark is a State secret. We believe that the system produces a multiplicity of de facto exchange rates that vary by product and by the degree of difficulty of earning the foreign trade in question.

Several western observers seem to agree that international prices are most apparent to the GDR domestic market on the import side where the State planning apparatus seeks to confront producers with international price developments. The foreign exchange coefficients may strongly mask the effect of world prices to the GDR exporter.

GDR international transactions are conducted in at least four different general ways. Within the Council for Mutual Economic Assistance (CMEA), sales and purchases are conducted on the basis of the (non-convertible) transfer ruble, using a five-year moving average of world prices (the Moscow pricing formula). With other centrally planned economies (CPEs), e.g., China, Yugoslavia, the GDR appears to use a mix of currencies, including a clearing ruble and current world market prices. With the Federal Republic of Germany, Finland and a number of developing countries, the GDR conducts trade on a bilateral clearing basis. The most important of these -- the inner-German trade -- is measured in accounting units (verrechnungseinheiten) that equate one GDR mark to one Federal Republic of Germany (FRG) mark. Finally, trade with all other countries is conducted on the basis of freely convertible currencies, with the dollar playing an important role.

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3. Structural Policies

The demand for U.S. exports is expressed by the roughly 40 Foreign Trade Organizations (FTO) empowered by the State to export and import. The FTOs report either directly to the Ministry of Foreign Trade or work for several kombinats. All FTOs must report to the Ministry of Foreign Trade or report directly to a kombinat or report directly to an industrial ministry. As should be clear from this structure, the FTOs are not independent actors, but are the agents of the State planning apparatus. The FTOs negotiate contract terms, including counter-trade, that help fulfill export and import targets.

Domestic prices tend to play a somewhat marginal role in the overall readiness of the GDR to seek out U.S. exports. Domestic retail prices for goods, rents and services are heavily subsidized. In 1987, the GDR budget reported subsidies for "basic necessities," including housing, that exceeded 20 percent of the budget. The GDR tries to set prices that will more closely reflect the cost of inputs. Reforms of these prices throughout the 1980s is generally credited with improving the efficiency of production in the domestic economy. Given the planned nature of the economy, including foreign trade and the external price structure as described in paragraph two above, domestic prices are at most a residual factor in any GDR consideration of importing goods.

The GDR is highly dependent upon trade, with imports of 86 billion valuta marks equivalent to one-third of national income produced. Not all of this can be viewed as a potential sale for U.S. suppliers, because GDR FTOs turn first to producers from other CMEA countries (if planners are unable to justify use of a domestic resource). In 1987, trade with other communist countries accounted for 69 percent of the GDR's foreign trade. Despite its preference for Eastern suppliers, the GDR is, nevertheless, the largest importer of Western goods among non-Soviet CMEA countries. Clearly, the most important structural aspect of the GDR's trade with the West is its determination to produce hard currency trade surpluses. In the 1970s, the GDR regularly ran hard currency trade deficits, but adopted its current policy with the financial contraction of 1981-83. The annual quest for a hard currency trade surplus tends to cause GDR trade, even in the freely convertible currencies, to be viewed by planners as a series of bilateral balances.

4. Debt Management Policies

In contrast to some other Eastern European economies, the GDR has no difficulty in obtaining credits or financing transactions. Nevertheless, GDR officials claim that U.S. exporters are losing sales, particularly major projects, by not having access to official credits (i.e., Commodity Credit Corporation or Export Import Bank). At the end of 1987, the GDR had deposits with banks reporting to the Bank of International Settlements of roughly nine billion dollars, while gross external hard currency debt probably did not

exceed $17.5 billion. U.S. banks generally seek to extend credit to the GDR, but usually find the terms do not generate sufficient return. Looked at in another way, the GDR receives a credit rating second only to the USSR among CMEA countries as judged by the Western financial press. Some U.S. banks have suggested to GDR officials that they manage the GDR's conservatively held assets for a fee, but the German Foreign Trade Bank (DABA) is apparently resisting such overtures.

The debt situation is a considerable improvement over 1982. Some Western bankers feared then that the GDR would fall into problems similar to those of Poland or Romania and it became difficult for the GDR to take up new credits. The GDR decided to scale back its imports in a major way and also sought to increase exports to the west, having some success with refined petroleum products. The GDR's difficulties were further alleviated in 1983/84, when a consortium of banks extended several major syndicated loans guaranteed by the FRG. The GDR did not have to reschedule its debt, although it did some voluntary restructuring of maturities in 1985/86.

Recently, many analysts have noted a rise in net debt, but the cause of this rise is a matter of some conjecture. GDR debt and assets as reported by Bank for International Settlements (BIS) Banks both rose with the fall in the value of the dollar. However, the changes that can be accounted for by exchange rates do not tally with the GDR's current account surpluses. According to one line of speculation, the GDR is converting credits previously unreported to BIS banks, e.g., supplier credits to credits with longer maturities.

5. Significant Barriers to U.S. Exports

The GDR does not levy customs duties or other taxes on commercial imports. In a State trading country such as the GDR, the only truly significant barrier to any country's exports is the level of trade for the given year that is decreed by the State Planning Commission. Unless there is an unusual circumstance, like a crop failure that disrupts the premises of the annual economic plan, exporters will not sell more to the GDR in a given year than the central authorities have decided to import, which is heavily dependent upon the degree to which the GDR can export to that country. In the case of the United States, for example, GDR officials often complain that they are restricted in what they can buy from the United States because they are not entitled to most-favored-nation tariff treatment on the U.S. market.

While access to FTOs is generally open, non-resident U.S. firms find it difficult to reach interested parties in kombinats or enterprises that use the product or services being offered. Access is sometimes possible during the semi-annual Leipzig Trade Fairs. Through the auspices of a GDR commercial agency, the U.S. exporter can conduct a technical sales seminar to reach end-users.

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If a U.S. company wants to establish a representational office in the GDR (currently there are four), it must apply for space in the International Trade Center (ITC). Rental costs for an office or technical sales seminar in the ITC are quite steep and nearly prohibitive for U.S. firms, especially those new-to-market.

The reliability of commercial information and data published by the GDR is unsatisfactory when considered by type, quality and timeliness. GDR FTOs and kombinats keep even the most basic marketing information secret. The GDR's statistical reporting system seems to have become worse in recent years.

The establishment of equity-participation or other forms of joint ventures with western firms or organizations on the territory of the GDR is not permitted by GDR authorities. Although GDR law does not prohibit direct investment, GDR practice has, so far, refused such activity by Western firms. At the same time, the GDR has, reputedly, a strong resistance to founding joint enterprises on its territory with other members of the Council for Mutual Economic Assistance (CMEA).

GDR firms tend to be inflexible in adapting the quantity or quality of their products to Western market conditions. Inflexibility restricts the ability of the GDR to sell abroad, thereby under its hard currency surplus policy, limits the ability of Western firms, including the United States, to sell to the GDR. U.S. businessmen sometimes complain of customs and visa problems. Commercial agents in the GDR are usually required for a Western firm to make a sale, but businessmen complain that the agents do not provide services commensurate with the fee. The GDR imposes fees for technical and quality inspection for the goods it imports.

6. Export Subsidies Policy

The GDR, in some sense, subsidizes exports. Western analysts assume that, buried in the portion of the budget that is not made public, are receipts and expenses to cover the difference between the world and domestic prices of internationally traded commodities. Such a mechanism must exist in order to finance the complicated system of foreign exchange coefficients described above. However, it is impossible to determine how these payments actually subsidize the export sector. In the 1988 budget of the GDR, 16.8 percent of expenditures and 11.3 percent of receipts are unaccounted for.

The calculation of a subsidy element on any specific commodity is made difficult by the meaningless nature of domestic prices in terms of demand and costs, particularly in the absence of any markets to equilibrate these forces. U.S. investigations conducted under the Anti-Dumping Statute, e.g., on liquid fertilizer, required such heroic assumptions about wage costs and exchange rates that it is not possible to generalize these results to other GDR export products.

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7. Protection of U.S. Intellectual Property

The GDR is a party to the Paris, Berne and Universal Copyright Conventions. Like the United States, the GDR has adhered to the revision of the Paris convention adopted at Stockholm in 1967.

U.S. nationals are entitled to receive the same treatment under the GDR's patent, trademark and industrial design laws as the GDR extends to its own citizens (national treatment). The GDR patent law contains penal provisions for willful patent infringement, in addition to civil sanctions, so that deliberate commercial patent infringement is rare in the GDR. Parties to an infringement dispute usually settle the question amicably and regard recourse to the courts as a last resort. The U.S. Embassy is aware of only one intellectual property complaint by a U.S. firm, and it was made in 1986. The firm complained that filing and maintenance fees for a full term (18-year) patent were among the most expensive in the world and provided little protection.

8. Worker Rights

a. The Right of Association

Workers do not have the right to establish and join unions of their own choosing. The Free German Trade Union (FDGB) is an appendage of the SED. It consists of 16 unions covering all workers and professionals and represents some 90 percent of the work force. All large industrial, retail, and agricultural enterprises--which employ 96 percent of the labor force--are owned by the State. The FDGB's role is to enforce and promote official government and party policies--which are considered to correspond with the interests of the masses -- rather than to promote members' interests, which might conflict with those policies. The FDGB is affiliated with the World Federation of Trade Unions.

Workers do not have the constitutional right to strike. Although this right existed in the 1949 Constitution, it was deleted from the 1968 Constitution because, according to the SED, workers do not need this right under socialism. The right to strike was not restored in the 1974 Constitution. There were no published reports of strikes in 1988.

b. The Right to Organize and Bargain Collectively

There is no legal provision for collective bargaining, nor does it exist in practice. Although worker representatives are allowed to sit on the enterprises' boards, in reality they only rubberstamp the boards' policies. Labor law and practice are uniform throughout the GDR.

c. Prohibition of Forced or Compulsory Labor

Forced labor is not practiced in the GDR. There is a requirement that teenagers must work at least one summer for the State, but they receive compensation for their work.

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d. Minimum Age for Employment of Children

Children from age 14 may work part time during vacations and to further their education. Children can work full time with parental permission between ages 14 and 18. Youths under the age of 18 may not work between 6 p.m. and 6 a.m. Youth commissions within the FDGB effectively enforce the child labor laws.

e. Acceptable Conditions of Work

Under the law, a full-time worker is entitled to a minimum wage of approximately $216 per month.

The maximum workweek is 43 3/4 hours, with a maximum of an additional 120 hours overtime per year permissible by law, except under extraordinary conditions. A 2-day weekend is common. The GDR guarantees citizens the right to a job, and there is essentially no unemployment.

Labor law obliges enterprises to protect their employees' health and safety in the workplace. In reality, working conditions are often difficult, especially in mining and heavy industry. The government has had some success, however, in reducing the relatively high rate of accidents in the workplace.

f. Rights in Sectors with U.S. Investment

U.S. capital is not invested in the German Democratic Republic.

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Key Economic Indicators

Billions of DM Unless Otherwise Stated

	1986	1987	1988 (est)
Income, Production Employment			
Real GNP (1980 prices)	1,614.7	1,643.2	1,700.7
Real GNP Growth Rate	2.3	1.8	3.4
GDP by Sector (1980 prices)			
Agriculture	37.23	33.44	N/A
Mining and Energy	48.73	49.13	N/A
Manufacturing	502.18	505.78	N/A
Construction	89.98	90.44	N/A
Trade, Transport, & Communications	251.21	257.47	N/A
Government, Non-Profit Organizations, Households	219.07	222.78	N/A
Services	411.10	428.37	N/A
Real per capita Income	26,410	26,799	27,737
Civilian Labor Force (Millions)	28.0	28.2	28.4
Unemployment Rate (avg for year)	9.0	8.9	9.0
Money and Prices			
Money Supply (M1)	58.75	385.17	389.82(1)
Commercial Interest Rate	6.99	6.46	7.00
Savings Rate	13.5	13.5	13.5
Investment Rate (pct of nominal GNP)	19.4	19.3	19.6
CPI (1980=100)	120.7	121.0	122.4
Wholesale Price Index (1980=100)	108.8	104.7	105.7
Exchange Rate (DM/US$) (annual avg)	2.17	1.80	1.80
Balance of Payments and Trade			
Total Exports, fob	526.36	527.38	555.60
Total Exports to U.S.	55.20	49.88	N/A
Total Imports, cif	413.74	409.64	433.10
Total Imports from U.S.	26.86	25.61	N/A
External Public Debt	158.9	176.7	185.0
Annual Debt Service Payments	58.1	58.9	59.8
Gold and ForEx Reserves	63.9	82.0	63.1(3)
Balance of Payments			
Current Account	84.97	80.80	85.00
Capital Account	-80.11	-44.02	-115.00

Notes: (1) Figures for August 1988 (2) December, for credits over DM 1 million and under DM 5 million. (3) Figures for Sept. 1988.

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1. General Policy Framework

Real economic growth in the Federal Republic of Germany (FRG) has slowed considerably during the 1980's in comparison with the previous three decades. Real growth in gross national product (GNP) from 1980-88 averaged only 1.7 percent annually compared with average growth of 7.9 percent in the 1950's, 4.6 percent in the 1960's and 2.8 percent in the 1970's. However, with no population growth, per capita real income continues to increase and German living standards and prosperity are among the highest in the world. Surprisingly strong growth during the first quarter of 1988, due mainly to mild winter weather, gave way to slower growth in subsequent quarters. For the full year, real growth was around 3.4 percent. A strong export performance made a large contribution to growth. Real exports of goods and services, which grew by less than one percent in 1987, increased by over 5 percent in 1988. Rising domestic interest and inflation rates and tax increases totaling around DM 19 billion are expected to dampen growth prospects in 1989. Real growth is likely to dip below 2.5 percent and inflation should be about the same rate. The weakening of domestic demand combined with better than expected exports means Germany's high nominal external surpluses will probably increase further in 1989.

In November, 1988, the Federal government estimated that its 1988 budget deficit would likely be DM 36-37 billion. The increase over the 1988 budget law was due to two special factors: a DM 4 billion increase in the German contribution to the European Communities (EC) and the unexpected drop in Bundesbank profits available for transfer to the Finance Ministry. The Federal government intends to reduce significantly the FY 1989 budget deficit by means of excise tax increases. In December parliament approved about DM 9.5 billion in excise tax increases to reduce the 1989 federal deficit to an estimated DM 28 billion. Expenditures next year are forecast to rise 5.4 percent to DM 290.3 billion and revenues by about 9 percent to DM 262.3 billion.

One of the key elements of the Kohl government's fiscal policy has been a three-stage 1986-1990 tax reform package. The first two stages consisted of net personal tax relief of DM 10.9 billion in 1986 and DM 13.7 billion at the beginning of 1988. In July parliament approved DM 38 billion in tax relief to take effect January 1, 1990. To offset partial revenue losses from the 1990 reform, an estimated DM 18.1 billion will be raised by cutting back on tax preferences and via the introduction of a new 10 percent interest withholding tax. Thus, net tax relief in 1990 will amount to DM 19.1 billion.

In the aftermath of the October 1987 stock market crash, the Bundesbank moved to lower its official short-term interest rates and provide liquidity to the domestic market. In November the Lombard rate was lowered one-half point to 4.5 percent and in December the discount rate was lowered to 2.5 percent, an historical low. The Lombard rate is the upper reference for money market rates and the discount rate is the official floor. From December 1987 until June 1988 the

Bundesbank kept its benchmark interest rate on securities repurchase agreements (repos) at 3.25 percent. The repo facility is a major source of short-term financing for the German banking system and is the Bundesbank's preferred mechanism for managing money market interest rates. In August 1988 the Bundesbank raised the discount rate to 3.5 percent, also in August the Lombard rate was raised to 5.0 percent. At the same time the repo rate was increased in several steps to 4.25 percent. This mid-year tightening of monetary policy was designed to support the DM against an appreciating dollar, curb potential inflation, rein in money supply growth and stem capital outflows.

In recent years the Bundesbank has implemented a number of changes in the money and capital markets in an attempt to enhance the attractiveness of Germany as an international financial center. Nevertheless, the development of both a CD market and domestic trade in DM floating rate notes has been stifled by a securities transactions tax, which is the most important remaining impediment in German securities markets. The government, the Bundesbank and the banking industry have all urged the abolition of this tax, but attempts to eliminate it have not been successful.

2. Exchange Rate Policies

The Deutsche mark is a freely convertible currency and the government does not maintain exchange controls. In recent years the FRG has recorded large trade and current account surpluses. In 1987 the nominal trade surplus was a record DM 117.7 billion (balance of payments basis) or 5.8 percent of GNP and the current account surplus hit a near record of DM 80.8 billion or 3.9 percent of GNP. In 1988 the pace of external adjustment slowed as the difference between import and export growth continued to narrow. Exports of goods grew by a real 2.9 percent in 1987, and in 1988 they increased further. They will benefit both from the relative weakness of the Deutsche mark and the capital investment boom in other industrialized countries. Import growth, in contrast, is expected to decline from last year's 5.4 percent. In 1989 the pace of the FRG's real external adjustment is expected to remain slow since domestic demand is forecast to increase by only 2 percent in real terms (which will dampen imports), but export performance is likely to remain strong.

In recent years much of the FRG's trade surplus in nominal terms has been at the expense of its EC partners. Between 1985 and 1987 the FRG's trade surplus with other EC countries jumped from DM 31.6 billion to DM 62.3 billion. Despite this huge surplus, the DM's value against the currencies of the other countries participating in the European Monetary System (EMS) has remained essentially stable in nominal terms despite higher inflation rates in these countries. In other words, in real terms the DM has depreciated in value vis-a-vis the other EMS currencies. This, combined with a capital boom in countries such as France and Italy (in preparation for the EC single market in 1992)

means that the FRG's substantial trade surplus with other EC countries will rise even further this year.

3. Structural Policies

One of the reasons why unemployment has remained stubbornly high in the Federal Republic of Germany is that, on balance, the main thrust of domestic private fixed investment has been toward the rationalization and modernization of existing facilities rather than capacity expansion. Despite high capacity utilization rates and close to six years of economic recovery, domestic private gross fixed investment is still below its pre-recession peak.

Accompanying the relatively sluggish domestic investment has been a substantial outflow of long-term capital, higher than expected for a country running a current account surplus. During the first six months of 1988, the FRG experienced a record net capital outflow of DM 50.6 billion, more than twice the 1987 total of DM 23.5 billion. Higher interest rates abroad and the government's plan to introduce a 10 percent interest withholding tax have been partially responsible for the outflow. The combination of sluggish domestic investment and growth, high unemployment and large net capital outflows has led to a domestic debate on how to increase the FRG's attractiveness for internationally mobile capital and investment via microeconomic structural changes.

The business sector has argued that even with the 1990 tax reform, the marginal business tax rate will still exceed 50 percent, more than in many other Organization for Economic Cooperation and Development (OECD) countries. The Kohl Government has pledged to lower business tax rates before 1992. The government's efforts toward deregulation, e.g. the restructuring of the Bundespost (postal, banking and telecommunications services), have been limited and some observers argue that much more could be done. Various proposals have been put forward to reform the FRG's rigid labor markets, a circumstance that is also cited as a cause of the high rate of unemployment. The government is attempting to reform the country's costly health and pension programs as a way to lower high non-wage costs. It has also been argued for some time that a significant cut in subsidy programs would give an important boost to economic growth. However, in recent years subsidies have actually increased and now account for about 6-7 percent of GNP compared to about 2-3 percent in the United States. The aim of these supply side measures is to channel more of the FRG's huge private savings into productive investment in order to boost the country's growth potential, reduce unemployment and increase the FRG's contribution to the world adjustment process.

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4. Debt Management Policies

Except for 1979, 1980 and 1981, the FRG has had a positive current account balance in every year since 1971. Thus the Germans are in a net creditor position.

5. Significant Barriers To U.S. Exports

The requirement that goods imported into the Federal Republic of Germany meet technical standards established by a variety of institutions and/or associations constitutes the most significant barrier to U.S. exports. Some standards are mandatory and others only recommended, but equipment which does not satisfy even "non-mandatory" standards is often very difficult to sell in the German market. Most German standards are developed by the Deutsches Institut fuer Normung (German Standards Institute) in Berlin. At present, approximately 20,000 such standards have been published and operate as yardsticks to measure performance characteristics as well as product quality. DIN standards are applicable across the board and are frequently supplemented by other additional standards developed by more specialized agencies.

Other standards-setting bodies include: the Bundepost (telecommunications equipment), the German Electrical Engineers' Association (electrical equipment), the German Institute for Quality Assurance and Labeling (an amalgamation of private manufacturers voluntarily committing to certain quality standards), and the Association of Property Insurers (develops and publishes standards for products and equipment in connection with insurance coverage). In addition, there are a large number of professional associations in the FRG that develop and publish regulations designed to prevent accidents in the operation of various types of equipment.

In almost all cases, the committees in these and other entities that develop the actual standards are comprised of representatives from German industry and from various German public bodies. These representatives may advance views and criteria favoring German manufacturers and products. The EC countries are now in the process of attempting to harmonize their individual systems of standards. In this exercise the Germans are attempting to have their relatively demanding standards prevail over the others, hoping to avoid what they believe to be standards of lower quality and safety.

In the agricultural sector, the Germans protect producers of grains, beef, pork, poultry, eggs, dairy products, sugar and their products through a system of variable import levies. Levies are calculated differently for these products and can change frequently -- daily in the case of grains -- to provide a level of protection that will more than offset the difference between import prices and domestic prices. In some cases the levy includes one or more elements to add protection for processors of food products as well.

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6. Export Subsidies Policies

In the past, the most significant export subsidy programs in the FRG have been in agriculture, commercial transport aircraft (in the form of German participation in the Airbus consortium), shipbuilding and coking coal. In agriculture, subsidies are available for a wide range of products. Subsidies are usually fixed periodically and may be differentiated by destination as well as product. German subsidization of the Airbus project, most of whose production is exported, has totaled billions of Deutsche marks since the program's inception in 1970. The government has now agreed to provide a subsidy to insulate Daimler-Benz, who is acquiring an interest in MBB (the German Airbus partner), from certain exchange rate risks in the production and marketing of Airbus planes. Shipbuilding subsidies have been aimed at protecting German shipyards and workers from intense Asian competition. In the energy sector, the FRG has subsidized the export of coking coal in order to protect jobs in the relatively depressed Ruhr area. This subsidy, which totaled DM 2.9 billion in 1986, is scheduled to be phased out at the end of 1988.

7. Protection of U.S. Intellectual Property

The FRG is a party to the principal intellectual property accords, including the Berne, Paris, Brussels Satellites, and Universal Copyright Accords and the Patent Cooperation Treaty.

Intellectual property is adequately protected in the FRG and U.S. citizens and firms are entitled to national treatment, i.e. German law does not distinguish between nationalities of registered property. The protection of intellectual property in the FRG is primarily the responsibility of three institutions: the German Patent Bureau, the Verwertungsgesellschaft "Wort" (concerned with printed material) and GEMA, the German quasi-equivalent of ASCAP, the American Society of Composers, Authors and Publishers.

The U.S. motion picture industry claims that despite the 1985 revision of the German Copyright Law, providing higher penalties for copyright infringements, videocassette piracy still amounts to over 25% of the total videocassette market.

8. Worker Rights

a. The Right of Association

The right to associate freely, choose representatives, determine programs and policies to represent members' interests, and to publicize views is recognized and exercised freely in the Federal Republic. The right to strike is guaranteed by law, except for civil servants and personnel in sensitive positions, such as members of the armed forces. The country has a long-established and highly organized labor

movement, with about 42 percent of the eligible work force unionized. The German Trade Union Federation represents over 83 percent of organized workers. Reborn in the wake of World War II, the unions are particularly conscious of their historic role as the protector of workers' rights and a bulwark of the democratic system. They actively participate in the International Labor Organization and in international and European trade union organizations.

b. Right to Organize and Bargain Collectively

The right to organize and bargain collectively is guaranteed by law and is widely practiced. Each year approximately 7,000 contracts are renegotiated, affecting some 20 million workers, or 90 percent of the dependent work force. No government mechanism to promote voluntary worker-employer negotiations is required because of a well-developed system of autonomous contract negotiations. Workers are fully protected against antiunion discrimination. The Federal Republic has no export processing zones, and labor law and practice are uniform throughout the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is barred by the Constitution and is nonexistent in practice.

d. Minimum Age for Employment of Children

Federal law generally prohibits the employment of children under age 15 with a few exceptions: children aged 13 and 14 may do farm work for up to 3 hours per day or may deliver newspapers for up to 2 hours per day; children aged 3 through 14 may take part in cultural performances under stringent conditions with regard to number of hours, time of day, and form of activity.

e. Acceptable Conditions of Work

Minimum wages are set by contract within each industry sector. At the lower end of the minimum wage scale is the $5.40 per hour wage (at current exchange rates) for agricultural workers. The number of hours of work per week is regulated by contracts which directly or indirectly affect 80 per cent of the working population. The average workweek is 37 to 39.5 hours. Federal legislation sets occupational safety and health standards. For each occupation, there is a comprehensive system of worker insurance carriers who enforce requirements for safety in the workplace.

f. Rights in Sectors with U.S. Investment

The Federal Republic of Germany's very high standards of worker rights protection apply to all of the goods producing sectors in which U.S. direct investment is found. Special

dispensations that allow children under the normal minimum age of 15 to work under protective conditions affect primarily two of the sectors of concern, food and related products and wholesale trade.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3,319
Total Manufacturing		15,974
Food & Kindred Products	522	
Chemicals & Allied Products	1,975	
Metals, Primary & Fabricated	470	
Machinery, except Electrical	5,095	
Electric & Electronic Equipment	839	
Transportation Equipment	4,324	
Other Manufacturing	2,751	
Wholesale Trade		1,035
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		20,328

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Billions of Drachmas Unless Otherwise Stated

	1986	1987 (prelim)	1988 (proj)
Income, Production, Employment			
Real GDP (1)	512.2	510.2	524.5
GDP at Current Mkt Prices ($ Bil)	40.0	45.7	52.7
Real GDP Growth Rate	1.2	-0.4	2.8
GDP (current mkt prices)	5,543.2	6,389.4	7,471.8
GDP at Factor Cost (1)	455.2	453.3	466.0
Agriculture	60.9	58.2	61.8
Mining	8.0	8.0	8.7
Manufacturing	89.4	87.5	89.7
Electricity, Gas, Water	17.5	18.6	19.2
Construction	22.5	21.7	23.1
Services	256.8	259.4	263.6
Real per capita Income (drachmas) (1)	50,687.0	50,470.0	52,370.0
Per Capita Income (Current Mkt Prices $000s)	4,012	4,583	5,285
Labor Force (Millions)	3.89	3.88	3.9
Unemployment Rate (pct)	7.8	7.4	7.4
Money and Prices			
Money supply (M1) (yr-end)	879.7	1,046.5	1,256.0
Annual Percentage Change	10.3	18.9	20.0
Commercial Interest Rates			
Working Capital Lending	20.5	21.0	20-22
Savings Interest	15.0	15.0	14.5
Investment Interest (long-term loans to industry)	18.0	18.0	17-19
CPI (1982=100) (yr-end)	224.3	256.9	296.0
Wholesale Price Index (1980=100) (yr-end)	311.6	377.9	371.7
Exchange Rate (Drachma/US$)			
Official Annual Average	138.429	139.954	141.7
End Period	138.76	126.53	145.0
Parallel Market	N/A	N/A	N/A
Balance of Payments and Trade (US$ Millions)			
Total Exports, fob (2)	4,512.3	5,613.6	6,100.0
Total to U.S. (3)	400.7	442.1	N/A
Total Imports, cif (2)	10,198.3	12,556.1	13,800.0
Total from U.S. (3)	341.0	356.6	n/a
Aid from U.S. and Others	N/A	N/A	N/A
External Public Debt	18,031.7	20,706.7	19,700.0
Annual Debt Service (includes supplier credits)	2,603.3	3,785.6	4,000.0
Gold and ForEx Reserves	2,359.9	3,738.1	5,000.0
Current Account Deficit	-3,275.7	-1,703.9	-1,300.0

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Sources: Bank of Greece, National Statistical Service of Greece, and Embassy estimates.

Notes:
(1) Constant 1970 market prices.
(2) Settlement basis.
(3) Greek customs data.

1. General Policy Framework

With a regime of highly protective tariffs, subsidies and preferential credits (at negative interest rates) for industry and commerce, the Greek economy enjoyed almost 30 years of sustained rapid growth after the end of the Second World War and the Greek Civil War which followed. As a result of the 1979 oil price shock Greece encountered significant economic difficulties, and growth was stalled. In 1981 Greece entered the European Community and elected a socialist government. With the rationale of redressing social injustices, the new government expanded spending on social welfare programs, increased public sector employment, enlarged the public enterprises, and raised the general wage level significantly. The economic result was stagflation. Gross National Product (GNP) growth between 1979 and 1986 hovered around one percent, less than half the Organization or Economic Cooperation and Development (OECD) average. Balance of payments deficits led to increased foreign borrowing; the external debt reached 44 percent of Gross Domestic Product (GDP) in 1987, up from 13 percent in 1979. Increasing deficits in the Government of Greece's budget expenditures and in the public enterprises' balance sheets led to sharp increases in the public sector borrowing requirements (PSBR), crowding out the private sector. By 1985 the net PSBR had reached 17.7 percent of GDP, from less than 6 percent in 1979. Inflation during the 1979 to 1986 period, at over 21 percent on average, was three to four times higher than the OECD average.

In mid-1985 Greece's socialist government was reelected. Facing troublesome current and public sector accounts deficits the government, in October 1985 introduced a two-year stabilization program, devalued the Greek drachma by 15 percent and borrowed 1.75 billion European Currency Units (ECU) (about $2 billion) from the European Community. The devaluation, plus a temporary import deposit regime, slowed imports. Price controls were strengthened and the wage indexation system (ATA) was modified under which real wages declined 8 to 11 percent by the end of the two-year stabilization program. The government pledged to reduce the PSBR by about 4 percent of GDP in both 1986 and 1987. With the help of falling oil prices the government achieved its target in 1986, but was unable to make headway against the public sector's deficits, which in 1987, were 13.5 percent of GDP. It was successful in bringing down inflation from a high of 25 percent to under 16 percent at the end of 1987.

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Although the lion's share of the success of the 1986-87 stabilization program was due to the real wage-level reductions achieved through the incomes policy, significant gains for the economy were also achieved through a tightening of monetary policy and a reform and liberalization of the banking system. Domestic credit expansion was slowed; interest rates to privileged borrowers were raised almost to the level of inflation; and banks were allowed gradually to establish positive real interest rates for all other borrowers, including the government itself. At the same time, the shift to positive real interest rates for savers and purchasers of government securities, coupled with a managed gradual depreciation of the drachma, created an increasing flow of non-debt capital into the country. As a result the government has been able to triple its reserves since 1985 and counterbalance its current account deficit.

During 1988 the Greek Government attempted to continue policies aimed at rectifying its macroeconomic imbalances and restoring business confidence in the economy. Through fiscal incentives and grants the government aimed at encouraging both domestic and foreign investment. It has now pledged to pursue similar economic policies in 1989. However, during 1988 it eased its incomes policy for the public sector and permitted the private sector, within government guidelines, to negotiate wages. That relaxation, plus the untaxed income of the flourishing parallel economy, enabled consumption and imports to rise. Inflation has stabilized in 1988 rather than continuing its previous decline. The current account deficit is expected to decline further in 1988 thanks to stronger invisible inflows, positive real interest rates, and the managed limited depreciation of the drachma. Moreover, for all its rhetoric, the government did not reduce the size of the bureaucracy, the deficit on social welfare expenditures, the extent of the public enterprises, or consequently the public sector deficit. The net PSBR is expected to reach 15 to 16 percent of GDP in 1989, up from 14.4 percent in 1988. Nonetheless, the direction of government policy is such as to encourage modest private sector expansion following the general return to profitability and increased production.

Fiscal policy during 1986 and 1987 has been one of restraint. During 1988 fiscal discipline has been relaxed. Faced with a large deficit from central government as well as public enterprise and organization operations, the Greek Government has better succeeded in perfecting the financing of its deficits than in increasing its tax collections or in cutting the expenses of its operations. Budget deficits have been financed primarily through the issuance of treasury bills, in which by law banks must invest 38 percent of their deposits. Since 1985, the state has been issuing securities of up to two-year term at attractive rates of interest. In 1986 the government began to sell these to private citizens as well as to banks and other institutions. This relatively expensive but domestic financing has enabled the government to reduce its net external borrowings to zero.

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Tax collection is a central problem for any government in Greece, and tax evasion is considerd normal and widespread. Moreover, the existence of a parallel economy, frequently estimated to be as large as one-third of the open economy, facilitates tax evasion and also explains the high level of imports and consumption compared to the official per capita income. The introduction of a value-added tax system (VAT) in conformity with EC norms in January 1987 was significant in inhibiting tax evasion and increasing tax collection. The government has also introduced tax reform legislation to reduce the maximum personal income tax bracket as a step toward encouraging more general taxpayer compliance. It has also proposed reductions in corporate taxes when profits are reinvested. Among Greeks, tax authorities have a reputation for arbitrary application of the system, and the government's imposition of a retroactive tax in 1988 on business profits of 1986 (later amended) led to business uncertainty about the stability of the rules of the game.

Monetary policy has been used to accommodate the government's fiscal needs as the public sector has absorbed an increasing part of the domestic credit expansion. The government has traditionally allocated credit through the Bank of Greece by the application of specific reserve requirements for different credit tranches. Interest rates for various categories of borrowers and savers were dictated. Highly bureaucratic exchange controls reinforced the system. Under EC strictures to liberalize capital flows and recognizing as a result of the 1985 crisis the limitations of its system, the government has been moving towards a more market-oriented credit allocation system with interest rates set for certain sectors by the market. Although there is a stock market in which government bonds are traded, the market is too thin for open market operations to be used as a tool of monetary policy. The recent large inflows of non-debt capital coupled with the government's constant refinancing of its increasing public sector deficits has resulted in an expansion of the money supply, probably in the range of 25 to 30 percent.

2. Exchange Rate Policies

The exchange rate of the Greek drachma is managed by the Bank of Greece. After the October 1985 fifteen percent devaluation, the government announced, with a view to arresting speculative capital outflows and maintaining competitiveness, that the real exchange rate would be kept stable, with relative unit labor costs used as the key indicator of competitiveness. With the decline in real wages in 1986 and 1987, the Bank of Greece was able to keep the drachma's devaluation against a market basket of foreign currencies at an annual rate of under 10 percent. Setting and adhering to broad exchange rate targets had a dampening impact on inflationary pressures. The increase in 1987 and 1988 of non-debt capital inflows and the tripling of government reserves has given the Bank of Greece more leeway in managing the drachma's parity. It is not now clear that the relative

unit labor cost remains the key factor in the Bank of Greece management of the exchange rate. The timing of invisible flows such as tourist expenditures or inflation considerations or political impacts may play a role. For example, from January through August 1988 the drachma only depreciated one-half of one percent against the German mark, while in the following three and a half months it depreciated almost an additional four percent.

Foreign exchange controls have been progressively relaxed since 1985. The European Commission has required Greece to liberalize capital inflows and outflows for residents of other EC member states, and Greece on its own initiative has liberalized restrictions on third country investors in a nearly parallel fashion. Dividends and capital on EC investments made since 1981 may be freely repatriated, while similar treatment is given to dividends and capital on third country investments made since July 1986. Full freedom of capital movement is provided for investments in stocks and government bonds and repatriation of the original capital investment on new third country investments in real estate is now allowed. Greek residents are now allowed realistic amounts of foreign exchange for travel, but investments outside of Greece by individuals and companies are strictly controlled. Portfolio investments by Greek residents in other EC countries were to have been freed in November 1988, but with the permission of the European Commission such investments remain subject to the approval of the Ministry of National Economy until the end of 1989.

3. Structural Policies

The demand for imports from the United States has been negatively affected by the stabilization measures, such as the import-deposit requirements in 1986, but more significant in the decline of U.S. exports as a percentage of Greece's imports has been its increasing orientation towards and integration into the European Common Market. The depreciation of the U.S. dollar compared to the principal European currencies in 1987 and 1988 has begun to encourage some increase in imports from the United States. Significant increases in U.S. exports to Greece will depend on increased domestic and foreign investment in Greece and upon an increase of U.S. business interest in Greece.

Tight government control of prices is generally being replaced by guideline agreements with the relevant industrial and commercial associations and by occasional exercises in jawboning. However, about one-fourth of the goods and services included in the consumer price index are still directly administered by the Greek Government. Moreover, government agencies and public enterprises in areas such as electricity, telephone services and transport maintain prices both higher and lower than cost or competition would determine. Government price controls and subsidies have a significant impact on the economy, but they are not selectively barriers to U.S. exports.

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The Greek tax system includes income tax on corporate profits, personal income tax, value-added taxes (VAT) on goods and services, real estate taxes, a variety of stamp duties and special consumption taxes. Tax rates and the system have frequently changed. The discussion that follows reflects the tax reform bill for 1988 and subsequent years, which has been proposed to the Greek parliament, though not yet passed. Dividends distributed by corporations are subject to withholding taxes ranging from 42 to 50 percent. Corporate income tax rates on undistributed profits range from 35 up to 46 percent. However, up to 25 percent of a firm's undistributed profits earned in 1988-91 can be exempted from taxation if they are reinvested during the period 1989-92 and the investment is completed within three years. If an investment is in high technology, 35 percent of undistributed profits can be exempted from taxation. Personal income tax rates are being lowered and from 1988 the top rate is 50 percent. VAT rates, first introduced in January 1987, have been reduced and a number of goods have been shifted to lower rate levels. A small number of luxury goods attract a 36 percent rate; the normal rate is 16 percent; and a number of products, mainly foodstuffs and other essentials, have a 6 percent rate. A special 3 percent rate applies to periodicals and books. Special consumption taxes, applicable to both domestically produced and imported goods, have been levied on "luxury goods" including jewelry, electronic equipment and automobiles. However, with the phasing out of the regulatory tax on imports as of January 1, 1989, the Greek Government is proposing, according to the press, to institute special consumption taxes on a much wider range of goods, some of which could effectively constitute a tariff since they would be imposed on goods not manufactured in Greece.

Greece is harmonizing its regulatory controls in accordance with EC directives, but it maintains some of its own regulations, particularly regarding agricultural imports, that constitute barriers to U.S. exports. It also has an approval process for foreign investment, specifically when a merger or takeover is involved, that can be time-consuming, cumbersome and difficult. The government does not maintain any overt requirements for exports of a foreign investment's production, but such commitments are encouraged. Government policies and incentives encourage regional development, high technology investments and job creation.

4. Debt Management Policies

At the end of 1987 Greece's external debt was $20.7 billion. Debt servicing as a percentage of exports was 67.7 percent, while as a percentage of GDP it was 8.1 percent. Greece has a bulge in its debt servicing demands in the 1989 to 1992 period. To reduce the anticipated burden, the Bank of Greece in 1987 made an early repayment of $430 million on loans due beyond 1987. About two-thirds of Greece's external debt is in currencies other than the dollar. Greece's external debt is not expected to grow in the immediate future in view of the favorable flows of non-debt capital and the recourse to domestic financing of government deficits. Greece

has always been a responsible debtor. It has never delayed servicing on its debts and has had good relations with its commercial bankers and the international financial institutions. It has not had an adjustment program with the International Monetary Fund or the World Bank, although in 1985 it turned to the European Community for short-term funding.

5. Significant Barriers to U.S. Exports

With certain exceptions, commodity imports into Greece are generally free of quantitative, qualitative, or foreign exchange restrictions. However, to maintain records of imports, certain products such as textiles are subject to monitoring, a procedure carried out by the A-B List Committee.

In the case of pharmaceuticals, cosmetics, and dietetic foods, a license from the Ministry of Health and Welfare is required. Such licenses, obtained by the resident representatives and distributors of foreign manufacturers of these products, are issued following the advice of the State Laboratory of the Control of Medicines (KEEF).

Similarly, importers of electrical household appliances (i.e. cooking ranges, water heaters, etc.), as well as electrical medical instruments and apparatus are required to obtain special approval from the Ministry of Industry. The approval is based on the foreign supplier's technical specifications and the safe performance of the equipment.

The Greek banking system is currently being reformed with the aim of harmonizing banking regulation in accordance with the EC banking directives. Although an extensive transitional period allows Greece to delay the full application of EC rules to December 1989 and even to December 1992 if economic conditions require, a number of steps have been taken in the last few years to eliminate rigidities and distortions by gradually liberalizing interest rates and reserve requirements. A number of restrictions, including limitations on the number of branches and on branches outside the three main Greek cities of Athens, Piraeus, and Thessaloniki have been lifted for EC banks.

The audits of all banks, insurance companies, governmental organizations, companies listed on the Athens Stock Exchange, and companies with assets over 400 million drachmas must be performed by the government-controlled body of the Greek Sworn Accountants (SOL). Auditors are salaried employees of SOL. If they leave the body they automatically lose their professional certification and their right to conduct statutory audit examinations.

Rules governing establishment of insurance companies and the sale of insurance in Greece are also being harmonized with the EC insurance directives. The present system has insurance companies and banks linked in such a way as to restrict

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competition, but Greece's full acceptance of the EC directives on insurance is expected to change this situation, at least for companies established in one of the EC member states.

The Greek Government offers assistance to local film producers through the use of admission taxes. It gives producers subsidies, cash prizes, and loans through the Hellenic Industrial Development Bank. A box office admission tax, ranging from 6 percent to 12 percent of net ticket prices, provides government funds for subsidies to produce and promote Greek films. The Government of Greece establishes a maximum price, presently $20,000, if a flat rate is charged for the rental of a film. If the price of the film rental is established on the basis of a percentage of the admission receipts, there are no restrictions.

Domestic labor laws require that labor placements of any kind must be done through the appropriate office of the official employment agency (OAED) rather than through a private organization. This creates a barrier to temporary help employment franchises. However, hiring of employees may be done without the intervention of OAED provided that OAED is notified within 8 days of such hiring or in the case of newly established firms, within 30 days.

Residents traveling abroad for family reasons or tourism are entitled to the equivalent of European Currency Units 840 per trip for travel to EC countries and Cyprus or the equivalent of $600 per trip for travel to all other countries. Foreign exchange for business travel is granted subject to a certain maximum amount per day or per trip. The limits range from $200 per day to $2,000 a trip, depending on the professional category. In addition, another $300 per year may be spent by Greek travelers abroad through the use of credit cards.

Government ownership of the national airline, Olympic Airways, can facilitate indirect subsidies through periodic increases in capital by the Greek Government and through government-backed loans. U.S. and other foreign carriers are not allowed to sell ground services to other airlines.

All products are subject to labeling and marking requirements, with the exception of blankets and fabrics, agricultural implements, all types of nails, wire, steel pipes, steel sheets (galvanized or not), glass, glassware and spectacles, oils and greases, pens and pencils. Blankets and fabrics produced locally for export are also subject to such requirements. Moreover, there are special labeling regulations for pharmaceuticals, cosmetics, foodstuffs, alcoholic beverages, yarns, and thread. Labels on food product containers must identify in Greek the nature of the contents and indicate the weight in metric measurement, the manufacturer, the country of origin, and, for certain products, the date of expiration. If the product is of foreign origin, the name and address of the Greek representative is also required. Labels may be applied by the importer after the product's importation but before it is placed on the market.

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Foreign investment is excluded from government-controlled sectors such as railways, air transport, telecommunications, energy and radio/television. The minerals sector is open to foreign capital, but under government supervision and usually for large projects with a majority equity participation by a Greek citizen or the government. In the case of shipping companies and Greek banks, majority ownership cannot be held by foreigners. Growing attention to environmental protection, energy conservation, industrial, mineral and energy research and technological advancement is reflected in the extension of preferential grant rates (15 percent higher than normal rates) to investments in these sectors.

The basic law governing foreign investment in Greece is Legislative Decree 2687 of 1953, which governs the importation of capital for "productive investment," defined by the Greek authorities as investment designed to promote national production or otherwise contribute to the development of the Greek economy. Investors who import capital into Greece under the provisions of this law are granted a measure of constitutional protection for their property rights, and preferential tax treatment.

Generally, Greek investment performance requirements are not implemented by specific laws or regulations, but rather are negotiated informally on an individual basis with investors in the drafting of the respective instrument of approval governing each specific investment project. U.S. investors claim that both local content and export requirements are elements which are seriously taken into consideration by the Greek authorities in evaluating investment proposals, but they are not legally-mandatory prerequisites for the approval of an investment.

Foreign investment projects established in Greece operate as Greek companies and are, therefore, required to comply with Greek legislation calling for the hiring of local workers and employees. Foreign nationals, however, may be employed in senior positions and may be paid in foreign exchange transferable abroad if provided for in the instrument of approval of the investment.

Greece's accession to the EC has led to the adjustment of Greek practice to conform to Community laws with regard to the free movement of capital. Presidential Decree 170 of May 19, 1986 harmonized Greek law with the first and second European Community Council of Ministers directives on capital movements among member states for all investment transactions by EC member-state residents accomplished after the date of issuance of the Decree. Presidential Decree 170 freed repatriation rights for transactions (again made by EC member-state residents only) such as those related, inter alia, to direct investment (i.e. repatriation of capital, dividends, and royalties); securities transfers; the supply and repayment of long-term commercial credit, and real estate. Following complaints filed by investors in EC member countries, that a differentiation in treatment of "old" and "new" investment was discriminatory, the government issued Presidential Decree 207

(June 19, 1987), which made the rights under P.D. 170 retroactive to include EC-investors' transactions made after Greece's full accession to the EC on January 1, 1981.

Bank of Greece Governor's Decision 825, issued July 25, 1986, liberalized repatriation rights for imported capital used in productive direct investment, and the after-tax earnings therefrom, by third-country (i.e. non-EC-member) investors. The rights granted to third country investors differ qualitatively from those granted EC investors, in that a) only direct investment capital, not portfolio or real estate investment, is given coverage, and b) principal can only be repatriated after the capital has been in Greece for three years.

In the area of government procurement, Greek Government agencies and state-owned enterprises favor domestic producers when granting procurement contracts. The preference is from 10 to 35 percent in favor of the domestic producer. However, this only applies in the event that a domestic producer of the item exists, which is often not the case in Greece. A new Greek Government procurement code is currently pending in parliament. Details have not been made public, but officials state that it will bring Greece into line with the European Community's Government Procurement Code.

Under the new Greek offset policy, offsets are not mandatory except in defense-related contracts. While not mandatory, the government encourages and expects offsets to accompany bids on tenders worth 250 million drachmas ($1.6 million) and over. The real impact of Greece's buy-national policy is felt in the government's offset policy where local content, joint ventures, and other transfers of technology are stressed.

The EC is a signatory to the General Agreement on Tariffs and Trade (GATT) Government Procurement Code on behalf of all member states. When Greece acceded to the EC in 1981, it was decided by the Committee on Government Procurement that the Code would not apply to Greece until the Greek Government negotiated an entity list acceptable to all signatories. To date, Greece has not initiated this process.

In general, the following documents must accompany each shipment arriving in Greece: a signed commercial invoice in at least six copies, a full set of shipping documents, i.e. bill of lading or airway bill, depending upon the method of transport; certificate of origin; and an insurance policy. Additionally, documents may be required for special cases and are usually issued by authorities in the country of origin, e.g. sanitary or phytosanitary certificate, packing list, weighing list, or inspection certificate.

The certificate of origin can be requested by Greek Customs on a variety of products, such as chinaware and toys. However, in practice it is requested mainly for products on which Greece has import quotas; i.e. textiles and steel. The Greek importer of the product should be able to inform the U.S. exporter about the necessity of including a certificate

of origin. The certificate of origin is usually prepared separately containing the name and the location of the natural or industrial producer of the goods, the type of containers, their number and the marks and number on them, the kind of goods and their weight, or their volume or their quantity, the full name of the consignee and consignor and the means of transport of the shipment. The agencies that may issue certificates of origin in the United States are local U.S. Chambers of Commerce.

6. Export Subsidies Policies

January 1, 1987, the effective date for the introduction of the value-added tax (VAT) also marked the beginning of the gradual abolishment of two forms of Greek export subsidies. Rebates of indirect taxes were reduced by 40-55 percent as of January 1, 1987 and will be completely phased out by 1990 for exports to EC countries and by 1992 for exports to third countries. Another subsidy, rebates on export loan interest, was gradually abolished before the end of 1987.

7. Protection of U.S. Intellectual Property

Greece is a member of the Paris Convention for the Protection of Intellectual Property, the European Patent Convention, the World Intellectual Property Organization, the Universal Copyright Convention, and the Berne Copyright Convention.

Greek laws extend equal protection on patents and trademarks to both foreign and Greek nationals. As a member of the EC, Greece has had to harmonize its legislation with EC rules and regulations.

On January 1, 1988, a new law (1733/87) concerning the "Transfer of technology, inventions, and technological innovation" came into force and abolished all the previous general or particular laws or agreements relating to this subject. Law 1733/87 harmonizes Greek laws on patents with the articles of the European Patent Convention and provides for the protection of patents for 20 years.

National and conventional treatment of copyrights is accorded American nationals and companies under an agreement signed between the governments of Greece and the United States on March 1, 1932. In addition, protection is provided by both domestic legislation and the 1948 Brussels text of the Berne Convention on Copyrights of September 9, 1886. Greece became a party to the Universal Copyright Convention of 1952 on October 6, 1962.

Greek trademark legislation is fully harmonized with that of the EC. Foreign trademarks, whether registered in the country of origin or protected as common law trademarks, can be registered in Greece without submission for a home registration certificate or other evidence of ownership. Thus, foreign trademarks can be registered in Greece as Greek

trademarks, quite independently of any prior registration abroad. Under current legislation, trademarks are protected for 10 years and may be renewed for an unlimited number of 10-year periods. There is no equivalent of trademarks for services in Greece. Revision of EC trademark legislation is currently underway.

Law 1733/87 stipulates a new procedure for the granting of a license of exploitation and a patent concerning an invention of a certain know-how. Under the terms of this law, approval of a licensing agreement rests with the newly established Industrial Property Organization (Greek initials OBI), under the auspices of the Ministry of Industry, Energy, and Technology. The setting of royalty rates rests with the Ministry of National Economy, which acts on the recommendation of the Central Advisory Committee of the Ministry. Approvals are communicated to the Bank of Greece which is solely responsible for checking the validity of the supporting documents governing the transfer of foreign exchange abroad and for releasing the necessary amount required for the royalty fee.

In examining the merits of a manufacturing license and determining the royalty to be paid, the Ministry of National Economy considers certain criteria, such as 1) the increase in local value added to the products to be produced through the use of foreign know-how, 2) the contribution of foreign know-how to increased productivity and reduced production costs for the local licensee, 3) foreign exchange savings or earnings through import substitution or export, 4) the improved competitiveness of the local licensee, and 5) the contribution to the technological advancement of Greek industry as a whole.

A nonresident owner of technology proposing a licensing agreement is entitled to use any of the above forms of protection. Licensing agreements enjoy the same protection as other approved investments of foreign capital. Prospective licensors must follow the same procedures for obtaining approval for a licensing arrangement as prospective investors for a new investment.

The U.S. motion picture industry is concerned about the level of videocassette piracy and unauthorized public performance in Greece, claiming videocassette piracy rates estimated at 30% in Athens and at 80% in the rest of Greece. Unauthorized videdo performance and public performances in restaurants and cafes also cause concern to the industry.

8. Worker Rights

a. The Right of Association

The right of association is provided for by the Constitution and by specific legislation passed in 1978 and amended in 1982. Over 4,000 unions exist in Greece with 3 levels of organization: local, industrywide or branch federations, and two confederations (private workers and civil

servants). In 1987 an estimated 35 percent of Greek wage and salary earners were organized in unions.

The only restriction on the right to strike is the government's power of civil mobilization of workers when there is a danger to national defense, life, or property, or to the social and economic life of the country. The government uses this power sparingly. Employees in public services must notify employers of their intention to strike 4 days prior to the strike and cover basic services during the strike. Security personnel (military, police, fire, port police) are prohibited from forming unions and from striking.

Unions receive most of their funding from a Ministry of Labor organization, the "Worker's Hearth," although a few unions have their own additional sources of funding. Although unions are highly politicized and closely linked to political parties, they are not controlled by the government in their day-to-day operations. Trade unionists are protected by law from dismissal for union activities. Individual worker grievances may be brought for investigation to labor inspectors of the Ministry of Labor.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively was ensured by legislation passed in 1955. This law established a system of compulsory arbitration by tripartite labor courts in the case of disputes. Compulsory arbitration is no longer favored by any of the parties concerned, and in 1988 the Ministry of Labor proposed a system of voluntary arbitration; draft legislation is under consideration. There are no restrictions on collective bargaining for private workers; civil servants negotiate their demands with the Ministry of Interior but have no formal system of collective bargaining. Greece has no exporting processing zones, and labor law and practice are uniform throughout the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is strictly prohibited by the Constitution and is not practiced.

d. Minimum Age for Employment for Children

The minimum age for work in industry is 15. However, legislation and regulations provide alternate minimum ages for work in specified areas or specific jobs. For example, those performing loading or unloading work must be at least 18 years of age, while workers for the ports of Thessaloniki and Piraeus must be 21. In family businesses, theaters, and the cinema, the minimum age is 12. These age limits are generally respected, except in families engaged in agriculture or merchandising, in which younger children often assist part time or full time.

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e. Acceptable Conditions of Work

The minimum daily wage as of September 1, 1988, was $14.90. Minimum wages and salaries, established by the national collective bargaining agreement and by branch collective bargaining agreements, are generally respected by employers. Workers who believe that they receive less than the minimum to which they are entitled may file a complaint with either the Ministry of Labor or the National Social Security scheme (IKA) which investigates the allegation. The workweek is 40 hours in the private sector and 37.5 hours in the public sector.

Minimum standards of occupational health and safety are provided for by legislation. New regulations are under consideration for underground work. Although the Greek Confederation of Greek Workers characterizes health and safety legislation as satisfactory, it charges that enforcement of the legislation is inadequate and cites the high number of job-related accidents. The National Statistical Service reported that in 1985, 2.3 percent of workers insured by IKA were injured at work. Enforcement reportedly suffers because of inadequate inspection, failure to enforce compliance with regulations, and outdated industrial equipment and plant.

f. Rights in Sectors with U.S. Investment

U.S. investment in Greece is significant in banking, oil exploration and exploitation, and manufacturing. Banking is a highly unionized area where the protection of jobs is given first priority. U.S. investment in manufacturing is involved in food processing, in tire production, in chemicals, and in pharmaceuticals. There is no indication that conditions are any different between industries.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		132
Total Manufacturing		94
Food & Kindred Products	(D)	
Chemicals & Allied Products	52	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	8	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Billions of Forints Unless Otherwise Noted

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (current prices)	1,088.6	1,226.4	1,226.0
Real GDP Growth (pct)	.5	3.2	-0.1
GDP by Sector (pct)			
Industry	36.7	36.3	35.7
Construction	6.6	8.3	8.5
Agr./Forestry	20.7	17.0	17.4
Transport./Telecom.	8.9	8.5	8.0
Trade	9.4	11.5	12.0
Water Management	1.4	1.6	1.6
Other Resource Activities	1.2	1.2	1.2
Services	15.1	15.6	15.6
Per capita Income (Forints)	69,604	76,100	79,000
Labor force (Millions)	4.892	4.885	4.845
Registered Unemployed	N/A	N/A	11,500
Money and Prices			
Money Supply (M1)	555.7	599.8	630
Savings Rate	N/A	N/A	N/A
Investment	259.2	295.1	315
Consumer Price Index (pct)	105.4	108.5	116
Wholesale price index	N/A	N/A	N/A
Exchange Rate (HF/US$)	45.83	46.99	53
Balance of Payments and Trade			
Total Exports fob	420.303	450.142	485.850
Exports to U.S. (Mil. $)	262.	330.	n/a
Total Imports	439.691	463.100	475.000
Imports from U.S. (Mil. $)	151.	239.	n/a
Aid from U.S.	0	0	0
External Debt (2)			
Gross (Mil. $)	15,085	17,739	17,000
Net (Mil. $)	7,790	11,112.9	10,325
Debt Service Payment (Mil. $)	3,735	3,390	3,058
Gold and ForEx Reserves (Mil. $)	3,813	2,478	2,204
Balance of Payments (2) (Mil. $)	-1,419	-637	-570

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1. General Policy Framework

In 1968, long before Mr. Gorbachev's introduction of "perestroika," Hungary launched a set of reforms to improve economic performance and development. Notwithstanding periodic set-backs, this process has been evolving in Hungary for almost twenty years and has helped Hungary achieve a level of economic decentralization, private initiative, market orientation and social pluralism which today have been studied by other centrally planned economies for adaptability to their own systems. Hungary has made progress in encouraging private commerce and investment, which now account for 10 to 15 percent of gross domestic product (GDP).

Still, the state budget accounts for approximately 65 percent of GDP, and the government plays the major role in redistribution of incomes, especially through taxation: profitable enterprises end up subsidizing the 300-plus loss-making companies. While an improvement over the 35 billion Hungarian forint (HF) loss in 1987, the 1988 state budget deficit, estimated at 15-20 billion HF, remains greater than the planned 10 billion HF deficit. Major underlying reasons include subsidies to loss-making firms and substantial subsidies to maintain the artifically low three percent home mortgage interest rates -- the latter alone eats up 20 billion HF annually. The Hungarian Government recognizes the fiscal deficits must be reduced and has announced its intention to cut subsidies to state firms and to force unprofitable firms into bankruptcy. Yet the expected results of these changes -- rising unemployment and inflation, plant closings, lowered standards of living for some -- will not be easy for a government whose basic doctrine guarantees full employment and whose credibility, traditionally tied to steady improvements in the standard of living, is already eroding. In 1988, inflation reached 17 percent while real incomes declined eight to nine percent. GDP is stagnant in real terms.

Against a backdrop of these deteriorating economic conditions, a new series of reforms has been introduced over the past three years to accelerate economic restructuring. Banking decentralization began in 1986, and Hungary has the Council for Mutual Economic Assistance's (CMEA) only operating stock and bond markets. On January 1, 1988, Hungary established an income tax and a value-added tax (VAT) system, the first in Eastern Europe, both aimed at shifting part of government financing from the industrial to the household sector. The recent liberalization of joint venture regulations and the adoption of a new law of corporate association are both designed to attract investment funds for restructuring.

Hungary appears committed to strengthening microeconomic forces and emphasizing efficiency and profitability. Further revisions of the tax system, liberalization of import restrictions, and reduction of custom duties are all proposed for 1989. With World Bank assistance, Hungary hopes to bring its production quality up to world market levels as well as to

improve management techniques. Central control over wages and prices is to be reduced in 1989, and a planned revision of the labor code should allow managers greater independence.

In the first half of 1987, an explosion in the domestic money supply brought on by the newly-created commercial banks' aggressive lending policies forced the National Bank of Hungary (NBH) to sharply reduce the availability of refinancing credits and increase reserve requirements. Since then, the NBH has followed a program of monetary austerity which it plans to continue next year. Total domestic credits this year grew 8.1 percent over 1987, considerably less than the estimated 17 percent inflation rate, and now total 1,117.3 billion HF. 97.4 percent of domestic credits extended in the first half of 1988 consisted of refinancing credits provided by the commercial banks, with rediscounted commercial bills accounting for the rest. The use of reserve requirements and interest rates as policy tools dates only from the 1987 founding of the quasi-independent commercial banks.

2. Exchange Rate Policies

The Hungarian forint is not freely convertible, although Hungarian officials have for several years noted their interest in making the currency convertible. The value of the Hungarian forint is tied to a basket of Western currencies, and exchange rates for 20 convertible currencies are quoted daily by the National Bank of Hungary. Basing adjustments on the differences between domestic and foreign rates of inflations, the NBH pursues an active foreign exchange rate policy. Most recently, the forint was devalued 6 percent in July 1988 against the western currencies. According to NBH officials, a new inter-bank exchange of foreign currencies to begin next year will also influence the value of the forint. Although the plan remains vague, the system should allow commercial banks to bid on foreign currency from the NBH. These "auction" prices are to indicate a realistic exchange rate based on demand. One of many details not yet spelled out is whether the official forint rate will be allowed to float freely to match the auction price, or whether a dual-rate exchange system will emerge.

The unofficial, black-market rate of the forint tends to average between 40 and 60 percent above the official rate, although there have been reports of up to a 100 percent premium. Hungary's new passport regulations, in force since January 1988, could drive up the black market rate, as more and more Hungarians travel to the West. (Although now free to travel as many times to the West as they wish, Hungarians may exchange only 20,000 HF -- less than $400 -- into hard currency every three years.)

Forint exchange rates with currencies of other CMEA countries are based on multilateral or bilateral agreements. In January 1988, the forint was revalued slightly against the convertible ruble, the currency in which Hungary's trade with other CMEA countries is valued, to reduce Hungary's trade

surplus with CMEA members. But in a contradict~.y move, in August 1988 the forint was devalued nine percent against the convertible ruble.

3. Structural Policies

Given that the emphasis in Hungary is on joint ventures to promote exports, earn hard currency, and aid industrial restructuring, several significant structural changes have occurred recently in the areas of corporate association and foreign investment. A new law of corporate association approved by the Hungarian Parliament in October 1988 permits new forms of ownership, including joint stock and limited liability firms, which resurrect corporate forms that predate the 1948 Communist takeover After January 1, 1989, private companies may employ up to 500 people, compared to 15 in 1987 and 30 in 1988. Other changes allow 100 percent foreign ownership and simplify registration requirements for foreign investment. Joint ventures in which the foreign share equals 20 percent or at least 5 million HF ($92,000) are eligible for a 20 percent tax reduction, and certain manufacturing and hotel joint ventures can receive up to 60 percent tax preference for the first five years and 40 percent thereafter. Hungary will award those joint ventures considered to be of particular importance -- electronics, vehicle component manufacture, packaging, pharmaceuticals, etc. -- a complete tax holiday for the first five years of operation and a 60 percent reduction thereafter. Approximately 220 joint ventures are now operating in Hungary, 80 of which started in 1988, with a total capitalization of approximately $200 million.

The sum of the variety of corporate taxes totals approximately 70 percent, down from nearly 90 percent two years ago. A parliamentary committee is now examining Hungary's new personal income and corporate tax systems. Most Hungarian officials expect revisions in 1989 which will lower the much-criticized current top personal tax rate of 60 percent. In late 1988, Parliament began consideration of a bill on company profit taxation which proposes reducing the tax burden to 50 percent of profits. For firms earning less than 3 million HF ($55,000), profit taxes would total 40 percent. Another part of the proposal would allow companies to receive a 40 percent VAT rebate on investments, compared to 20 percent now. (The value-added tax, introduced in January 1988, has rates of zero, 15 and 25 percent.) Also, the 25 percent entrepreneurial tax levied against private activities will be eliminated in 1989.

Hungarian authorities estimate that customs duties will be halved starting in 1989 as a result of recently announced modifications. Rather than levied on estimated Hungarian sales prices, duties will be based on the foreign purchase prices. The distinction between items imported for personal use and those for resale will be eliminated, and a flat 30 percent duty will be introduced for most items. Exceptions will include computer-related imports, high-tech engineering articles and building materials, which will be subject to 20

percent duty. The current 50 percent duty on cars will be lowered to 10, 20, or 40 percent, depending on the size of the engine. This year Hungarian citizens may import up to 10,000 HF ($185) worth of goods duty free on each trip, but next year this will be reduced to a once-a-year exemption of 3,000 HF ($55.50).

With 1988 inflation estimated at 17 percent, the Hungarian authorities are reluctant to accept a complete liberalization of prices. As part of the International Monetary Fund (IMF) Standby Agreement, only 20 percent of consumer prices are to be centrally controlled by the end of 1988, compared to 38 percent in 1987. An additional 23 percent remain subject to indirect controls such as obligatory notice or consulatation with central authorities before price increases. The Government of Hungary announced that another 8 to 9 percent of products would be added to the free-price category in 1989

4. Debt Management Policies

Hungary's hard-currency debt totals nearly $17 billion, and its debt-service ratio totals about 45 percent of hard currency earnings. Over 80 percent of combined foreign debt is now structured in medium and long-term loans, with an average maturity of seven years and a spread profile of under half a percent. This, along with Hungary's excellent relations with the World Bank and IMF and prompt payment (even advance payment) of interest, has given Hungarian finance a much higher level of international investor confidence than indicators of Hungarian economic performance might suggest. The real crunch will come in the next few years when debt service payments (both principal and interest) rise from about $2.9 billion to an estimated $4.2 billion in 1993.

Continued confidence will be strongly affected by the government's ability to meet its current account and budget deficit targets. Central to this effort are continued dampening of domestic liquidity and living standards, continued increase in exports, and the government's ability to reduce loss making and subsidies among the country's industrial sectors.

In 1988, Japanese bankers, who hold between a third and a half of Hungary's debt, lowered their credit rating for Hungarian bonds in 1987 from AA to A-. Yet loan syndications, bond issues and IMF/IBRD support ensured that Hungary met its 1988 $2.5 billion financing requirements. In May 1988 the Hungarian Government successfully concluded an IMF Standby Agreement worth $365 million, and negotiations for an IMF Extended Fund Facility will begin in the autumn of 1988. Hungary hopes to stop the growth of foreign debt by 1990 through demand management policies and increased reliance on direct foreign investment.

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5. Significant Barriers to U.S. Exports

Hungary's primary means of restricting imports is control of import licenses by the Ministry of Trade. This, in turn, is influenced by determinations of the Ministry of Finance and National Bank as to hard currency availability for a given purpose at a given time. No special foreign exchange application is required, as an issued import license guarantees the availability of foreign currency for the trade. For most consumer goods, an annual import quota is set in U.S. dollar terms -- $170 million in 1988. Industrial goods, non-manufactured consumer goods, and goods for countertrade are not subject to the quotas. Hungary excludes Western suppliers from trading in a wide range of raw material, commodities, and some industrial product areas reserved for CMEA partners.

Hungarian enterprises exporting to the West, and earning hard currency, often find it easier to qualify for import licenses. A successful Hungarian computer firm came up with an unusual solution to a typical problem; in order to gain permission to import needed Western technology, the firm opened a side business exporting jams and jellies to the West. Yet due to these currency and licensing restraints, most Hungarian importers will continue to press their demands for countertrade and long-term cooperation, which can mean anything from joint research to joint marketing in third markets. The availability of World Bank financing has made direct sales possibilities best in agricultural, energy, process industries, telecommunications, transportation and chemical sectors.

One major barrier to increased U.S. exports is psychological. Many Hungarian firms have strong ties with Western European suppliers, particularly in the Federal Republic of Germany, Hungary's second largest trading partner, and are hesitant to disrupt these trade ties. In addition, the time required to obtain U.S. export licenses often causes Hungarian firms to turn to other suppliers.

Now, approximately 15 percent of all goods can be imported freely into Hungary, provided the hard currency is available. The Hungarian Government plans to increase import liberalization to 40 percent of all products in 1989. In addition, "custom free zones" have been established since 1984, to enable firms which deal exclusively with Western markets to have unrestricted import rights.

Until 1988, foreign trade was a state monopoly, granted to specialized foreign trading organizations. Now, any company with export sales in convertible currencies of at least $1 million may receive general trading rights. The firm needs to register, rather than go through the previous application process, with the state.

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6. Export Subsidies Policies

Beginning in 1986, Hungary expanded its policy of offering preferential credits to firms to promote export promotion. Presenting plans for export-oriented modernization and restructuring, firms can now bid on indirect subsidies consisting of credits at preferential interest rates, state loans, tax deductions, accelerated import license processing, and duty-free technological leasing. Out of 300 proposals, the government granted concessions to 244 firms. On export-related investments, firms will also receive a 100 percent VAT rebate after January 1, 1989 while domestic investments will most likely be limited to a 40 percent rebate.

With 50 percent of Hungary's gross domestic product (GDP) derived from trade, general production and consumption subsidies also aid export-producing firms. Despite the Hungarian Government's austerity program, out of the 1988 central budget of 694 billion HF ($12.85 billion), the government granted 215 billion ($3.98 billion) in assorted subsidies.

7. Protection of U.S. Intellectual Property

Hungary is a member of the World Intellectual Property Organization and adheres to prevailing international copyright, trademark and patent practices. The country is a party to the Berne, Paris and Universal Copyright Conventions as well as the Patent Cooperation Treaty. The United States has no outstanding disputes with Hungary in this area.

8. Worker Rights

a. The Right of Association

Legal norms and actual practice in the organization of trade unions are in flux. The official trade union organization, SZOT, is under substantial pressure from several directions. SZOT membership in 1988 fell off by some 400,000, or nearly 10 percent, as workers were given the option of declining to allow automatic withholding of union dues from their pay. In theory, SZOT remains the exclusive legal representative of workers in Hungary, and some 90 percent of Hungary's 4.5 million employed persons are members of SZOT's 19 affiliated unions. SZOT remains subject to party and government control through a variety of channels. Sandor Nagy and the new SZOT leadership, which took over in late May, are taking steps, including selective endorsement of strikes, to shore up SZOT's standing among its membership. SZOT is affiliated with the World Federation of Trade Unions.

Hungary's first independent union, a grouping of scientific and technical workers (TDDSZ), was launched in the spring of 1988 and has succeeded in establishing itself as an institutional force. TDDSZ officials have dealt with senior government figures. There is evidence of employers dealing

with both SZOT-affiliated unions and TDDSZ in negotiating labor contracts. TDDSZ policy positions have been reported in the national press. More recently two additional white-collar independent unions have been formed (teachers and motion picture employees, with prospective groupings of lawyers and journalists). Despite official tolerance of the independent white-collar unions, it is clear from episodes like the conviction (with suspended sentence) of retired steelworker Gyula Kristaly for "incitement" (i.e., circulating pamphlets advertising worker grievances) that the authorities remain apprehensive about formation of independent labor organizations among industrial workers and will continue to discourage their formation.

SZOT and government leaders have been addressing the issue of conditions under which strikes are appropriate. Until August 1988, no strikes were officially reported, although local work stoppages have occurred over issues like wages and work schedules.

During August 23-24, about 1,700 Pecs coalminers participated in Hungary's first officially publicized, nationally televised work stoppage. The issue was income tax liability for bonuses. The strike was endorsed by the official miners' union. Along with two subsequent strikes, it suggested a pattern of authorized work stoppages which allow workers to let off steam, secure concessions, and strengthen the posture of the official unions in representing workers. Perhaps the most significant aspect of these publicized strikes was in beginning the process of educating workers and enterprise managers that strikes, under certain conditions, are a normal development.

b. The Right to Organize and Bargain Collectively

In most of the Hungarian economy, wages are still centrally mandated and not subject to collective bargaining. Managers have some flexibility in job categorization and in payment of allowances, which gives potential importance to worker-management discussions in individual enterprises. A 1988 documentary film on industrial relations in a northeastern steel mill suggested that managers in some unprofitable, heavy industrial enterprises are able to use fear of unemployment among unskilled workers as a means of tightening labor discipline.

Labor legislation and practice are uniform throughout the country.

c. Prohibition of Forced or Compulsory Labor

The Criminal Code provides that persons having no visible means of support, who are convicted for the second time within two years of refusing to work, may be sentenced to one year's imprisonment, reformatory work, or a fine--or the judge can elect to expel the convicted person to another part of the country. More than 2,000 persons were reportedly convicted under this law in 1987; the vast majority of these persons

were allegedly addicted to drugs, alcohol, gambling, or other dangerous lifestyles. Gypsies have been prosecuted under this law, but there is no evidence of its use against political dissidents.

d. Minimum Age for Employment of Children

The minimum age for employment is 15 years. There are no reports of significant abuses.

e. Acceptable Conditions of Work

Hungarian workplaces are obligated under law to provide workers with safe working conditions, a hot meal at heavily subsidized prices, and such pay-related benefits as overtime. The government guarantees all Hungarians the right to 15 days of paid vacation per year and one additional day for each three years of service. The minimum wage is equivalent to $57 per month at the official exchange rate. The government provides all workers with free health care and pensions. The average official workweek is approximately 45 hours, though most Hungarians supplement their incomes by working after-hours in cooperatives and private second jobs. Many must do so in order to provide a decent standard of living for their families. Safety conditions in Hungarian firms are not up to U.S. standards, but the government and employers work to ensure that work conditions meet international norms.

Institutionalized unemployment has occurred as a result of efforts to restructure inefficient industry and rationalize labor resources. Workers who lose their jobs because of restructuring currently receive 100 percent of their wages for six months, 75 percent for the next three months, and 60 percent for a further six months. Since April 1, these benefits have been paid out to redundant unemployed workers regardless of how many workers were fired in a single job action; previously, at least 10 workers had to be fired in a single job action in order to meet the definition of job loss due to restructuring.

f. Rights in Sectors with U.S. Investment

In a new U.S.-owned garment factory, workers receive a salary 40 percent higher than their counterparts in Hungarian textile firms in return for giving up the traditional Hungarian practice of moonlighting. The planned $115 million joint venture with a U.S. firm will also pay its employees a higher salary in return for a commitment to training and the job. Workers in a current glass works are already competing for the slots in the new plant. A U.S.-Hungarian joint bicycle production plant also plans to pay its employees a higher salary.

Enterprises operating with foreign investment are released from certain central regulations, but these usually work in the workers' favor: the release from central wage regulations allows the foreign partner to pay the employees

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more than permitted under standard Hungarian laws. Workers' rights regulations stipulating a 40-hour week and prohibiting certain employment practices, such as child labor, remain in force for all enterprises operating in Hungary.

Under the proposed new Hungarian labor code, which will affect state, private, cooperative, and foreign firms equally, the right to strike -- formerly considered to be unnecessary under the socialist economy -- will be defined. Independent trade unions remain the rare exception rather than the rule, although the National Council of Trade Unions (SZOT) seems to be lumbering slowly toward the idea of organization along trade lines rather than entire sectors. SZOT recognized that the wage reform and increased emphasis on private enterprise means that managers' and workers' interests will not always coincide and that the right of association and collective bargaining needs to be explicitly stated.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions Icelandic Kronur Unless Otherwise Stated	1986	1987	1988
Income, Production, Employment			
Real GDP	158,980	206,528	253,100
Real GDP Growth Rate (pct)	6.3	6.6	-1.4
GDP by Sector (pct)			
Agriculture	4	3.8	3.7
Fishing	15.6	15.4	15.2
Manufacturing	13.1	12.6	12.8
Commerce	11.9	12.5	12.4
Construction	6.9	6.8	6.8
Government	12.2	12.1	12.2
Other Private Sector	36.3	36.8	37.0
Real GDP per capita	651	836	1,014
Labor Force	125,900	123,500	N/A
Unemployment Rate	0.7	0.5	0.6
Money and Prices			
Money Supply	9,716	12,925	N/A
Commercial Interest Rates			
General Bills(pct/yr.avg)	16.91	25.22	N/A
General Savings(pct/yr.avg)	9.11	14.15	N/A
Savings Rate/GNP (pct)	18	15.3	N/A
Investment Rate/GNP (pct)	17.6	18.9	N/A
Consumer Price Index	69.50	82.65	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate	41.20	38.70	N/A
Balance of Payments and Trade			
Total Exports fob	44,968	53,053	61,700
Total Exports to U.S.	9,770	9,677	N/A
Total Imports cif	40,988	55,020	66,700
Total Imports from U.S.	3,208	4,367	N/A
External Public Debt	50,505	51,505	N/A
Annual Debt Service (paid)	12,089	11,938	14,390
Gold and ForEx Reserves	12,614	11,253	N/A
Balance of Payments	3,381	-605	2,000

1. General Policy Framework

Iceland is a small prosperous island whose economy is heavily dependent on a single product, fish. Approximately 75 percent of the country's export revenue comes from fish, 54 percent of the foreign exchange earned is from fishing and alomst 13 percent of the country's labor force is directly employed by the sector. Since the country is so dependent on one sector, the economy is subject to wide fluctuations. In

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1986 and 1987 the gross domestic product (GDP) grew by over six percent, but in 1988 growth was estimated to have been negative. The economy is also characterized by very high rates of inflation, especially in relation to its Organization for Economic Cooperation and Development (OECD) partners. During the past two years the inflation rate has averaged over 20 percent. Another important element in the Iceland economy is the virtual absence of unemployment; in fact, for most of the past three years there has been excessive demand for labor, with unfilled vacancies at times equaling four percent of the labor force.

Although the economy has been booming over the past three years, the government has continued to spend and borrow as if the country were in more difficult circumstances. The budget has remained in deficit and the government has been reluctant to finance that deficit in non-inflationary ways, instead they have either borrowed form the central bank or from overseas. The 1988 budget was intended to be in balance, but now appeared headed for a deficit of more than three billion Kronur. The government introduced a major change in the taxation system, with only one tax rate. To bring that system into effect all income earned in 1987 was tax free. The majority of the government's income comes from indirect taxes, such as the 25 percent sales tax.

The attention of the monetary authorities over the past several years has been focused on a reform of the financial sector. Interest rate determination has been shifted from the Central Bank to the commercial banks. One result has been that monetary policy has not been as tight as many observers believe it should have been. The Central Bank, in its 1987 annual report, admitted that it was trying to determine what additional tools it needed to more effectively exercise monetary restraint. The sharp rise in national income and the surge in the consumer demand caught both the Central Bank and the government by surprise.

2. Exchange Rate Policies

The Icelandic Kronur is pegged to a basket of currencies based on Iceland's trading partners. Over the past two years the government's policy has been to maintain a steady exchange rate, but the constant drop in the value of the dollar, combined with the unbalanced rate of price increases in Iceland put considerable pressure on that policy. In 1988 the government has been forced to devalue the Kronur three times and pressure is again building as the dollar continues to slide in other markets.

The government does maintain some exchange controls. For example, tourists are only allowed to exchange the equivalent of $2,000 per trip and remittance of foreign exchange requires government approval, but the controls are not considered to be a impediment of trade by Icelandic businessmen.

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3. Structural Policies

U.S. exports face a higher tariff barrier than goods coming from either European Communities (EC) or European Free Trade Association (EFTA) countries, but it is generally accepted that this does have an impact on the demand for U.S. produced goods. In 1988 a new tariff structure was introduced which did result in a lowering of all tariffs, but the differences between U.S. and European goods still exist.

Iceland has a very restrictive investment law, highly favoring local investors. There is very little foreign investment in Iceland and such projects which are all subject to a special law passed by the Icelandic Parliament.

4. Debt Management Policies

During a recent meeting of international bankers in Reykjavik one of the speakers congratulated the Government of Iceland and said that it was one of the few countries were no international bank had ever had a bad debt. Although Iceland has a per capita GDP of more than $20,000, its foreign debt profile more closely resembles a third world country. Several observers have claimed that Iceland has the highest per capita foreign debt in the world. In 1984 external debt was equal to more than 61 percent of GDP; that ratio dropped to less than 42 percent in 1987. The dramatic improvement is a result of the boom that Iceland has experienced and the accompanying sharp increase in GDP, not because of the retirement of the debt.

5. Significant Barriers to U.S. Exports

Given the small size of the Icelandic market, the U.S. Embassy does not believe there are significant barriers to U.S. exports in Iceland. Those few that exist generally apply to all other countries as well. The exception is the tariff rate mentioned above. While it is higher for U.S. goods, the differences are marginal. Foreign investment is not particularly encouraged in Iceland and foreign majority ownership is not permitted without specific government permission. Foreigners may not own land without permission, and foreign service companies are effectively cut out of the market. However, we know of no companies which have been seriously disadvantaged by the restrictions.

6. Export Subsidies

The government provides export subsidies to the domestic sheep industry, while at the same time demanding that it cut production to be more in line with local demand. There has also been a recent decision temporarily to provide lower electricity rates for fish processing plants, but this latter is expected to be a short term measure, not normal government practice.

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7. Protaction of U.S. Intellectual Property

Iceland is a party to the Berne, Paris and Universal Copyright conventions. The Government of Iceland has a good record of intellectual property protection. With a lengthy history of outstanding literary output it has long been in Iceland's interest to fight for strong international agreements. The Parliament is expected to make some revisions in the copyright and patent laws in the next 12 to 24 months but there is no indication that there will be problems for U.S. copyright or patent holders. There are no outstanding disputes on intellectual property between the U.S. and Iceland.

We are not aware of any significant losses to U.S. trade from the intellectual property practices of Iceland, although a recent U.S. motion picture industry estimate put pirated videocassettes as making up some 16% of the shelf stock.

8. Workers Rights

a. The Right of Association

Workers and employers in Iceland make extensive use of the rights to (a) establish organizations, (b) draw up their own constitutions and rules, (c) choose their own leaders and policies, and (d) publicize their views. The resulting organizations are not controlled by the government or any single political party but instead reflect the views of their members. Icelandic unions participate actively in European and international trade union organizations.

With the exception of limited categories of workers in the public sector whose services are essential to public health or safety (e.g., air traffic controllers), unions have possessed and used the right to strike under the law in Iceland for many years. However, the right to strike was abridged through April 10, 1989, when the Government of Iceland promulgated a provisional law on May 20, 1988, intended to cool down the overheated economy.

b. The Right to Organize and Bargain Collectively

Over 90 percent of all eligible workers in Iceland are in unions. There are no impediments to union membership in law or in practice. Virtually all unions utilize the right to bargain collectively on wages, working conditions, and related issues. Labor legislation and practive are uniform throughout Iceland. A system of labor courts adjudicates disputes over labor contracts and over the rights and provisions guaranteed under the 1938 Act on Trade Unions and Industrial Disputes.

Under the provisional law of May 20, 1988, those unions which had not yet concluded labor contracts were prohibited from making agreements giving workers larger increases in wages and benefits than the contracts concluded prior to May 20. The provisional law also set aside through April 10, 1989, any provisions of labor contracts which would have permitted workers to cancel or renegotiate these contracts in

the event that the consumer price index exceeded the predicted levels (called red lines) on specified, quarterly dates. (Red line provisions are common in Icelandic labor contracts.) The Icelandic Federation of Labor (IFL) protested this law publicly and sent a complaint to the International Labor Organization (ILO) citing all three provisions as infringements of workers rights. In July the ILO formally requested the government's position and views on the IFL complaint. To date, the government has not responded.

On August 26, 1988, the government promulgated another provisional law affecting many labor contracts. This law froze wages and prices through September 30, 1988. A third provisional law, promulgated on September 28, extended this freeze through February 15, 1989, thereby depriving most workers of two or more wage increases scheduled under existing labor contracts. The IFL publicly protested these laws.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist in Iceland.

d. Minimum Age for Employment of Children

The employment of children below the age of 16 in factories, on ships, and in other places which are hazardous or require hard labor is prohibited by law, and this prohibition is observed in practice.

e. Acceptable Conditions of Work

Icelandic workers are protected by laws which effectively ensure their health and safety as well as guarantee them unemployment insurance, paid vacations, pensions, and reasonable working conditions and hours. Although there is no minimum wage law, union membership is so pervasive and effective that labor contracts, in effect, guarantee even the lowest paid workers a sufficient income to give them and their families decent living conditions. Food, shelter, health care, and education are all guaranteed without discrimination to those lacking adequate income because they are too old, too young, sick, or otherwise disadvantaged.

f. Rights in Sectors with U.S. Investment

The only investment of any note by a U.S. company in Iceland is a minority stake in a diatomite plant. The U.S. investment is less that $2 million. With respect to worker rights, Icelandic workers enjoy extensive rights, equivalent to any other Western country. There is no difference between rights in sectors.

ICELAND

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		5
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		5

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

IRELAND

Key Economic Indicators

Millions of Irish Pounds Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
GDP (Current Prices)	18,480	19,983	22,445
Real GDP Growth Rate	4.5	4.0	2.0
GDP at Factor Cost by Sector of Origin (1)			
Ag, Forestry and Fishing	1635	1,874	N/A
Industry	6,192	6,584	N/A
Distribution, Trans. and Communication.	3,054	3,250	N/A
Public Admin. and Defense	1,126	1,185	N/A
Other Domestic	5,409	5,724	N/A
Adjustment for Financial Services	-852	-950	N/A
GDP at Factor Cost	16,564	17,667	N/A
Real per capita Income	3,606	3,908	4,344
Labor Force (000s)	1,308	1,312	1,298
Unemployment Rate (annual avg pct)	17.4	18.5	17.8
Money and Prices			
Money Supply (M1) yr-end	2,156	2,384	2,309 (2)
Associated Banks' Prime Lending Rate	13.5-14	9.0	8.0
Commercial Interest Rates (over 1 yr-up to 3 yr)	12.25-13.75	9.25-9.50	8.25
Savings Rate (investment share accounts)	11.00	7.50-7.75	5.75-6.25
Investment Rate			
1-yr to maturity	13.40	8.62	7.49
8-yr to maturity	13.11	10.50	8.46
Consumer Price Index	346.9	357.7	362.9
Wholesale Price Index	287.9	292.3	301.4
Exchange Rate (yr avg US$/IP)	1.3424	1.4879	1.5255 (3)
Balance of Payments and Trade			
Total Exports fob	9,388.2	10,723.4	5,817.6 (4)
Total Exports to U.S.	819.2	833.8	414.9
Total Imports cif	8,629.7	9,155.2	4,844.6
Total Imports from U.S.	1,364.8	1,555.4	797.7
Aid from U.S. (Mil. US$)(5)	N/A	85	35
Debt Service Cost	1,988	1,158	1,196
External Public Debt (yr-end)	13,244	10,988	N/A
Gold & ForEx Reserves (yr-end)	2,205	2,821	N/A
Balance of Payments			
Merchandise	435	1,310	N/A
Services	53	13	N/A
Factor Incomes	-1,957	-1,946	N/A
Transfers	957	886	N/A
Total Current Account	-513	263	750

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Notes: (1) Preliminary figures. (2) August 1988. (3) Figures January through October 1988. (4) Figures January through June 1988. (5) Aid from the International Fund for Ireland (IFI) for Mar/Apr 1987 (50 Mil), July 1987 (35 Mil), and Sept. 1988 (35 Mil).

Source: Central Bank Quarterly Bulletin; Trade Statistics; Economic & Social Research Institute

1. General Policy Framework

Ireland's exchequer debt is approximately IP 24 billion, of which about IP 10 billion is foreign debt. The vast majority of the debt was accumulated in the 1970s and early 1980s, partly as a result of oil price shocks, but more generally as a result of expanding social welfare programs. As the debt grew, interest payments accounted for an increasing proportion of the debt. The situation reached a climax in 1986 when the exchequer debt reached IP 25 billion, having doubled in the space of four years.

In 1987 there was a change of government. Since that time there has been general cooperation by major political parties, labor and employers in the government's fiscal austerity program. The government budget has been cut sharply in recent years in an effort to reduce the budget deficit and to stabilize total national debt. The Program for National Recovery (three years) formulated in 1987 with the cooperation of labor and employers, set a goal of reducing current exchequer borrowing to a level of five to seven percent of gross national product (GNP). Government borrowing requirements fell from almost 12 percent of GNP in 1986, to about nine percent in 1987. This year the figure will probably be less than five percent, due in large part to the success of a tax amnesty program. Projections for 1989 indicate that government borrowing will be within the target range of five to seven percent of GNP.

Personal income tax rates are very high in Ireland. Just over 60 percent of Irish taxpayers are in the standard 35 percent tax bracket, while the highest rate is currently 58 percent. In addition, value added tax rates are among the highest in the European Communities (EC). These tax policies have a major affect on personal consumption and demand for imported goods. Corporate income tax rates are generally set at 43 percent. However, manufacturing firms and many exporting firms pay only 10 percent.

Ireland's monetary policies are aimed primarily at maintaining exchange rate stability within the European Monetary System(EMS), which it joined in 1979. Interest rates are the predominate tool used by the central bank to affect monetary variables.

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2. Exchange Rate Policies

Until 1979, the Irish Pound was pegged to the Pound Sterling. In March 1979, Ireland joined the EMS and broke its link to the British currency. Membership in the EMS involves a commitment to maintain the Irish currency within a 2.25 percent band against other individual EMS currencies except for formal realignments. The Irish Pound has been adjusted downward twice since Ireland joined the EMS; 3.5 percent in 1983 and 8 percent in 1986. As part of the Common Agricultural Policy (CAP) of the EC, Ireland has maintained multiple exchange rates (known as green currency exchange rates) on agricultural goods subject to the CAP.

Ireland has exchange rate controls for foreign travel and for individual investment abroad. Persons travelling outside of Ireland are allowed to exchange up to IP 1200 automatically, and more if the amount can be justified on the basis of the traveler's itinerary. The government announced recently the elimination of controls on investments abroad by individuals and institutions effective January 1, 1989. Individuals had been subject to a limit of IP 5000 in foreign investments (and IP 20 million in aggregate). Institutions have been allowed to invest a maximum of 12.5 percent of their cash flow overseas.

3. Structural Policies

Prices for most goods in Ireland are determined by the market. Price controls were more prevalent until 1986, when the Prices Commission was disbanded. Prices of petroleum fuels were recently decontrolled based on an agreement on prices between the government and petroleum companies. There is a maximum price on milk in large urban areas imposed by the Department of Agriculture. In addition, prices for many agricultural products are determined in large measure by the EC's Common Agricultural Policy.

The Irish tax system for corporations favors manufacturing and exporting companies. Those companies pay income tax of only 10 percent, compared to the normal rate of 43 percent. This gap encourages the development of export and manufacturing industries, and discourages growth in other industries. Personal income tax rates are extremely high, encouraging emigration and tax avoidance by people at all income levels. The standard rate, 35 percent, is assessed on single workers earning more than IP 2,986 ($4,479) and on married workers earning more than IP 4,986 ($7,479). The top rate for personal income tax is 58 percent and applies to single workers earning more than IP 10,486 ($15,729) and married workers earning more than IP 19,986 ($29,979). Many pay an additional 7.75 percent of their earnings for a variety of social security programs. The standard rate of value added tax is (VAT) 25 percent, the highest in Europe, but many essential goods, including food, are not subject to VAT.

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Government investment incentives are weighted toward high technology, export oriented companies. Capital grants by the Irish Industrial Development Authority reportedly have tended to favor capital intensive investments over labor intensive ones.

4. Debt Management Policies

Ireland's total exchequer debt amounts to about IP 24 billion, or about 130 percent of GNP. The foreign portion of that debt is IP 9.83 billion. As of March 1988, 21.5 percent of foreign debt was Dollar denominated, 28.7 percent was in Deutsch Marks, 16.6 percent was in Swiss Francs, 14 percent in Japanese Yen, 6.8 percent in European Currency Units, and lesser amounts in Dutch Guilders, Sterling, Belgian Francs, and Austrian Schillings. Debt service in 1988 is estimated at IP 1.2 billion ($1.8 billion), about nine percent of estimated Irish exports of goods and services and about 5.8 percent of GDP.

5. Significant Barriers to U.S. Exports

Ireland maintains a limited number of barriers to U.S. services trade. In the insurance industry, U.S. firms are at a disadvantage compared with their competitors from EC member countries, which may establish a branch operation in Ireland without meeting the Irish requirement for a guarantee fund equal to one third of the solvency margin. U.S. and other non-EC firms must establish a corporate identity in Ireland and comply with the guarantee fund requirement.

Ireland recently announced the elimination of exchange controls on investments abroad by individuals and institutions. The change will take effect on January 1, 1989. The government still maintains exchange controls on foreign travel by Irish citizens, but the administration of the controls is sufficiently liberal that they pose no substantial constraint. Although they have been liberalized over the past three years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EC. These, together with EC import duties, effectively exclude many meat based foods and other agricultural products.

6. Export Subsidies Policies

Ireland has a number of export subsidy programs. Under the export sales relief program, exporting companies are subject to a corporate income tax of 10 percent rather than the normal corporate rate of 43 percent. In addition, stockholders of companies eligible for this program pay only 10 percent personal income tax on dividends received from the company, rather than the normal tax rate (35 to 58 percent). This program will be discontinued after 1990. There are no tax or duty exemptions on imported inputs except for those companies located in the Shannon duty-free zone.

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The Irish Export Board organizes trade missions and subsidizes the cost of participation (20 to 50 percent) in foreign trade fairs. The Board also provides annual grants of up to IP 5000 for small companies in the initial stages of export development. The government administers export credit and insurance programs for exporters in accordance with Oraganization for Economic Development and Cooperation (OECD) guidelines. As a participant in the Common Agricultural Policy (CAP) of the EC, the Irish Department of Agriculture and Food administers CAP export refund and exchange rate programs on behalf of the Commission.

7. Protection of U.S. Intellectual Property

Ireland is a party to the Berne, Paris and Universal Copyright Conventions. In addition, the government is preparing legislation which would allow Ireland to become a signatory to the European Patent Convention. The legislation will introduce short-term patent protection (ten years) for lower level new technologies. Such protection will be granted without detailed searches, and is designed to meet the perceived needs of domestic small industry in Ireland.

Ireland supports strong protection for intellectual property rights. The government encourages foreign investment, especially in high-tech industries. Consequently, protection of intellectual property rights has been an important part of the government's business policy. Protection is generally on a par with other developed countries in Europe, and the government is responsive to problems which arise. New legislation is currently being prepared which would increase penalties for copyright infringement and clarify copyright protection for computer software.

Existing trademark legislation in Ireland does not specifically cover service industry trademarks. Although some court cases have extended protection to trademarks in service industries, the government is considering the need for new legislation to make protection explicit.

Copyright protection in Ireland is generally considered to be good. However, industry sources have indicated that penalties for infringement of copyrights on video tapes are not sufficiently severe to curb pirating, with some 40% of the tapes available to the public consisting of pirated product. New legislation being prepared by the government will stiffen those penalties.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. There is no basic law governing trade union activities. The right to join a union is guaranteed by law,

as is the right to refrain from joining. Most businesses (covering over 56 percent of the labor force) are unionized.

The Irish Congress of Trade Unions (ICTU), which represents unions in both the Republic and Northern Ireland, has 81 member unions with 670,000 members. Both the ICTU and the unaffiliated unions are independent of the Government and of the political parties. The ICTU is affiliated with the European Trade Union Confederation.

b. The Right to Organize and Bargain Collectively

Labor unions have full freedom to organize and to engage in free collective bargaining. Most terms and conditions of employment are determined through collective bargaining. Labor legislation and practice are uniform throughout the country. As part of the industrial relations machinery, the Labour Court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate trade disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited and does not exist.

d. Minimum Age for Employment of Children

The minimum age for employment is 14 years with the written permission of the parents. Irish laws limit the hours of employment for 15-year-olds to 8 hours per day and 40 hours per week. Those from 16 to 17 years of age may work up to 9 hours per day and 40 hours per week. These provisions are effectively enforced.

e. Acceptable Conditions of Work

There is no general minimum wage legislation. However, some 56,000 workers are covered by minimum wage laws applicable to specific industrial sectors, mainly those which tend to pay lower than average wages. The 1987 average weekly wage was $285 for production and transport workers. Working hours in the industrial sector are limited to 9 hours per day and 48 hours per week. Overtime work is limited to two hours per day, 12 hours per week, and 240 hours in a year. Four basic laws dealing with occupational safety provide adequate coverage. An extensive system of public health insurance offers health protection.

f. Rights in Sectors with U.S. Investment

Worker rights in sectors with substantial U.S. investment (petroleum, food and related products, chemicals and related products, primary and fabricated metals, machinery, except

electrical, electric and electronic equipment, transportation equipment, other manufacturing, and wholesale trade) are the same as described above for the Irish economy in general.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		-23
Total Manufacturing		4,111
Food & Kindred Products	641	
Chemicals & Allied Products	1,038	
Metals, Primary & Fabricated	121	
Machinery, except Electrical	761	
Electric & Electronic Equipment	368	
Transportation Equipment	6	
Other Manufacturing	1,176	
Wholesale Trade		66
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		4,154

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

ITALY

Key Economic Indicators

Billions of Italian Lire Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, and Employment			
Real GDP (1980 prices)	436,831	450,397	466,512
Real GDP Growth Rate	2.9	3.1	3.6
GDP by Sector			
Agriculture	23,424	23,735	24,091
Manufacturing	158,269	163,062	169,941
Services	200,063	207,562	215,242
Services not for sale	50,538	51,038	51,084
Real GDP Growth by Sector			
Agriculture	2.3	1.3	1.5
Industry	2.6	3.0	4.2
Services	3.4	3.7	3.7
Services not for sale	1.4	1.1	1.5
GDP per capita (000s lire) (1980 prices)	7,631	7,853	8,118
Labor Force (000s)	23,467	23,669	24,005 (1)
Employment by Sector	20,856	20,836	21,120 (1)
Agriculture	2,241	2,196	2,066 (1)
Industry	6,821	6,716	6,788 (1)
Services	11,794	11,952	12,266 (1)
Unemployment	2,611	2,832	2,885 (1)
Unemployment Rate (pct)	11.1	12.0	12.0 (1)
Money and Prices			
Money Supply (M2)(yr-end)	615,147	666,247	663,916(Aug)
Money Supply Growth Rate (M2)	9.4	8.3	8.5 (Aug)
Interest Rates (pct, yr-end)			
Treasury Bills 6-month	9.6	10.1	9.8 (Oct)
Effective Prime Rate	13.0	13.0	13.0 (Sep)
Wholesale Prices (1980=100)	171.1	175.6	182.1 (Aug)
Cost of Living (1985=100)	106.1	111.0	115.9 (Oct)
Balance of Payments and Trade			
Total Exports fob	145,331	150,459	85,226(Jul)
Total to U.S.	15,605	14,456	4,406(Apr)
Total Imports cif	148,994	161,587	93,537(Jul)
Total from U.S.	8,496	8,619	2,821(Apr)
Bank of Italy Int'l Reserves (yr-end)	61,411	74,295	78,824(Sep)
Commercial Banks Foreign Position (yr-end)	-29,497	-34,949	-40,747(Sep)
Public External Debt (bils $)(yr-end)	35.8	48.1	N/A
Balance on Current Account	3,791	-1,286	-4,913(Jun)
Balance on Trade Account	-3.663	-11,138	-7,399(Jul)

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(1) First three quarters 1988.

All figures represent period averages unless otherwise indicated; percent change over previous period in lire unless otherwise indicated. 1988 estimate based on September 1988 government economic forecast report.

Sources: ISTAT (Italian Central Institute of Statistics), Bank of Italy, Government Economic Report and Economic Forecasting Report, ISCO (National Institute for the Study of Economic Activity).

1. General Policy Framework

The Italian economy is one of the free world's largest, having undergone a dramatic transformation into an industrial power in the post-war period. Since 1982, the services sector has led economic growth while the industrial sector retooled. Industrial output returned to 1980 levels in 1987, and has continued to expand. A member of the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) and the European Communities (EC), Italy maintains a relatively open economy, though its importance as a trading country lags slightly behind its overall economic importance. The state plays an active role in the economy, not only in the making of macroeconomic policy and rules, but also as an owner of industrial plants and a major source of credit. Nonetheless, the Italian private sector is large and dynamic. While Italy has relatively few internationally known large conglomerates, there are a huge number of small and medium-sized firms that compete effectively both in domestic and foreign markets. Italy has a number of major population centers, but none is predominant. The northern half of the country is more developed and enjoys higher per capita incomes than the southern half. The divergence in wealth is also reflected in higher unemployment in the south, which constitutes one of Italy's major economic and social problems.

As a result of budget deficits that have exceeded 10 percent of GDP since 1981, Italy has an extremely large public debt. Reducing the annual increment to this debt is one of Italy's most pressing economic challenges. By the end of 1988, the total public debt will surpass the one quadrillion lire mark, or $740 billion at 1350 lire/dollar. While revenues have been increasing in real terms and relative to GDP, outlays have been growing even faster. Areas where spending increases have been particularly sharp include pensions and health services.

Monetary policy is dominated by fiscal policy in that the primary objective of the former is to finance the results of the latter (i.e., the budget deficit) in the least inflationary way. The overall monetary policy objective is to hold the increase in credit to the non-state sector to the increase in the forecast rate of increase of nominal GDP. This forecast assumes a rate of inflation that is usually short of the result. Credit to the state sector is considered an exogenous variable. Within this policy framework, the Bank

of Italy in recent years has tried to move away from direct monetary controls in favor of indirect instruments, but with mixed success. In September 1987 credit controls were imposed in response to pressure on the lire; the ceilings were lifted in the spring of 1988. The principal monetary policy tool of the Bank of Italy is open market operations exercised through repurchase agreements with the banks. The central bank discount window is seldom opened.

2. Exchange Rate Policies

Italy is a member of the European Monetary System (EMS) as well as its exchange rate mechanism. As such, it is committed to maintaining a flexible parity in relation the currencies of its EMS partners. Due to past volatility of the lire and the relative "weakness" of its balance of payments position, Italy enjoys a wider band of fluctuation around its so-called central rate; the lire can fluctuate plus or minus six percent, as opposed to 2.25 percent for the other EMS currencies.

Italy has long maintained foreign exchange controls, which have just recently been significantly liberalized. The Italian Exchange Office, an adjunct of the Bank of Italy, maintains a monopoly on foreign exchange transactions, which it exercises through a system of authorized banks. As of October 1, 1988 many operations are newly permitted, such as forward cover of foreign exchange operations, foreign exchange financing by residents, and small net foreign exchange positions by banks. Some restrictions remain, principally intended to hinder direct foreign currency speculation. Italy is committed to join its EC partners in total liberalization of short term international capital movements by July 1990. Only then will Italian residents be allowed to hold bank accounts abroad.

3. Structural Policies

In many larger industries structural rigidities have hindered Italy's economic growth. Rigid hiring and firing rules, downward wage stiffness and high unemployment benefits for redundant industrial workers have created a resource-distorting labor market and have had a negative impact on job creation. Inefficiencies in the delivery of public service also serves as a hindrance to growth and add to the cost of doing business in Italy. The state railway, communications and postal systems are particularly notorious in this regard. A third major area of structural rigidity is financial markets, which have traditionally been heavily regulated and slow to respond to market needs. The above, and other structural problems have prevented stronger Italian economic growth and limited Italian demand for U.S. exports from reaching their potential. Though structural reforms have been proposed, and in some cases implemented (the October 1988 liberalization of foreign exchange transactions is an example), progress has been slow.

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Government procurement and pricing policies are not completely guided by free market principles. Government procurement, at least in some areas, is informally directed toward Italy - based suppliers, e.g. heavy electrical equipment, telecommunications, and military. Moreover, procurement procedures are not fully transparent. Except for agricultural products, taxes and customs duties do not present overly onerous obstacles to U.S. exports, other than the usual level of bureaucratic red tape which mark all transactions in Italy. While Italy remains relatively open to foreign investment, the experience of several recent large takeover bids has revealed that direct foreign investment can become a political issue.

Italian structural policies are increasingly being made within the framework of the unification of the European Common market in 1992. This is particularly true with regard to regulatory and taxation schemes. The degree to which these policies affect demand for U.S. exports will to a large extent be determined by the orientation of the unified market after 1992. If the reforms are taken within the context of a closed and protectionist Fortress Europe, U.S. exports will suffer. If, however, the reforms lead to a more efficient distribution of European and Italian resources, then the resulting increased economic growth should lead to more demand for U.S. goods and services.

4. Debt Management Policy

Italy has not had external debt or serious balance of payments difficulties since the mid-1970s. The Italian public debt, though, is extremely large. It is financed principally through domestic capital markets, with various securities ranging in maturity from three months to ten years. The size and rate of growth of the public debt dictates that treasury financings dominate Italian financial markets; as of August 1988, government securities made up 63 percent of total financial assets. As a result, the monetary authorities have concentrated on the development of the government securities market to the detriment of private security markets that would have allowed investors to diversify out of Treasury paper. This attitude has begun to change only recently as the pressure of a unified European market in 1992 has forced decision makers to seek greater efficiency in Italian markets.

5. Significant Barriers to U.S. Exports

Italy denies national treatment for audio and visual works. Italy reserves 40 percent of Italian screen time for films of Italian or European origin. Screening process results in delays involving import of U.S. films.

Domestic employment laws require that labor placements of unskilled workers be done through government employment offices rather than directly by the employer. This results in lack of flexibility.

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Insufficient copyright law does not protect producers against end-user piracy. As a result, it is estimated that up to $1 billion of business is lost to end-user pirates.

Telecommunications services are still tightly regulated by the state. Teletext and videotext services operate under a monopoly of Italian telecommunications authorities. Enhanced services must be offered over the public switched network or through dedicated leased circuits.

Agricultural imports face numerous health and phyto-sanitary barriers that result in the exclusion or restriction of some products such as bull semen, fresh fruits and vegetables.

Pharmaceuticals must go through a testing and approval process, before being put on the market (similar to FDA approval process).

Special labeling and marking requirements (some in line with EC directives) apply to: lime, cement and similar binding agents; pianos, automatic pianos, harmonicas, and similar instruments; clinical thermometers; ethical medicines; cosmetics; packaged foods; distilled spirits; beer; wine; vinegar; and feedstuffs.

Regulations require telecommunications equipment to be tested and certified in Italy -- a slow and expensive process.

There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport, aircraft manufacturing, newspapers and the state monopolies (tobacco manufacturing, salt processing, railways, the telephone system and electrical power).

Although Italy is a signatory to the GATT Tokyo Round on Government Procurement, implementation has been a problem. Tendering procedures do not usually give statutory deadlines.

Through its ownership of holding companies, the Italian Government, directly or indirectly controls hundreds of enterprises -- including the Electrical Energy Agency (ENEL) and Telephone companies (STET, ITALTEL, SIP). None of these is required to adhere to the terms of the Government Procurement Code. The ENEL quasi-monopoly situation directly affects potential U.S. sales of heavy electrical equipment to the power generating sector.

For all tenders other than those published by the central government -- which must adhere to the Government Procurement Code -- all bids must be submitted in Italian. Although not always explicitly stated, in order to be considered, bids must be submitted through an Italian agent or subsidiary.

Bureaucratic delays, lack of mechanization at certain border points, and reporting requirements -- even after the most recent foreign exchange liberalization -- represent handicaps for exporters to Italy. While these will

virtually disappear for EC and EFTA producers as 1992 directives are implemented, most will still be in place for third country exporters, including the United States.

6. Export Subsidies Policies

Italy subscribes to EC directives and Organization for Economic Cooperation and Development (OECD) agreements on export subsidies. Italy provides direct assistance transfers to industry and business firms to improve their international competiveness. This assistance includes export insurance provided by SACE, the state export credit insurance body, as well as export credits. State and private companies operating in the south of Italy, where traditionally per capita income has been substantially less than the north, also receive tax incentives and reductions in employer social security payments. Southern businesses (large and small) which export may, therefore, be considered to receive indirect export subsidies.

7. Protection of U.S. Intellectual Property

The Italian Government supports protection of intellectual property and has been a staunch supporter of the World Intellectual Property Organization (WIPO). Italy is a party to the Berne, Paris, Universal Copyright, and Brussels Satellites Conventions as well as the Patent Cooperation Treaty.

Italian laws are generally unequivocal (copyrights are an exception) on intellectual property rights violations but are not widely, nor rigorously, enforced.

With reference to GATT intellectual property negotiations, Italy takes the view that intellectual property in the newly industralized countries (NICs) and the less developed countries (LDCs) is very difficult to protect and thus intransigience on enforcement questions on the part of developed countries will not succeed in a GATT-wide consensus on intellectual property. Within the EC, Italy has one of the lowest rates of patent filings and, perhaps not surprisingly, is not as concerned about patent rip-offs as it is about counterfeiting, which hits its up-scale fashion industry, e.g., Gucci, very hard.

Lack of trademark protection is a particular headache for Italy's trendy fashion designers. Trademarks for a wide array of clothing and accessories, both domestic and foreign, e.g., Lacoste, are counterfeited and distributed locally and abroad.

Piracy of records, videos, and computer software is widely practiced. Copyright law does not provide sufficient protection for software producers because of an overly liberal interpretation of the definition of end-user. Consequently, end-user piracy is rampant. The Parliament is reviewing proposed legislation to protect better copyrights but we are not sanguine about the prospects for enforcement if stronger

laws are passed. We do not have an estimate for losses to U.S. firms due to counterfeiting. Software copyright piracy is estimated to cost U.S. producers up to $1 billion a year.

8. Worker Rights

a. The Right of Association

The Workers' Statute of 1970 provides that "the right to establish trade union associations, to join them and to carry out union activities is guaranteed to all workers inside their places of work." Trade unions are not government controlled, and the Constitution fully protects their right to strike, which is frequently exercised.

b. The Right to Organize and Bargain Collectively

The right of workers to organize and bargain collectively is protected by the Constitution. Labor-management relations are governed by legislation, custom, collective bargaining agreements, and labor contracts. A key element of labor-management-government cooperation affecting the industrial relations climate has been the 1986 agreement on indexing wages (scala mobile) to the cost of living every 6 months. Approximately 40 per cent of Italian workers are covered by collective bargaining agreements. Voluntary, nonbinding mediation is provided by the Ministry of Labor and is often effective in bringing labor and management together.

There are no areas of the country, such as export processing zones, where union organizations and collective bargaining are impeded or discouraged.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist.

d. Minimum Age for Employment of Children

Under current legislation, no child under 15 years of age may be employed (with some specified exceptions). The Ministry of Labor, having consulted with the labor organizations, may, as an exception, authorize the employment on specific jobs of children over 12 years of age. The minimum age is 15 for men employed in dangerous, fatiguing, and unsanitary work, and 16 for men employed underground; in quarries, mines, and tunnels without mechanical vehicles; in weight lifting and carrying; in loading and unloading sulphur ovens in Sicily; and in occupations harmful to the workers' morale. No worker under 18 years may be employed in driving and pulling trucks and carriages, or in jobs for the manufacture, handling, and salvaging of explosives. No women, regardless of age, are permitted to be employed underground, in quarries, mines, or tunnels. Only women over 21 are allowed to work in dangerous, fatiguing, and unsanitary jobs, on the cleaning and servicing of engines, or on moving machinery.

e. Acceptable Conditions of Work

Minimum work and safety standards are established by law and buttressed and extended in collective labor contracts. The basic law of 1923 provides for a maximum workweek of 48 hours -- no more than 6 days per week and 8 hours per day. The 8-hour day may be exceeded for some special categories. Most collective labor agreements provide for a 36- to 38-hour week. Overtime may not exceed 2 hours per day or an average of 12 hours per week.

There is no minimum wage set under Italian law; basic wages and salaries are set forth in collective labor agreements. National collective labor agreements contain minimum standards to which individual employment agreements must conform. In the absence of agreement between the parties, the courts may step in to determine fair wages on the basis of practice in related activities or related collective agreements.

Basic health and safety standards and guidelines for compensation for on-the-job injury are set forth in an extensive body of law and regulations. In most cases, these standards are exceeded in collective bargaining agreements.

Enforcement of health and safety regulations is entrusted to labor inspectors, an autonomous group within the Labor Ministry who, since 1981, have the same status as judicial police officers. Inspectors make periodic visits to companies to ensure observance of safety regulations. Violators can be fined or even imprisoned. Trade unions also play an important role in reporting safety violations to inspectors.

Despite these enforcement provisions, Italy has experienced a rising number of on-the-job accidents, from a total of 769,374 in 1985 to 812,734 in 1988. Part of the problem is an inadequate number of inspectors. Due to high unemployment, there is also pressure on workers to accept unsafe conditions as a necessary evil if they are to have a job. There are many substandard workplaces in Italy, especially in the south.

f. Rights in Sectors with U.S. Investment

U.S capital is invested in the petroleum; food and related products; chemicals and related products; primary and fabricated metals; machinery, except electrical; electric and electronic equipment; transportation equipment; other manufacturing; and wholesale trade sectors. Italian workers in all goods producing sectors enjoy the same rights as other workers in Italy.

ITALY

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		252
Total Manufacturing		6,084
Food & Kindred Products	448	
Chemicals & Allied Products	1,050	
Metals, Primary & Fabricated	105	
Machinery, except Electrical	3,158	
Electric & Electronic Equipment	386	
Transportation Equipment	163	
Other Manufacturing	774	
Wholesale Trade		1,108
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		7,444

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

LUXEMBOURG

Key Economic Indicators

Billions of Francs Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
Real GDP	252.6	261.4	270.0
Real GDP Growth Rate (pct)	2	3.3	3.5
GDP by Sector			
Agriculture	6.6	N/A	N/A
Extracting Industries	.3	N/A	N/A
Manufacturing	70.2	N/A	N/A
(of which) iron & steel	27.8	N/A	N/A
chemicals and rubber	12.1	N/A	N/A
Electricity, Gas, Water	5.3	N/A	N/A
Construction	14.1	N/A	N/A
Transport	14.4	N/A	N/A
Distributive Trades, Hotels and Restaurants	38.9	N/A	N/A
Banking, Finance, Insurance	34.1	N/A	N/A
Public Administration	30.8	N/A	N/A
Other services	37.9	N/A	N/A
Real per capita Income (000s)	683	702	724
Labor Force (000s)	165	169	173
Unemployment Rate (pct)	1.5	1.7	1.6
Money and Prices			
Money Supply	49.2	54.5	61.2(1)
Commercial Interest Rate	N/A	N/A	N/A
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index	452.37	452.11	460.53(2)
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Official	40.54/41.80	33.15/34.70	N/A
Free market	41/42.10	33.30/35	N/A
Balance of Payments and Trade			
Total Exports fob	171	174 (est)	N/A
Total Exports to U.S.	8.9	9.0	N/A
Total Imports cif	194	209	N/A
Total Imports from U.S.	4.1	6.8	N/A
Aid from other countries	0	0	0
External Public Debt	8.1	6.2	5.4(3)
Annual Debt Service	N/A	N/A	N/A
Gold and ForEx Reserves	N/A	N/A	N/A
Balance of Payments	38	41	N/A

Notes: (1) Period ending second semester of 1988.
(2) As of September 1988.
(3) As of August 1988.

LUXEMBOURG

1. General Policy Framework

The Grand Duchy of Luxembourg is a highly developed, industrialized country. Its economy is based on free enterprise and its people have one of the highest standards of living in the world. The country is characterized by stability. Inflation is low and expected to register one percent in 1988, prices actually declined in 1987. Unemployment is the lowest in the European Communities (EC) at 1.7 percent, and the economy should grow about 3 percent this year. Luxembourg is a strong advocate of free trade. Major firms are 95 percent export oriented and imports supply 85 percent of consumer goods. Trade policy is determined by its membership in the EC. No policy changes have occurred in Luxembourg in the last two years which affect U.S. exports.

Government finances are conservatively managed. The government budget is normally in surplus, and the government is a net creditor. The banking sector has been the leading growth element of the Luxembourg economy in recent years. Luxembourg law has fostered the growth of the financial center. There is no withholding tax for non-residents on interest and coupons, except on dividends of Luxembourg corporations. In addition, banking secrecy is strict and precludes the passing of information to parent banks on individual accounts.

2. Exchange Rate Policies

Luxembourg forms a monetary union with Belgium. The Luxembourg and Belgian francs are equivalent in value, and exchange regulations are common to the two countries. There is freedom of foreign exchange. Transactions must be carried out either on the official market, where fluctuations in the rate of exchange are controlled by the National Bank, or on the open market, where the rate is freely determined by supply and demand. The official market is reserved for exchange operations in connection with commercial transactions. The open market is used for "financial transactions."

3. Structural Policies

Purchasing decisions are made in an open and free market. Market policy is generally determined by the EC. With the notable exception of agricultural products, as defined by the EC's common agricultural policy, the government does not attempt to subsidize prices.

The lack of withholding tax for non-residents on interest and coupon payments has fueled the growth of the banking sector. The corporate tax rate will drop to 35 percent in 1989, down from 40 percent a few years ago.

Regulatory policies which affect U.S. exports are determined by the EC.

LUXEMBOURG

4. Debt Management Policies

Luxembourg has no significant external debt.

5. Significant Barriers to U.S. Exports

Trade policy is determined by the EC. Luxembourg welcomes, and actively seeks, foreign investment. There are no barriers to American investment.

6. Export Subsidies Policies

Luxembourg offers a number of direct aids to finance exports including export credits granted by the Societe Nationale de Credit et d'Investissement (SNCI); country-to-country credits; and, interest rebates on loans to finance the export of goods granted by COPEL, the Comite pour la Promotion des Exportations Luxembourgeoises. The government also encourages exports by giving guarantees against the risk involved -- particularly those relating to credit. Up to 95 percent of an export credit can be guaranteed.

7. Protection of U.S. Intellectual Property

Intellectual property is protected by Luxembourg law. Piracy and counterfeiting are not problems. The Grand Duchy is signatory to various international agreements on intellectual property, including: The Berne Convention, the 1883 Paris Convention, the Washington Patent Cooperation Treaty of 1970, the 1952 Universal Copyright Convention, and the European Patent Convention signed in Munich on October 5, 1973. The Benelux Convention on Trade Marks, signed in Brussels on March 19, 1962, established a joint process for the registration of trade marks for Belgium, the Netherlands and Luxembourg. Luxembourg law offers the possibility of protecting services as trade marks.

The patent term in Luxembourg is 20 years from the date of the application. No compulsory licensing of patent rights held by foreigners has ever taken place, nor is it likely in the future. There have been no problems registering or maintaining trademarks. The Luxembourg Copyright Act of 1972 allows for civil and penal actions in the local courts.

There are no reported instances of Luxembourg's intellectual property practices having negatively affected U.S. exports.

LUXEMBOURG

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely, to choose their own representatives, publicize views, and determine their programs. The two largest industrial unions are linked to, but organized independently from, Luxembourg's Socialist Party and Christian Social Party respectively. A large percentage of the work force is unionized, but membership is not mandatory. Workers have the right to strike, although strikes are rare. Unions are free from government interference and maintain unrestricted contact with international bodies in their fields.

b. The Right to Organize and Bargain Collectively

The Constitution ensures freedom of union activity and protects union leaders and members from discrimination. Unions have the right to organize and bargain collectively on behalf of their members, and this right is applied uniformly throughout the country. Worker representatives are required in all businesses of 15 or more employees. In businesses with over 150 employees, 50 percent of the joint works councils are elected by the employees. In businesses with more than 1,000 employees, one-third of the membership of the boards of directors must be employees or their elected representatives. An effective system exists to hear and adjudicate employment-related complaints.

c. Prohibition of Forced or Compulsory Labor.

Forced or compulsory labor does not exist.

d. Minimum Age for Employment of Children

The employment of children under the age of 15 is prohibited. Child labor laws are strictly enforced. Adolescent workers (ages 15 to 17) are provided special protection by law, such as limiting overtime and specifying the number of hours which may be worked continuously.

e. Acceptable Conditions of Work

Luxembourg's health and safety standards are among the highest in the world. A safe working environment is mandated by law and enforced through a stringent inspection system, which can impose severe penalties. Pregnant women who work receive special consideration in the workplace. The normal workweek is 40 hours, spread over 5 days. Premium pay is required for work outside the normal workweek. Work on Sunday is generally prohibited, except in certain circumstances such as continuous process industries (steel and chemical), and for certain workers such as maintenance and security personnel. All workers receive a minimum of 5 weeks of paid vacation a year, in addition to paid holidays. The minimum wage is $4.35 per hour for all workers 18 years of age and older. Younger

workers are subject to a lower minimum wage. This is $2.60 per hour for workers 15 years old. The minimum wage increases annually until the worker is 18. A supplement is added for workers with dependents.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the following sectors in Luxembourg: primary and fabricated metals, machinery, except electric, and other manufacturing. Worker rights in these sectors are the same as the rights of other workers in Luxembourg.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		193
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	21	
Machinery, except Electrical	-6	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	115	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Millions of Guilders Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
Real GNP	429,880	431,820	443,750
Real GNP growth rate	2.0	2.5	2.5
GNP by Sector			
Non-Banking	374,090	374,700	N/A
Imputed Bank Services	16,760	16,550	N/A
Banking	16,460	16,020	N/A
Insurance	5,330	6,080	N/A
Government	50,760	51,570	N/A
Real per capita Income	29,647	29,577	30,187
Labor Force (000s)	5,916	5,957	6,227
Unemployment Rate (pct)	12.0	11.5	11.0
Money and Prices			
Money Supply (M1)	97,212	104,148	110,983 (Jul)
Commercial Interest Rates (pct)			
Money Market Rate	5.83	5.16	5.07 (Oct)
Capital Market Rate	6.35	6.39	6.21 (Oct)
Savings Rate (1)	16.0	15.6	15.6
Investment Rate (1)			
Private	22.9	23.1	22.8
Public	14.2	14.3	14.2
CPI (1985=100)	100.1	99.4	100.7 (Oct)
Wholesale Price Index (1980=100)	107.7	105.2	107.1 (Aug)
Exchange Rate (guilders/US$)	2.45	2.03	2.00
Balance of Payments and Trade			
Exports fob	195,064	187,412	194,600
Exports to U.S.	9,326	8,133	n/a
Imports cif	184,396	184,108	188,250
Imports from U.S.	13,307	11,806	n/a
Aid from U.S.	0	0	0
Aid from other countries	0	0	0
External Public Debt	0	0	0
Annual Debt Service Payments	11,017	14,431	19,281
Gold and ForEx Reserves	55,717	56,579	58,858 (Aug)
Balance of Payments			
Current Account (transactions, billions)	12.5	6.9	7.5

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank, Central Planning Bureau (CPB) Data available as of Nov 1, 1988.

(1) Pct of net national income.

THE NETHERLANDS

1. General Policy Framework

The Netherlands has an advanced industrial economy with a strong post-world war II record of prosperity. Like other Western European countries, the Netherlands has recently experienced problems of reduced growth and steeply rising unemployment. However, the Netherlands continues to experience low inflation and a strong export performance. Its major economic assets are a skilled, highly productive labor force, substantial reserves of natural gas and its geographic location in northwest Europe at the mouth of the Rhine river.

The internationally-oriented Dutch economy appears headed for modest growth this year again after 1987's 2.5 percent growth. Private sector demand and confidence remain relatively buoyant, and there are no signs of an impending recession. Indeed, the official Dutch Central Planning Bureau's forecast for 1989 has been revised upward reflecting a generally more optimistic outlook in the medium term, based on strong export demand with export volume up 6.0 percent last year despite a 3 percent fall in export value. A 6.4 percent export volume growth is expected for 1988. Investment (private plus public) is expected to firm at a 4.5 percent volume increase this year while the volume of consumption growth is expected to drop to only half of last year's 3.0 percent.

Unemployment and the high government budget deficit still are the most serious economic problems in the Netherlands. Several years of sustained effort to restrain government spending growth have lowered the budget deficit to 7.7 percent of net national income (NNI) last year. (The government deficit is primarily financed through sales of government bonds). A further reduction of the deficit this year, to 6.7 percent of NNI, puts the government firmly on track toward its goal of a 5.25 percent deficit in 1990.

Most of the progress made in reducing the budget deficit has been due to restraint in spending on the Netherlands' comprehensive and expensive social welfare programs. At 40 percent of GNP, the level of government spending remains high relative to most other industrialized countries. Moreover, the need for continuing restraint of public spending leaves little additional scope for fiscal stimulus should it be needed.

The Netherlands remains a receptive market for United States exports as well as an important investment partner. The Netherlands is the third largest U.S. export market in Western Europe and the sixth largest U.S. market worldwide. Trade with the Netherlands consistently comprises about two percent of total U.S. trade with the world. The United States has traditionally recorded a trade surplus with the Netherlands, exporting principally oilseeds, animal feed and office machinery. The United States enjoys its largest bilateral trade surplus in the world with the Netherlands, which reached $4 billion in 1987.

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The Netherlands is also the second largest foreign investor in the United States with total direct investments of $47.0 billion in 1987. The appreciation of the Dutch guilder (which is linked to the West German Deutsche Mark within the European Monetary System) relative to the U.S. dollar has enhanced the competitiveness of U.S. exports in the Dutch market, while the increased impetus towards a unified European market in 1992 has alerted U.S. exporters to the importance of the Netherlands as a distribution center for Europe.

The 1989 Draft Budget contained the announcement of a general cut in the corporate tax rate from current 42 percent to 40 percent on the first 250,000 guilders in earnings and 35 percent on profits exceeding that amount. The corporate tax cut partly compensates the loss of the 12.5 percent WIR investment subsidy program. To bring Dutch tax rates more in line with those in other EC countries, the 1989 budget also proposed to cut the top VAT tax rate from current 20 percent to 18.5 percent. Furthermore the government agreed to implement in 1990 proposals to reform the Dutch wage and income tax system tabled by the Oort tax reform committee. Simultanously the wage and income tax rates will be lowered to yield a net reduction of the tax burden of 4.1 billion guilders ($2 billion).

Total money supply (M1) in 1987 grew by 4.9 percent. During the past decade the Netherlands Bank (NB) has primarily used direct monetary instruments, such as direct credit restrictions, to control the monetary aggregates. The NB recently announced that in the future it intends to rely more on open market operations and manipulation of commercial bank reserves. In early May, 1988 the Finance Ministry approved the NB's plan to establish a portfolio of 3 billion guilders (roughly $1.6 billion) of treasury bonds which will be used to commence open market operations in treasury issues. The NB also started a new interest bearing cash-reserve system for commercial banks. In support of the NB's monetary policy, the finance ministry plans to retire tressury notes close to maturity. To avoid a resulting increase in market liquidity, commercial banks may be requested to hold ineterst bearing cash reserves at the NB.

2. Exchange Rate Policies

The Dutch guilder is linked to the West German Deutsche Mark (DM) in the European Monetary System. There are no multiple exchange rate mechanisms. While residents of the Netherlands must obtain an exchange license for certain large international financial transactions, in practice these licenses are granted routinely and there is thus no exchange control.

Trade with the United States is evolving as expected based on exchange rate shifts. The Dutch share of the U.S. market shrank slightly last year from 4.3 to 4.2 percent while the U.S. share of total Dutch imports rose 0.4 percent. U.S.

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Department of Commerce figures for the first quarter of 1988 show exports, including re-exports, to the Netherlands up by 11.9 percent. The exchange rate for the first five months of 1988 was 1.89 guilders to the dollar.

3. Structural Policies

The Netherlands is a small, open-market economy which derives 60 percent of GNP from trade. Governments of the Netherlands have traditionally found it in the country's interest to be strong advocates of free trade and to maintain open markets. The positive impact of these policies on U.S. exports is best illustrated by the $4 billion bilateral trade surplus that the United States enjoyed with the Netherlands in 1987. The market structure of the Netherlands is competitive, with essentially all purchasing decisions made based on commercial criteria that are non-discriminatory. Government procurement is made based in compliance with the GATT procurement code and EC procurement directives. The Netherlands practices no preferential or discriminatory export or import policies with the exception of those resulting from its membership in the European Economic Community.

The Netherlands total tax burden (including social security contributions) as a proportion of GNP will fall from 49.2 percent in 1988 to 47.6 percent in 1989. The most significant change influencing the growth of the Dutch economy was the April 1988 termination of the investment tax credit or WIR. The WIR went into effect in 1978, and reimbursed firms for part of the value of new capital investment in the form of a tax credit. The WIR provided a basic tax credit of 12.5 percent for certain new capital investments, a 6 percent subsidy for small scale investments, a 25-40 percent supplemental premium for energy-saving investments, or a 5-15 percent premium for investment related to environmental protection.

Finance Minister Onno Ruding abolished the WIR in April, 1988 for all except small businesses, citing the cost of the tax credit and the improved situation for business. The savings generated by the tax credit abolition were used to cut tax rates for industry from 42 to 35 percent, which puts the Netherlands corporate tax rate on a par with that of Britain and thus enhances its competitive position within the EC. The Finance Ministry also announced a reduction in individual income tax rates, effective as of 1990, from 72 to 60 percent for the top bracket, and 40 to 35 percent for the lowest bracket. A broader reform of the individual income tax structure is also under consideration. The effort focuses on simplifying the system and reducing the number of brackets from the present nine down to three. In 1989, the top VAT rate will be reduced from 20 to 18.5 percent and some food and medicinal items moved from the higher rate to the six percent rate.

The business reaction to the tax changes has generally been positive and the most frequently heard business reaction has been that lower tax rates enhance incentives and thus the

country's growth potential. Others, however, have pointed out that the disappearance of the investment tax credit (WIR) removed a real incentive to set up in the Netherlands. Tax cuts are likely to remain on the government's policy agenda whenever additional revenues to finance cuts become available. The Dutch Government also offers other minor investment premiums to promote specific economic goals, such as new jobs, new industries, support for depressed areas, but these do not have a significant impact on the country's economic growth.

Government regulatory policies have in the past had a substantial impact on U.S. exports only in the telecommunications field. However, the planned January 1, 1989 liberalization of the Dutch Post, Telegraph and Telephone organization will open an estimated additional $20 to $25 million market in customer premises equipment. (U.S. telecommunications equipment exports to the Netherlands in 1986 totaled $35 million). In other areas, the Dutch government is also proceeding to privatize its interests in industries. Since 1986, the government has reduced its holdings in various partially government-owned large enterprises listed on the stock exchange. It has reduced or is planning to reduce its stakes in KLM (Royal Dutch Airlines), DSM NV (Dutch State Mines -- a chemicals and synthetics group), and Postbank NV (a commercial banking group).

4. Debt Management Policies

The Netherlands is a large creditor nation, with a current account surplus approximately equivalent to four percent of GNP. The Netherlands has no significant external debt. The Netherlands is a participant in and a strong supporter of the IMF, IBRD, and other multilateral international financial institutions.

Reducing the government's budget deficit, currently running at 6.7 percent of net national income (NNI), remains the top Dutch fiscal policy goal. The program to restrain the growth of government spending has met with some success and is on schedule toward the government's target of a 5.25 percent of NNI deficit in 1990. This year, tax revenues are estimated to rise by 2.9 billion guilders, while budget cuts should account for 4.0 billion guilders. Budget discipline is a problem as government outlays exceeded last year's budgetary ceilings by some 1.6 million guilders. The Finance Ministry is strengthening its supervisory powers to counter such overspending. The main areas of spending restraint have been the social welfare programs, with spending growth on social security, health, disability, student subsidies and unemployment benefits all either cut back or due to be cut back.

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5. Significant Barriers to U.S. Exports

The Dutch economy is one of the most internationally oriented in the world. As the sixth largest U.S. export market in the world, the Netherlands' share of total U.S. - world trade reaches about two percent. The U.S. trade surplus with the Netherlands is our largest bilateral trade surplus.

Although the Netherlands has considerable legislation protecting intellectual property rights, enforcement has been a problem for U.S. motion picture distributors. According to them, the Netherlands serves as the major duplication and export center for pirated home video products in the European market. Specific problems include pirate video laboratories, insufficient police cooperation and unlicensed broadcasts of copyrighted products. The Dutch government has proposed legislation to revise the Dutch Copyright Law, introducing higher penalties for copyright infringement.

While access to the telecommunications market has also been a problem in the past, the Dutch Postal, Telephone and Telegraph (PTT) monopoly will be transformed into a government-owned corporation on January 1, 1989, and while many restrictions in this area should disappear, some restrictions in procurement of network equipment will remain. The PTT will retain exclusive control over the telecommunications infrastructure and basic transmission services but private companies will be able to offer customer premises equipment and enhanced services. The PTT recently announced that as long as customer premise equipment did not harm the network, it would be permitted. Flat rate, leased circuits for domestic traffic are now available. However, there are volume surcharges on international leased circuits for third party traffic. Dutch authorities are now reviewing whether usage-sensitive surcharges on domestic leased circuits should be introduced when the digital network is installed, but they appear to favor flat rates. The Dutch telecommunications liberalization plan recommends the competitive provision of enhanced services, which will be defined similarly to U.S. practices. After January 1, 1989, the PTT will be allowed to compete in the enhanced services market.

6. Export Subsidies Policies

The Netherlands practices no preferential or discriminatory export or import policies with the exception of those which result from its membership in the European Economic Community. Besides the intra-EC trade regime, these preferences include the EC Generalized System of Preferences, the ACP system of preferences for Asian, Caribbean, and Pacific countries, and the EC preference agreement with the European Free Trade Association.

THE NETHERLANDS

7. Protection of U.S. Intellectual Property

The Netherlands belongs to the World Intellectual Property Organization (WIPO) and is a signatory of the major intellectual property accords, including the Paris, Berne and Universal Copyright Conventions and the Patent Cooperation Treaty. Dutch laws conform 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 though a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the U.S. are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights to the Netherlands may be obtained if the PCT application is used.

In the area of copyright protection, however, the situation is different. According to U.S. motion picture distributors, the Netherlands serves as the major duplication and export center for pirated home video products in the European market. Specific problems include pirate video laboratories, insufficient police cooperation, and unlicensed broadcasts of copyrighted products. U.S. motion picture distributors estimate 45 percent of the Dutch video cassette market is composed of pirated cassettes. In 1986 police confiscated more than 30,000 illegal video tapes with a $1.8 million retail value. According to trade sources, pirated productions can be found in 70 percent of Dutch video tape shops. The Dutch Government has recognized the problems encountered in protecting intellectual property and has proposed legislation to revise the Dutch Copyright Law, which would introduce higher penalties for copyright infringement.

8. Worker Rights

a. The Right of Association

The right of workers to associate freely is well established. The active trade union movement includes in its membership approximately 30 percent of the employed labor force. Unions, while entirely free of government and political party control, may and do participate in political life. They are free to maintain relations with recognized international bodies. All union members, except civil servants, have the legal right to strike. The Government plans to introduce legislation during the 1989 session of Parliament which would grant the right to strike to civil servants not involved in "lifesaving" activities.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is well established. Negotiations between the unions and the

government take place both locally and in a fixed central negotiating body called the Labor Foundation. These rights and protections are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist.

d. Minimum Age for Employment of Children

The minimum age for employment of young people is 16. At 16 years of age, youths may work full time only if they have completed the mandatory 10 years of schooling. 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. The Netherlands has a reduced minimum wage for employees under age 23. The purpose of this law is to provide incentives for the employment of young people, one of the groups with the highest rate of unemployment. Full-time workers 16 years and older receive a paid vacation of at least 20 days per year.

e. Acceptable Conditions of Work

Dutch law and practice adequately protect the safety and health of workers. The average workweek for adults is 38 hours. There is minimum wage legislation, and the minimum wage is approximately $6.03 per hour. For unemployed workers, an extensive system of unemployment benefits allows recipients to maintain an adequate standard of living.

f. Rights in Sectors with U.S. Investment

U.S. captial is invested in the petroleum; food and related products; chemicals and related products; primary and fabricated metals; machinery, except electrical; electric and electronic equipment; and wholesale trade sectors. The workers in these sectors enjoy the same rights as other Dutch workers.

THE NETHERLANDS

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3,078
Total Manufacturing		5,318
Food & Kindred Products	1,004	
Chemicals & Allied Products	1,897	
Metals, Primary & Fabricated	321	
Machinery, except Electrical	874	
Electric & Electronic Equipment	168	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		1,905
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		10,301

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

NORWAY

Key Economic Indicators

Millions of Norweigian Kroner Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1986 Prices)	524,578	519,153	522,787
Real GDP Growth (pct)	4.2	0.9	0.7
Current GDP	514,578	556,924	587,450
Current GDP By Sector			
Agriculture and Fishing	16,714	19,348	22,000
Oil, Gas and Shipping	67,641	64,784	61,000
Manufacturing	76,483	84,382	92,000
Construction	28,178	34,574	35,000
Other Sectors	325,562	353,836	377,450
Population (Millions)	4.17	4.19	4.21
Real GDP per capita (NOK; 1986 prices)	123,400	123,903	124,177
Current GDP Per Capita (NOK)	123,400	132,917	139,537
Labor Force (Millions)	2.13	2.17	2.19
Unemployment Rate (pct)	2.0	2.1	3.2
Money and Prices			
Money Supply (M1)	107,093	151,925	170,000
Loan Interest Rate (pct)(1)	15.6	16.5	14.1
Loan Interest Rate (pct)(2)	11.2	12.0	11.1
Savings Rate (pct)(3)	10.8	10.6	10.2
Investment Rate (pct)(4)	28.4	28.0	29.4
CPI (1979=100)	183	199	212
Wholesale Price Index (1981=100	120	126	132
Exchange Rate (NOK/US$)(avg)	7.4	6.7	6.6
Balance of Payments and Trade			
Merchandise Exports fob	136,003	144,945	141,000
Exports to U.S. (5)	7,304	8,175	8,500
Merchandise Imports cif	153,072	151,581	143,200
Imports from U.S. (5)	10,288	9,797	10,500
Trade Balance	-17,069	-6,636	-2,200
Net Invisibles	-15,843	-20,943	-25,000
Current Account Balance	-32,912	-27,579	-27,200
Net Foreign Capital	17,925	23,683	32,085
Overall Balance	-14,987	-3,896	4,885
Int'l Reserves (yr-end)	~~97,011~~	93,115	98,000
Net External Debt (yr-end)(6)	80,500	91,800	116,000
Central Government	5,600	6,400	7,800
Debt Servicing (7)	47,486	47,479	49,773

NORWAY

Notes:
(1) Bank rate for medium/long-term Loans; end of period
(2) Bank Rate for time deposit; end of period
(3) National Savings/national disposable income
(4) Gross Fixed Investment/GDP
(5) Norwegian trade statistics
(6) Foreign Assets - Foreign Liabilities
(7) Total interest and principal paid by private and Public sector

1. General Policy Framework

Energy remains Norway's predominant resource base, with no major changes expected in the next decade. Offshore, the country has sufficient crude oil reserves estimated to last some 25 to 30 years and enough natural gas to last about 100 years. On the mainland, the availability of abundant hydro power supports energy intensive industries like metals and fertilizers. Norway's long coastline boasts significant fishery resources, while the mainland has ample timber to support an export-oriented pulp and paper industry. The country's small population - 4.2 million - limits its human resource base, as high wages and a restrictive immigration policy remain obstacles to increased industrial competitiveness.

Norway's mountainous geography has made the development of both industrial and transportation facilities difficult and costly. Since the country is long and narrow, with population centers few and far between, marketing is expensive compared with most other European countries. The petroleum sector, and the associated service industries, will likely represent the engine of economic growth for the next several decades although energy-intensive and export-oriented industries like metals and chemicals will likely remain prominent. Textile and food processing firms produce mainly for the domestic market. Presently, however, these sectors are inefficient from a global perspective given the government's past protectionist practices. These industries will likely experience a painful period of adjustment in the years ahead because (1) the Government of Norway will continue to reduce subsidies due to budgetary pressure; and (2) Norway's economy should become increasingly tied to economic developments in Western Europe.

Norway has opted for an egalitarian welfare state which redistributes incomes through taxes and subsidies. State intervention in the economy is significant. For example, Norway's largest industrial groups - Statoil and Norsk Hydro - remain state controlled, and restrictions have been placed on the foreign ownership of Norwegian banks. But if oil prices fail to recover significantly, there is a good chance that government intervention and control will be lessened in the years ahead as the Norwegian Government cannot continue to resist increasing domestic budgetary pressure. Moreover, greater global economic deregulation is likely to pave the way for increased privatization of state enterprises.

NORWAY

In the past, Norway has adopted a counter-cyclical policy aimed at keeping unemployment low. During the past decade, the government's dependence on petroleum revenue has increased. On the expenditure side, the most significant development has been a rise in subsidies and social programs, financed by the excess petroleum money. Since 1986, bugetary pressures have increased significantly due to the fall in oil prices, and the budget deficit - financed mainly by borrowing - is on the rise. No general tax incentives exist to promote investment, although tax credits and government grants are offered to generate more investment in northern Norway. Accelerated depreciation allowances are available in the field of shipping. Prospects for supply-side tax reductions are limited because of the high cost of the public welfare programs.

The Government of Norway controls the growth in the money supply through reserve requirements imposed on banks, open market operations, and central bank discount rate. The government strives to maintain a stable exchange rate, thereby limiting its ability to use monetary policy to further domestic policy ends.

2. Exchange Rate Policies

Although Norway is not a participant in the European Monetary System (EMS), since December 1978 the krone has been pegged to a basket of currencies. As of August 1982, the weights have reflected the various currencies' importance for the competitive position of the Norwegian export industry. The exchange rate index was initially calculated as an arithmetic average, but since July 1984 the calculation has been based on a geometric average. As a result of a devaluation in May 1986, the average value of the krone fell by approximately 3.5 percent from 1986 to 1987. During past months, rumors continue to circulate concerning the need for a further devaluation, but the government vigorously denies such plans and has defended the currency whenever its value has begun to drop significantlly. While Norway has regulations in force restricting the transfer of local currency out of the country, in practice the vast majority of U.S. companies operating here report few, if any, problems in remitting payments back to the United States

3. Structural Policies

For Norway's economy, 1987 was a corvair year. There was no crash, but many think the situation is still unsafe at any speed. Gross domestic product (GDP) ran at rough idle, increasing a mere 1.3 percent. Similarly, investment and consumption growth braked, after accelerating increases in 1986. While government planners breathed sighs of relief that the 1986 collapse in world oil prices did not send the economy into a skid, clearly more repair work must be done before the various domestic sectors can again hit cruising speed.

NORWAY

Any discussion of Norway's economy must begin with oil and gas. With falling oil prices, the fortunes of the petroleum industry have lagged in recent years. The gross product of the petroleum sector totalled 52 billion NOK in 1987, compared to 51 in 1986 and 90.7 in 1985. Further, falling tax revenues from petroleum-related activity have forced the government to tighten its budget, reducing subsidies to other less profitable areas of the economy. Given the volatility of the oil and gas market and the weak health of the country's traditional industries, many believe that Norway must restructure its economy to make all sectors cost-competitive. Oil and gas will not be able to sustain the economy indefinitely, so it is in Norway's interest to revive the traditional sectors as quickly as possible.

Still, there is some cause for optimism. First, exports increased in 1987, with the rise attributed mainly to greater sales of traditional goods. Second, the flight of Norwegian-owned ships from the country's traditional register ended as the government established an international register, replete with tax breaks and relief from national manning requirements. And third, 1987's fall in private consumption may presage reduced import levels in the years to come.

While rising inflation plagued government planners in 1987, the government has moved to halt the rise in prices. The 1988 annual wage negotiations resulted in only a five percent nominal increase for labor. To back up this settlement, the Storting enacted national wage control legislation enforcing the five percent limit. In return for accepting this arrangement, however, the unions extracted a commitment from the government that it would endeavor to keep inflation under five percent. Should prices rise much above this level during 1988, both sides recognize that additional monies will have to be offered labor in the 1989 negotiations to compensate for the decline in workers' purchasing power. To prevent any new wage-price spiral, therefore, it is important for the government to continue its efforts to reduce inflation.

4. Debt Management Policies

Norway has embraced a cautious foreign debt policy to limit the state's exposure in foreign markets. The Norwegian Government's external debt rose from NOK 1.5 billion in 1970, peaked at NOK 25.5 billion in 1980, and presently stands at less than NOK 10 billion (2 percent of GDP). The government's stated policy is that the private sector shall cover the bulk of financing requirements related to Norway's external deficits. In the past, this policy has contributed to high domestic interest rates, and a rapid increase in short-term foreign private debt. In a policy shift, the government will, as of 1989, allow increased long-term private borrowing to facilitate improvements in the term-structure of its foreign debt. It is estimated that gross debt will increase to some NOK 130 billion (over 20 percent of GDP) by end-1989, up from NOK 116 billion a year earlier.

NORWAY

· The possibility that Norway will default on its debt is virtually nil because its obligations are small compared to the country's foreign exchange reserves. There are, however, increasing risks related to private sector external debt. The government does not guarantee payment of the external debt of state enterprises, including Statoil, and the risks associated with loans taken by state enterprises are significant.

5. Significant Barriers to U.S. Exports

The Norwegians vigorously support the idea of free trade and are quick to condemn protectionism. Practicing what they preach, they have opened just about all of their markets to foreign competition. In general, U.S. exporters experience few problems doing business in Norway. However, some areas of tension do exist, specifically regarding agriculture, standards, and banking services.

Norway protects its domestic apple and pear producers by allowing imports only after its domestic crop has been depleted. During the 1987/88 season, U.S. apples were allowed to enter as early as November 30, 1987. U.S. pears were allowed to enter Norway in early November 1987. U.S. apple and pear growers would like better access to the Norwegian market, especially during the Christmas season. U.S. apple exports to Norway average about $2.5 million a year. U.S. producers believe that they could double exports to about $5 million if Norway removed its restrictions and permitted imports to be sold during the Christmas season. U.S. pear exports to Norway average about $200,000 a year. If the restrictions were removed, U.S. pear exports could increase to $400,000 a year.

On January 8, 1986, Norway instituted a softwood ban that includes kiln-dried softwood products (with or without bark). The ban stems from the 1984 discovery of nematodes in woodchip shipments from the southern United States to Finland. Currently, Norwegian, Finnish and Swedish authorities are working together on various risk evaluation studies. Further, the North American Plant Protection Organization (NAPPO) has submitted a risk assessment report to the European Plant Protection Organization. NAPPO's report concluded that nematodes do not pose a threat to Scandinavian forests. U.S. woodchip exports to Norway peaked at $4 million in 1981. Exports have averaged less than $1 million a year for the past five years. Removing this restriction could increase exports by up to $11 million a year.

The United States would like Norway to liberalize its procedures for regulating telecommunications terminal equipment. Despite stated plans to liberalize part of the telecommunications market in 1987, Norway still maintains regulatory procedures that limit market access for U.S. telecommunications equipment. The Norwegian Telecommunications Regulatory Authority, a new separate approval authority under the auspices of the Ministry of Communications, has the responsibility of testing and

approving all telecommunications devices used in Norway. Even equipment that does not use public networks or airways must be certified. This process is slow and costly; it harms all companies that wish to offer new products. Further, Norway has expanded the definition of terminal equipment to include any equipment attached to audio, data, video and other networks. These new restrictive regulatory procedures have hurt U.S. exports. Liberalizing these procedures could possibly result in $4 million in increased U.S. sales each year.

Effective January 1, 1985 foreign banks were allowed to establish subsidiaries in Norway as long as their country of incorporation accorded Norwegian banks reciprocal rights. Before a foreign bank can establish a subsidiary, however, it must first obtain a concession from the Ministry of Finance. In 1985 and 1986, Norway granted concessions to nine foreign banks (three from the United States) permitting them to establish in-country subsidiaries. This was the first time foreign banking operations had been allowed in Norway. While the U.S. Government applauds the liberalizations that have taken place, it appears that efforts to further deregulate foreign banking activity have stalled. Privately, the Norwegian authorities have indicated that the government wishes to study the operations of the nine foreign banks doing business in Norway before it approves any additional concessions for other firms. The government has stated that - as a general rule - foreign banks would receive the same treatment as Norwegian banks. There are, though, four major exceptions to this general rule. First, foreign banks are required to operate through subsidiaries rather than branches. Second, foreign banks need permission from the Ministry of Finance before they can invest in finance companies. Third, a concession must be obtained in order to open affiliated offices. Fourth, foreign banks which want to form a subsidiary with a local bank must put up at least 50 percent of the share capital.

6. Export Subsidy Policies

As a general rule, the Norwegian Government does not subsidize exports, although provisions have been made for recovering the value added tax paid in producing such goods. There are exceptions: (a) non-Norwegian buyers of Norwegian-built ships may be accorded subsidized interest rates, and (b) cheap credits are offered for exports to developing countries. Indirectly, the government supports exports of metals/chemicals by subsidizing manufacturers' electricity tariffs. In addition, Norway grants industry money to cover export promotion expenses.

7. Protection of U.S. Intellectual Property

Norway is a signatory of the main intellectual property accords, including the Berne, Paris and Universal Copyright Conventions and the Patent Cooperation Treaty. Norwegian officials believe that counterfeiting and piracy are the most

important aspects of the intellectual property issue. They complain of the unauthorized reproduction of furniture and appliance designs, goods then sold in other countries with no compensation to the Norwegian producer. While admitting that the topic of intellectual property has been a divisive one, they prefer handling the question within the GATT -- as opposed to the WIPO -- framework. Any rules against counterfeiting and piracy, they add, should contain special protections for small, specialized manufacturers.

Notwithstanding the above, Norway is one of the very few OECD countries that provides only process patent protection for pharmaceuticals. While Government of Norway representatives have committed the government to strengthening local patent laws, and officials have recently reaffirmed this pledge, to date we are not aware of any concrete steps that have been taken in this regard. In the past, several U.S. companies have experienced problems with Norwegian competitors marketing "copycat" products prior to the patent expiration date.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. The government, however, has the right to invoke compulsory arbitration under certain circumstances, with the approval of the Storting.

With membership totaling about 60 percent of the work force, unions play an important role in Norway's political and economic life and are consulted by the government on important economic and social problems. Although the largest trade union federation is associated with the Labor Party, all unions are free of party and government control. They maintain strong ties with international bodies, such as the International Confederation of Free Trade Unions.

b. The Right to Organize and Bargain Collectively

All workers, including government employees and military personnel, have the right to organize and bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. Prohibition of Forced or Compulsory Labor

There is no compulsory labor in Norway.

d. Minimum Age of Employment of Children

Children are not permitted to work full time before the age of 15. Minimum age rules are observed in practice.

NORWAY

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). All workers are assured a minimum wage, with standards set by the government within each industry.

Under the Workers' Protection and Working Environment Act of 1977, all employed persons are assured safe and physically acceptable working conditions. According to the act, working environment committees, composed of management, workers, and health personnel, must be established in all enterprises with 50 or more workers, and safety delegates must be elected in all organizations. The Directorate of Labor Inspections ensures effective compliance with labor legislation.

f. Rights in Sectors with U.S. Investmet

With 60 percent of its workforce unionized, Norway has a tradition of protecting workers' rights in all industries. Among goods producing sectors, U.S. investment is essentially in the petroleum sector, although there are relatively small investments in the food and related products; machinery, except electrical; and wholesale trade sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		3,552
Total Manufacturing		91
Food & Kindred Products	2	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	2	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		327
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,970

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $5000,000

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

POLAND

Key Economic Indicators

Billions of Zlotys Unless Otherwise Noted

	1986	1987	1988
Income, Production Employment			
National Income (current)	10,697	14,013	23,092
Nat'l Income per capita (zlotys, current prices)	284,497	362,056	609,287
Real Nat'l Income Growth Rate (pct)	4.9	1.7	3.8
Breakdown by Sector (pct)			
Industry	47.3	48.6	N/A
Agriculture	15.4	13.2	N/A
Construction	12.9	12.9	N/A
Transport/Comm	6.3	6.3	N/A
Trade/Svcs/Other	18.1	19.3	N/A
Population (Millions)	37.6	37.8	37.9
Labor Force (000s)	17,236	17,299	N/A
Unemployment	N/A	N/A	N/A
Industrial Prod. (pct change)	4.4	3.5	4.0
Central Budget Deficit	-53.4	-121.8	-269.6
As pct of Nat'l Income	-0.50	-0.87	-1.17
Money and Prices			
Money Supply	N/A	N/A	N/A
Savings Rate (pct Nat'l Income)	12	12	18
Investment Rate (pct Nat'l Income)	25.9	29.7	N/A
CPI	17.5	25.3	60
Wholesale Price Index	17.8	26.6	61
Exchange Rate (Z/US$) (yr avg)			
Official	178	272	386
Parallel Market	660	1,450	2,550
Balance of Payments and Trade (Millions US$)			
Total Exports	N/A	N/A	N/A
Total Imports	N/A	N/A	N/A
Hard Currency Exports	6,500	7,097	8,630
Hard Currency Imports	5,400	5,832	7,250
Hard Currency Trade Surplus	1,100	1,265	1,380
Total Imports from U.S. fas	151	239	375
Total Exports to U.S. cif	262	330	390
Trade Surplus with U.S.	111	91	15
Aid from U.S.	15.9	3.1	11.7
Aid from Other Countries	N/A	N/A	N/A
Foreign Debt (yr-end)	33,500	39,700	N/A
Total Debt Service Ratio			
Obligations Due	105	91	N/A
Obligations Paid	32	27	N/A
ForEx Reserves (yr-end)	1,000	1,800	N/A
Current Account Deficit	-574	-392	-400

POLAND

Notes: Net material product is GDP less depreciation and the value added of non-material services, plus non-material services used as inputs in material production. M(1) equals zloty cash stocks plus current account deposits. These figures do not include substantial hard currency cash stocks and deposits. Average rates for commercial credits to the socialized sector. Data on total polish trade have been converted into dollars at the official exchange rate, which is not a market rate. Data on U.S. direct investment in Poland are not available, but the volume of U.S. investment is considered negligible.

Sources: Data are from publications of Poland's central statistical office; U.S.-Polish trade is based on U.S. Commerce Department statistics. The estimate of the parallel market rate is based on the quote for a dollar equivalent certificate in the Polish weekly "Veto." Average commercial interest rates are taken from IMF statistics.

1. General Policy Framework

Poland's socialist economic system was established after the Second World War. Government-owned enterprises produce almost all manufactures, and most retail and service establishments are government-controlled cooperatives. Some small manufacturing, shops, and services are in private hands. About three-fourths of Poland's farmland is privately owned.

Over half of Poland's foreign trade is with Council for Mutual Economic Assistance (CMEA) member countries and about one-third with developed market economy countries.

Polish authorities have made internal economic reform a priority, but have found it difficult to achieve tangible results. The "second stage" of economic reform, launched in October 1987, aims to reduce bureaucratic control over the economy, encourage initiative both within the State and private sectors, and increase reliance on market mechanisms. While enterprises have greater autonomy in some areas, authorities retain a number of central controls, directly allocating one-third of basic raw materials and production inputs, and more than half of foreign exchange. Prices have been seriously distorted for many years, and price reform is essential if the goal of market orientation is to succeed.

The government's loose credit policy and inability to hold the line on income growth have fueled inflation, estimated about 60 percent for 1988. Domestic financial policies have tended to accommodate the rise in inflation. Negative real interest rates encourage borrowing and discourage savings. In early 1988, the rate of interest on savings deposits was increased substantially (from 10 to 25 percent for one year time deposits). However, this step was quickly offset by the higher than anticipated inflation. At the same time, the basic lending rate, was raised from 12 to 18 percent, far below the rate of inflation. The result has

been a steady buildup of money stocks held by the public. While bank credit to enterprises is the primary source of monetary expansion, government borrowing from the central bank is an important secondary source. The government budget deficit increased significantly during 1987, and in 1988 is expected to exceed one percent of national income. Price increases in early 1988 were intended in part to reverse the growth of budget subsidies for consumer goods. However, the gains were short-lived. Agricultural procurement price increases were announced in February, July, and November 1988, which in the absence of retail price increases, restored the high level of consumer subsidies on foodstuffs. Direct subsidies to enterprises, as well as implicit subsidies conferred through negotiated tax reliefs, also undermine financial discipline.

2. Exchange Rate Policies

The Zloty is a non-convertible currency. Its official exchange rate is determined administratively and is adjusted periodically according to an estimation of the purchasing power parity of tradeable goods. The exchange rate is currently set based upon a comparison with a basket of Western currencies. The U.S. dollar comprises 50 percent of the basket and the German Mark 18 percent. Since February 1987, the official Zloty rate has been adjusted on a weekly basis. A more active exchange rate policy has resulted in devaluation of over 100 percent (at the official rate) over the past two years and has encouraged Polish enterprises to step up their exports. Nevertheless, the official rate is still significantly overvalued. Recently, some initial steps have been taken in the direction of market-related exchange rates. Foreign currency auctions have been expanded to distribute about [illegible] percent of the total volume of foreign exchange trades, with prices averaging from two to three times the official exchange rate. In addition, since June 1988 the dollar denominated coupons used for purchases from State-run hard currency stores have been sold and bought for local currency through the banking system at a market-related rate. This rate currently stands at about five times the official rate.

3. Structural Policies

Since 1982, Poland has had three types of prices: contractual, regulated, and government-set. Contractual prices play a growing role in the Polish economy, accounting for up to 60 percent of consumer goods sales by value, and a small percentage of producer goods. In theory, these are deregulated prices -- responsive to supply and demand factors -- though in practice, price increases are generally limited by local administrative bodies. Regulated prices, which permit producers to cover actual production costs plus a fixed profit margin, is only a small percentage of sales. This pricing mechanism has come under strong criticism because it

provides no incentive for producers to cut costs. The government continues to set prices for staple consumer goods and certain key raw materials--currently these account for less than 50 percent of total production by value.

The government exerts influence on the structure of imports through its allocation of foreign exchange. Foreign trading firms are permitted to retain 10 to 50 percent of their hard currency earnings (depending on type of industry and degree of processing) in special retention accounts. These firms have discretion over the funds, and through this system are gaining greater autonomy over their purchasing decisions.

The corporate income tax provides the largest share of State revenue (38 percent). Poland has adopted a straightline 65 percent tax for the socialized sector. Nonetheless, the overall tax structure with its emphasis on negotiated tax incentives and reliefs, tends to tax "profitable" firms more heavily and to subsidize the unprofitable. The government offers tax incentives for improving export performance (2 to 10 percent of export value), investing in export capacity, and developing new technologies. Private enterprises are taxed under a different system, with rates rising progressively from 25 to 75 percent. The sales (turnover) tax, which is paid by enterprises, contributes 31 percent of revenues. On the other hand, taxes paid directly by individuals account for only 6 percent of revenues. There has been some discussion of a proposal, put forward by the World Bank, to create a personal income tax, which could relieve the tax burden on enterprises and act as a brake on private expenditure. This proposal remains controversial and is unlikely to be realized before 1990 at the earliest.

Under its broader economic reform program, Poland is decentralizing foreign trade. The number of firms licensed to conduct foreign trade increased from 60 in 1981 to over 1000 at present, with the 300 newest firms having been established since April 1988. Over 100 private Polish firms with foreign trade licenses are among the new trading firms. State trading companies have been transformed into joint stock companies and new regulations have been introduced to allow any firm licensed to deal in foreign trade to engage in any business activity it believes profitable. Decentralization of foreign trade can be considered as "experimental" in Poland.

4. Debt Management Policies

Poland's hard currency debt imposes a formidable handicap on trade. Restricted Western lending and Poland's difficulties in increasing exports create conditions under which the need for Western products far outstrips the country's ability to pay for them. Poland's trade surplus and inflow of remittances are insufficient to meet its debt service obligations. The current account deficit totaled $417 million in 1987, and is expected to be about the same in 1988. During 1987, principal and interest due on Poland's

debt totaled $3 billion, while actual payments were limited to $920 million. Hard currency debt reached $39.2 billion at the end of December 1987, but had declined to about $38 billion by the end of June 1988, due to the rise in the value of the U.S. dollar in relation to Western European currencies. The soft currency debt with socialist countries stood at 6.9 billion transferable rubles at the end of 1987. Poland's debt service obligations measured against its export earnings make it one of the most heavily debt-burdened countries in the world. Immediate prospects for arresting the growth of Poland's hard currency debt are poor. One scenario developed by the Polish authorities, in consultation with the World Bank, envisions balancing the current account (i.e., meeting all interest obligations on debt) in 1991. In July 1988, Poland signed its seventh rescheduling agreement with Western commercial banks, which provides lower interest rates as well as the continuation of a short-term credit facility. In 1986, Poland joined the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (World Bank). Discussions continue with the IMF regarding the outlines of a possible adjustment program. The World Bank has developed specific projects that could be implemented if an IMF program were agreed upon.

5. Significant Barriers to U.S. Trade

Import licenses are required. Enterprises in Poland can apply for a general license allowing the purchase of a range of products over a one-year period, without case-by-case authorization. Transaction-specific import licenses are required, however, for transactions involving countertrade, leasing, and licensing of technology. The stated purpose of the licensing process is to monitor the volume of trade, protect against undue damage to the balance of payments, and to restrict undesirable imports from a medical or environmental standpoint. In theory, licensing does not limit the right of an enterprise to choose its commercial partner. Nevertheless, the licensing procedure enhances the role of bureaucratic decision-making.

Requirements for testing, labelling, certification, and other standards have not presented a significant barrier to U.S. exports. The Ministry of Health's central inspectorate of sanitation (CIS) inspects and tests food imports to ensure they meet applicable health standards. The Ministry of Health also regulates medicine and pharmaceutical imports. U.S. companies have not encountered serious difficulty getting authorization to export drugs to Poland, as long as U.S. or other Western authorities have certified those drugs for sale in their markets. Polish authorities also regulate technology transfers, including the purchase of patents and licensing arrangements. A 1985 Council of Ministers resolution charges the office of advancement and applications of science and technology with reviewing proposed major purchases of technology to confirm the technology is appropriate and is necessary to be purchased abroad.

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Under Poland's 1982 banking law, foreign commercial banks are permitted to establish branches in Poland. However, no foreign banks have yet done so. While services trade is not expressly restricted, the government monopolies in banking, insurance, and the cinema industry inhibit trade in these areas. While U.S. films, for instance, are very well represented in Poland, the choice and range of films is subject both to bureaucratic decision-making and censorship, as well as to hard-currency shortages.

Foreign companies have begun to play a role in providing services to tourists, particularly through involvement in the hotel industry. In a related area, the designated U.S. air carrier serving the Polish market has worked out an arrangement with the Polish authorities to convert a portion of its local ticket revenues into U.S. dollars. This arrangement has allowed it to place plant and equipment in operation in Poland and to accept payment in Polish exports. The profitability of such projects varies widely from industry to industry and may not necessarily be attractive to Western investors.

Government procurement projects are normally submitted for tender. However, the relevant ministries retain their final say in decision-making, opening the door to non-commercial considerations. There are no specific requirements for countertrade or purchase of Polish inputs. Nonetheless, foreign suppliers are often under pressure to sweeten large-scale deals by offering co-production or special supply arrangements to Polish enterprises. A significant limitation on trade is the lack of credits and guarantees, which reduces marketing and trade opportunities for exporters of manufactured products and agricultural commodities.

Effective January 1989, Poland introduced a new schedule of import duties, to reduce tariff rates on average by one-third. At the same time, the new schedule will adopt the internationally recognized harmonized nomenclature. In general, customs requirements do not seem to burden U.S. exporters.

6. Export Subsidy Policies

Poland actively promotes exports, which are vital to its economic recovery. Neither domestic prices nor the exchange rate reflect market prices. Agricultural producers receive a 20 percent exchange rate premium when they convert their hard currency earning into zlotys. Lump sum subsidies are also paid to exporters of certain non-agricultural commodities. At the same time, exporters of a few commodities, such as refined petroleum products, are required to pay into the fund to offset windfall earnings, which result from using subsidized inputs. The government has announced plans to convert the "compensatory" fund into a self-financing export development fund, which could also provide loans for the expansion of export capacities. As noted elsewhere, such investments benefit from corporate income tax incentives.

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7. Protection of U.S. Intellectual Property

Generally speaking, the Polish Government subscribes to a Western standard of protection of intellectual property. Poland is a member of the World Intellectual Property Organization (WIPO). Poland is also a party to the Stockholm revision of the Paris Convention on industrial property, which specifies minimum standards for patent and trademarks, to the Berne Convention on protecting literary and artistic works, which specifies minimum levels of protection for books, motion pictures, and music, and to the Universal Copyright Convention.

According to officials at Poland's Ministry of Foreign Economic Relations, a 1987 law on cinematography explicitly extends protection to video cassettes. These officials assert that computer software is also protected, but apparently there have been no cases testing protection of these or other new technologies. Although Polish law requires satellite dishes to be registered with the authorities, the law apparently does not address the question of pirating proprietary satellite signals.

8. Worker Rights

a. The Right of Association

Poles do not have the right to be represented by the trade union or professional association of their choice. The government agreed following the August strike wave to negotiate with the opposition, specifically with Lech Walesa and other leaders of the banned trade union Solidarity, on the issue of trade union pluralism. No substantive progress has been made on this issue thus far. Currently, only government-controlled unions are permitted.

Leaders of the official unions, the vast majority of which are grouped under the umbrella of the National Alliance of Trade Unions (OPZZ) formally established in November 1984, have vehemently opposed trade union pluralism, i.e., more than one union in an individual enterprise. The OPZZ acknowledges the right of unions not formally affiliated with it to exist as long as they are registered with the courts, a qualification that excludes Solidarity unions from consideration. Alfred Miodowicz, the leader of the OPZZ, is a member of the PZPR Politburo.

The 1982 trade union law severely circumscribes the right to strike, making legal work stoppage next to impossible. Nevertheless, work stoppages ranging from a few hours to full-scale strikes at the docks of Szczecin, the shipyards of Gdansk, the mines of Silesia, and other places occurred in 1988. Lower level activists of the OPZZ themselves initiated several illegal strikes, and the OPZZ has called for a more liberal definition of "legal" strikes.

However, strike leaders still frequently face discrimination in the workplace and even dismissal. Of the workers fired from the coal mines that struck in August, many

have not yet been rehired. The entire strike committee of one of the shipyards in Gdansk was fired during the strikes. Although the government, in preparation for the roundtable discussions with Solidarity, offered general assurances that fired workers would be rehired, many of these cases remain unresolved.

Since the declaration of martial law in 1981 and the legal dissolution of Solidarity, Poland has been the subject of complaints in the International Labor Organization (ILO), alleging infringement of ILO Conventions No 87 on Freedom of Association and No. 98 on the Right to Organize and Collective Bargaining. In 1984 an ILO Commission of Inquiry concluded that the Polish Government should restore trade union freedoms, including relegalize Solidarity. In response, Poland gave notice of its intent to withdraw from the ILO. Three years later, it vacated its decision to withdraw and resumed participation in ILO meetings without, however, recognizing or implementing the major part of the recommendations contained in the 1984 report. In 1988 these issues were again reviewed by several ILO committees. Among the issues and complaints reviewed were the system of obligatory trade union unity imposed by the trade union law of 1982, under which only one trade union organization may exist in any enterprise; restrictions on the right to strike; the dismissal of workers for reasons related to their participation in trade union activities or to acts of social protest; the difficulties allegedly encountered by former trade unionists who had been interned, arrested, or sentenced, and then amnestied, in recovering their employment; and restrictive legislative requirements for the registration of collective agreements. The government did not deny there was a discrepancy between the provision of the 1982 law suspending trade union pluralism and Convention No. 87, but asked for the ILO's patience while it undertook to review its labor legislation to bring it into conformity with Poland's obligations under the ILO conventions. The ILO's supervisory bodies again urged the Polish Government to take the necessary steps to ensure that the provisions of the conventions are fully applied in law and practice.

The OPZZ is affiliated with the Soviet-controlled World Federation of Trade Unions. Solidarity is affiliated with the International Confederation of Free Trade Unions (ICFTU) and the World Confederation of Labor. While the government for some years interfered with Solidarity leader Lech Walesa's ability to maintain direct contacts with free trade unions and in the spring denied him a passport to travel to an ICFTU conference in Australia, in December it allowed Walesa to travel to Paris for a conference on human rights sponsored by the French Government.

b. The Right to Organize and Bargain Collectively

As noted above, Polish workers are still denied the right to be represented by a trade union of their choice. The OPZZ maintains that it represents the interests of the workers to the greatest degree possible. Solidarity activists and sympathizers strongly disagree. Solidarity maintains that workers have no right to bargain collectively as long as they

cannot legally be represented by the union of their choice. There are no economic incentive zones or special industries where labor standards differ from those elsewhere in the country.

c. Prohibition of Forced or Compulsory Labor.

Under legislation dating from the early 1980's, persons who are registered as unemployed and who refuse to seek employment without adequate justification, may be listed as "habitual parasites" and compelled to accept assigned employment, usually in street cleaning, park maintenance, or garbage collection, under threat of penal sanction. Implementation of sanctions under this law is rare, however, and to date the law has not been specifically applied as a means of political coercion, curtailment of the free expression of political or ideological opinions, or racial or social discrimination.

d. Minimum Age for Employment of Children

The Polish labor code generally forbids the employment of a person who has not reached the age of 15. The employment of a young person, defined as someone aged 15 to 18, is permitted, provided that person has completed basic schooling. Special exceptions are sometimes required if a particular job might pose a health danger. The labor code specifies that a young person without professional qualifications may be employed only for the purpose of vocational preparation, although again there is provision for special exceptions. These laws are effectively enforced.

e. Acceptable Conditions of Work

The length and distribution of hours of work are regulated by the Polish labor code and meet generally accepted international standards. Paid annual holidays are provided. In practice, most families find that both the husband and wife must be employed in order to sustain an acceptable standard of living. Polish wage levels are calculated according to a very complex formula based on a theoretical base wage, extensive bonuses and overtime, and production quotas. In 1988 the base wage, used primarily for statistical purposes, was about $35-50 per month, depending on the exchange rate.

The Polish legal code spells out minimum conditions for the protection of workers' health and safety. Although in most respects these standards meet the international norm, several Western and other independent observers reported substandard safety conditions and work environments, most notably in the Silesian mines where the August strike wave began. Among the strikers' demands were improved safety conditions and a cessation of the requirement that miners work a 6-day or 7-day workweek in order to earn a full salary. There are also frequent allegations that some factories fail to maintain government-regulated work, health, and safety standards, and the official media occasionally publicize such cases.

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f. Rights in Sectors with U.S. Investment

U.S. companies have entered into two joint ventures in Poland -- one in the services (hotel) sector and one in the animated film industry. U.S. citizens also own a number of small-scale businesses, under Poland's 1982 "Polonia" law. The magnitude of this investment is negligible in terms of the sectors represented. No U.S. Department of Commerce data has been compiled on these investments.

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Key Economic Indicators

Billions of Escudos Unless Otherwise Stated

	1986	1987	1988(1)
Income, Production, Employment(2)			
Real GDP (1977 prices)	787.2	824.2	861.3
Real GDP Growth (pct)	4.3	4.7	4.5
Real per capita Income (1977 escudos)	80,821	84,360	88,008
Labor Force (millions)	4.50	4.53	4.57
Unemployment Rate (pct)	8.0	6.6	6.1
Money and Prices			
Money supply (M1)	1,305.7	1,466.7	1,642.7
Interest Rates			
Central Bank (discount)	16.0	14.5	13.5
Loans (maximum)(3)	21.5	18.5	17.5
Deposits (180 days-1 yr)	15.5	14.0	13.0
CPI (annual average)	172.3	188.5	205.5
Savings Rate (pct GDP)	27.2	28.5	28.0
Investment Rate (pct GDP)	22.3	25.3	25.0
Exchange Rate (yr avg)	149.587	140.882	145
Balance of Payments and Trade			
Total Exports fob	1,082.3	1,289.9	1,400
Total to U.S.	75.6	83.3	92
Total Imports cif	1,442.5	1,891.3	2,100
Total from U.S.	100.6	92.9	110
Gold and ForEx Reserves	963.9	1096.7	1,500
External Public Debt	2,253	2,216	2,140
Debt Service (annual)	569.0	735.5	754.0
Balance of Payments			
Current Account	171.6	91.5	29.0
Tourism (Net)	179.5	243.4	270
Unilateral Transfers	434.9	525.1	540
Basic Balance	125.7	95.4	145
U.S. Economic Aid(4)	411.6	89.7	32.0
Economic Aid from Other Countries (EC only)	482.4	836.7	1,364.8

(1) Data for 1988 represent projections by Portuguese Government, or where unavailable, by the Embassy.
(2) Data refer to Continental Portugal only.
(3) the Portuguese Government lifted the loan rate ceiling in September 1988; therefore the 1988 figure is only an estimate of the maximum rate charged by banks.
(4) Economic aid from U.S. on a fiscal year basis; all aid in millions of U.S. dollars.

Sources: National Institute of Statistics and Bank of Portugal.

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1. General Policy Framework

Portugal is the poorest country in the European Communities (EC) with a nominal gross domestic product (GDP) of $40.7 billion, a population of almost 10 million people, and a per capita income of about $4,200 (nominal). Portugal's relatively low prices, rich cultural heritage, geography and political stability have stimulated a significant increase in tourism in recent years. Relatively low wage rates make labor intensive industry competitive. Textile and apparel production is the major industry, accounting for almost one-third of total exports. The footwear and the pulp/paper industries are also dynamic. However, Portugal imports more than it exports and the gap has been made up largely by remittances from Portuguese workers abroad. Agriculture is generally inefficient but wine and cork production are competitive. Most of Portugal's trade is with the European Communities (EC). Exports to and imports from the United States each run about $600 million or about six percent of Portuguese trade. Economic performance has been strong since 1985, spurred by accession to the EC in 1986 and the installation of a majority center-right government following the July 1987 parliamentary elections. However, Portugal has macroeconomic problems: a fiscal deficit; a large internal and external debt; and a chronic trade deficit in the balance of payments.

The Government of Portugal's economic policy objectives for 1989 are to: promote private sector and export oriented investment-led growth; reduce inflation rate to six percent; lower the budget deficit (expected to be about eight percent of GDP in 1988); restrain consumption, and continue economic structural reforms such as privatization of much of the public sector; and implement a streamlined direct income taxation system.

The Portuguese Government recognizes that restraining domestic consumption and lowering inflation will cause the growth rate to drop somewhat. A $500 million current account deficit is projected for 1989 because of buoyant import demand, particularly for capital goods needed for investment. Failure to restrain private and public demand coupled with adverse international developments (slow-down in European growth, rise in interest rates, and a fall-off in dollar depreciation) could aggravate the current account deficit and inflation in 1989.

Fiscal policy has been applied to stimulate rather than to restrain the economy, given the weak tax system and low revenue collections. The government also has felt obliged to sustain a large bureaucracy, provide transfer and subsidy payments to certain sectors of society and state corporations, provide for critical education and health needs, and more recently, service a rapidly expanding public debt. The simplification of the indirect tax system in 1986 and the anticipated implementation of a streamlined direct tax system in 1989 have and will generate more revenue, but tax evasion

will probably remain a major problem. The government has reduced the budget deficit as a percentage of GDP over the past few years (from 12 percent in 1985 to a projected 7.8 percent in 1989) by controlling expenditures. In addition the value added tax (VAT) and petroleum product tax receipts have exceeded expectations. However, the deficit has not decreased in absolute terms. The above mentioned conditions and the need to fund investment expenditures to modernize the economy (often as a counterpart to EC funding) will continue to put pressure on expenditures. Thus far, the deficit has been financed largely by domestic banking sector credit but the government seeks to expand the share financed by the public and institutional investors through acquisition of government bonds.

As part of its efforts to increase both domestic and foreign investment, the government, with EC financial assistance, offers a package of incentives that are based on regional development and employment criteria. A separate incentive system exists to promote tourism investments. Except for tax credits extended for investments financed either by fresh funds or retained profits, there are no specific tax policies designed to promote economic growth or exports. Since Portugal is a small, open economy and domestic production is insufficient to meet demand, expansionary policies have generally led to import surges.

The Portuguese Government's principal monetary policy tool has been to limit bank credit to non-government sectors. Since the government's share of total credit has steadily expanded, reaching 70 percent, credit ceilings have been progressively tightened to prevent uncontrolled credit growth. In the next several years, as Portugal opens its financial sector and eliminates controls on capital movements in the context of adhering to the single EC market, credit ceilings will lose their efficiency. Therefore, the government intends to abolish them and to conduct monetary policy through open market operations. However, due to the need to regulate economic growth and reduce inflation, monetary policy is likely to remain restrictive.

2. Exchange Rate Policies

Portugal's small, open economy is very vulnerable to imported inflation. The government, therefore, has used exchange rate policy as an anti-inflationary tool. The escudo is valued against a basket of currencies of Portugal's main trading partners weighted according to their share of Portuguese trade. The programmed devaluation rate has dropped from one percent per month in 1985 to .25 percent per month projected for 1989 (a three percent annual devaluation rate). Devaluation policy has not adversely affected export competitiveness since the escudo's real effective exchange rate has remained constant. The dollar's value against the escudo is currently 13.5 percent lower than at the beginning of 1985. Thus, U.S. export competitiveness has not been affected by the Portuguese Government's exchange rate policies.

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Portugal still maintains foreign exchange controls, principally affecting outward capital movements. These controls are slated to be lifted by 1993, although authorities have stated that short-term capital movements may still be subject to controls until 1995. Portugal intends to adhere to the European Monetary System but only after inflation is reduced to the EC norm and the transition to an indirect form of monetary control is completed.

3. Structural Policies

The major structural policies that will have a growing adverse impact on U.S. exports are agriculture-related and have been adopted as a consequence of Portugal's accession to the EC. These are also addressed elsewhere in this report.

Purchasing decisions are made both by government agents and by the free market. There are price controls on basic consumer items and petroleum products. Subsidies in the form of high support prices are given to farmers for the major agricultural products. To sustain these high support prices, which also tend to depress domestic demand, high import charges are imposed, as in the case of corn. The high price of corn to end users is largely responsible for a sharp drop in imports in the past few years.

Portugal levies various indirect taxes, most importantly the value added tax (VAT) and excise-type taxes on automobiles, petroleum products, alcoholic beverages and tobacco. A variety of direct income taxes are being phased out and replaced by a single tax on individual and corporate income to be effective January 1, 1989. This change is intended to simplify the system and lower marginal rates. There are no export taxes. Import duties are being realigned in stages to correspond to the EC Common External Tariff and this process will be completed by the end of 1992.

One Portuguese regulatory policy could affect the market for U.S. exports in the pharmaceutical field. A decree adopted in the spring of 1988 and incorporated into Ministry of Health regulations, allows the government to limit purchases of medicines for use in state-run hospitals or funded under its health insurance programs (a large majority of sales) to one standard or generic brand per medicine. Industry representatives, including American companies, have opposed implementation of this measure. To date no definitive practice has been adopted by the Ministry. Nonetheless, this measure has a potential negative impact on sales by local subsidiaries of U.S. firms, which control about 30 percent of the market. Moreover, U.S. pharmaceutical exports would also be affected. Apart from incentives, there are no government regulations that directly affect the location of investment.

4. Debt Management Policies

Although significant in absolute terms, Portugal's external debt has been steadily dropping as a percentage of

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GDP and is expected to reach 42 percent in 1988. Since 1986 Portugal has used significant current account surpluses to repay (and in many cases prepay) outstanding foreign debt, particularly debt contracted during the early 1980s at high interest rates. Net debt repayments have exceeded new debt obligations during the past three years. Despite this situation, in absolute terms the debt has fluctuated between $16 and $18 billion during this period, due to exchange rate movements. The level of debt has not affected Portugal's ability to import. Debt servicing has run between 25 and 35 percent of total export receipts during the past several years.

Portugal had an International Monetary Fund (IMF) Standby Agreement from 1983 to 1985 but has not had any subsequent World Bank or IMF adjustment programs. It has not participated in any Paris Club rescheduling.

5. Significant Barriers to U.S. Exports

Under the terms of its EC accession agreement, Portugal introduced quantitative restrictions on the following items: certain rubber articles; paper and paperboard, special fabrics and nets; footwear parts; iron and steel tubes and pipes; weaving machines and parts; and certain electrical goods such as fuses, plugs, lampholders and switches. These quotas will be progressively increased until December 31, 1992 when they must be abolished. Through 1990 quantitative restrictions also apply to domestic consumption of soybean oil for food and, hence, on the amounts of soybeans that can be imported for domestic use.

In the spring of 1988 Portugal exercised its rights under the safeguard clause of the EC Accession Agreement to restrict the import of washing machines to protect local industry. Imports from EC sources are limited to 175,000 units from June 15, 1988 through June 14, 1989. As far as we know, this quantitative restriction does not apply to third countries because they have not been a source of competitive imports in recent years. This limitation as well as others were imposed in accordance with article 379 of Portugal's Accession Agreement.

A quantitative restriction for refrigerators limiting imports to 76,000 units from the EC countries and to 15,000 from third countries expired on December 31, 1988. While fewer than 500 U.S. refrigerators were exported to Portugal in 1987, the number was expected to increase in 1988. Preliminary estimates of the quota's affect on U.S. exports for the year range from $200,000 to $350,000 in potential sales for 1988.

In 1991 Portugal will adopt the full importing system of the EC for agriculatural products. As of that date, the full gamut of EC agricultural trade impediments will also apply to U.S. farm exports to Portugal, and will be particularly deleterious to exports of grain. However, U.S. exports of rice have already been drastically reduced by tariff preferences given to the other EC countries, and exports of

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U.S. sunflower seed have been totally displaced owing to subsidies paid to processors of the EC-grown crop. The support prices of grains and oilseeds tend to stimulate domestic production artificially and hence hinder the growth of imports. Tariff preferences to the rest of the EC tend to discourage imports of processed and other high-value agricultural products from the United States.

The insurance sector is open to foreign companies on a case-by-case basis. However, the application process is slow and long. There are three U.S. companies now operating in the Portuguese market. Marine insurance for exports and imports contracted for in cif terms must be purchased from an insurance firm in Portugal. Marine insurance for exports and imports contracted for in FOB (free-on-board) terms can be purchased from any insurance firm. This restriction is based on Portuguese law. (We estimate the insurance payments on roughly $500 million worth of merchandise are affected by this restriction). This projection is based on information which indicates that the majority of Portuguese imports from the U.S. are contracted on a cif (cost, insurance, freight) basis while a majority of Portuguese exports to the United States are on an fob basis.

There are currently nine foreign banks with branches in Portugal, six of which were authorized when the banking sector was opened to private Portuguese and foreign participation in 1984 and 1985. Three of the six newly established foreign banks are American. Portugese banking regulations, although not discriminatory against foreign banks, have placed them at a competitive disadvantage versus local banks. Although still dissatisfied with some Portuguese regulations and practices, the foreign banks have adjusted to them and have generally done well. The Portuguese handle approvals of new banks on a case-by-case basis. Nonetheless, by raising the minimum required equity level in 1987 by 66 percent to $17 million, the Portuguese have largely closed the market to new banks, whether Portuguese or foreign. However, in line with EC efforts to liberalize financial markets, Portugal will be obliged to allow banks located in other EC countries to establish operations in Portugal in 1992.

Since the Portuguese state-owned airline TAP is a public enterprise, the Portuguese Government gives TAP some guaranteed loans for the purchase of aircraft and for other obligations such as contracts. Applicable law on public enterprises establishes that the Portuguese Government is obliged to support public enterprises, so the Portuguese do cover some TAP operating losses. TAP is exempted from almost all taxes, including stamp taxes on revenue receipts, except for VAT.

In order to perform engineering services in Portugal, a U.S. engineer must: (a) obtain a work permit; (b) get the Instituto Superior Tecnico to declare that the engineer's academic degree is equivalent to or similar to a Portuguese degree; and c) become a member of the Portuguese Order of Engineers. While in theory American engineers can so qualify, the process is often very time consuming. Therefore, U.S.

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engineering firms routinely hire locally accredited engineers either directly or through a local firm. They then work under the U.S. firm's supervision and sign off on all engineering drawings. Thus, while it is not correct to say that U.S. engineers must work through a local firm, in practice they do.

U.S. doctors and lawyers must undergo a similar process; obtain work permits, get equivalency and be registered in the Portuguese professional society. In addition there are language requirements. Few U.S. doctors or lawyers attempt to work in Portugal.

Portugal has passed a new law (No. 343/88) that may have adverse effects on the consumptiion of soybean oil. The law requires labeling of oils containing more than two percent linolenic acid as suitable only for salad dressings. Oils with less than two percent linolenic acid are to be labeled as suitable for either salad dressing or frying. The intent of the law appears to be to reduce the consumption of soybean oil as it contains seven percent linolenic acid. Sunflower seed, peanut and olive oil contain less than two percent linolenic acid. There appears to be no health or other objective basis for the law.

There is no reliable estimate of how much this measure might effect sales of soybean oil, but the market situation is being watched. Undoubtedly, over time the measure will tend to decrease consumption below the previous long term trend line.

Government procurement practices are being liberalized gradually but in some areas still constitute a bar to U.S. trade. State entities fail at times to publicize tenders, solicit bids only from selected companies, award contracts to domestic suppliers whenever possible, and require contractors to maximize the portion of local value added. Portugal has adhered to the General Agreement on Tariffs and Trade (GATT) Government Procurement Code, but to date Portugal has failed to issue the required regulations setting down how it will administer the code. When regulations are issued, it appears that the telephone and electricity companies may be excluded at least for a time.

Currently almost all heavy electrical generating equipment needs are met by two domestic companies which manufacture this equipment under license from four foreign firms: one Swiss, one U.S. and two French. Heavy transformers are supplied by a local manufacturer. Both of these arrangements have been authorized under government/industry agreements that expire in early 1989 and which are expected to be renegotiated.

The Portuguese economy is open to foreign investment except in the national security and health sectors. The government recently reached agreement with the leading opposition party to revise the constitution to permit one hundred percent privatization of state companies. The government also opened sectors of the economy previously reserved exclusively to the state to private investment.

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Portuguese law generally places all firms, domestic and foreign, on an equal footing with respect to tax treatment and incentives. Investment incentives in decree laws 15-a/88, 15-b/88 and 420/87 are aimed at promoting regional development, tourism, R&D, exports and employment creation. Companies may also reduce up to 90 percent of their corporate tax liability by deducting up to four percent of the value of new investments. All reinvested profits may also be deducted from taxable income during the three years after the investment. Non-EC country investments must register with the investment promotion office of ICEP (Instituto de Comercio e Exportacaoes Portugueses). However, the registration is in most cases a formality and authorization is automatically given within 60 days. Immigration law limits, after the start-up period, a company's foreign national workforce to ten percent, although some exceptions are permitted. The law does not discriminate against U.S. citizens.

6. Export Subsidies Policies

Subsidies are paid for some agricultural products but the impact on overall trade is limited pending full integration of Portuguese agriculture into the EC's Common Agriculture Policy.

7. Protection of Intellectual Property

Portugal is a member of the World Intellectual Property Organization (WIPO) and party to the Berne, Paris and Universal Copyright Conventions.

Portugal grants intellectual property protection to domestic and foreign firms and favors stronger international enforcement currently being negotiated in the GATT Uruguay round.

Patents are granted for 15 years and are not renewable. Enforcement is sometimes weak, but the government is concerned about violations.

Copyrights are granted for ten years and are renewable, however, copyright infringements exist. Illegal use of copyrighted designs on clothing has prompted one U.S. firm to threaten to stop manufacturing in Portugal. Tens of thousands of unauthorized versions of teeshirts and sweatshirts printed with a copyrighted design are being produced by Portuguese clothing factories. Many are sold domestically, but more often are exported to more lucrative Central and Northern European markets.

It is estimated that $2 million in counterfeit goods of one U.S. company trademark is produced each year in Portugal. There has been some government effort to enforce existing laws against such activities. For example, during the spring of 1988 the police disbursed vendors and arrested some who were selling clothes in a local market which had infringing trademarks. However, legal penalties remain weak.

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Despite the passage of a new copyright law in 1985 which provided stiffer penalties for violators, piracy of audio and video tapes has not declined. The penalties in the newly revised law appear to be, perhaps combined with enforcement problems, inadequate to deter piracy. The level of video piracy is estimated at 80 percent, although cooperation from the fiscal authorities has been excellent. The level of piracy may drop as legitimate products become increasingly available and if enforcement measures are improved.

Unauthorized hotel use of home video cassettes or satellite dishes to intercept pay television services is common. A major new problem is the recent emergence of over 25 small pirate television stations. The government so far has taken only limited steps against these broadcasters. Most are municipalities with a satellite dish which then distributes mainly European programs to a limited local audience. This practice is politically popular at the local level. Nonetheless, the government has warned these pirate operations that they will be closed. The constitution is being revised to permit private television. The implementing regulations may be promulgated in mid-1989 and may include stricter controls for pirated TV signals.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to establish committees in the workplace "to defend their interests." The Constitution ensures the right to establish unions by profession or industry. Trade union associations are guaranteed the right to participate in the preparation of labor legislation. Strikes are permitted for any reason, including political causes. Lockouts are prohibited. These constitutional provisions are respected in practice.

Neither the government nor unions publish membership statistics. It is estimated that approximately one-third of Portugal's work force is unionized. There are two labor federations. The General Confederation of Portuguese Workers Intersindical (CGTP-IN), which is controlled by the Communist Party, is Portugal's most militant federation. The General Union of Workers (UGT) is a pluralist democratic federation affiliated with the International Confederation of Free Trade Unions and the European Trade Union Congress. Membership in the two federations is roughly equal.

Both federations and their affiliates function free from government control, but they are closely associated with political parties. The CGTP-IN generally supports the Communist Party's policies and causes. UGT leaders are associated with either the Socialist or Social Democratic Parties. Although some UGT leaders serve in Parliament, the federation pursues a generally independent path that occasionally puts it in conflict with the Socialist and/or Social Democratic parties. The labor movement in Portugal

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exercises significant influence on social and economic policymaking.

In Macau current laws recognize the freedom of workers to join unions and to strike. The government does not impede the formation of unions or practice discrimination against union members in the Peoples' Republic of China (PRC). Nor does the Chinese Communist Party exercise any direct control over Macau labor unions. Chinese mainland influence is considerable in a number of sectors, however; on the labor front, this influence has resulted in a quiescent labor movement in keeping with PRC aims to maintain domestic stability in Macau in the period up to 1999. Such influence indeed complements the local traditional view of unions as centers for social and cultural activities.

b. The Right to Organize and Bargain Collectively

Unions are free to organize without government or employer interference.

Collective bargaining is guaranteed by the Constitution and practiced extensively in the public and private sectors. When collective bargaining fails, the Ggvernment can, at the request of management and labor, make a mediator available. When collective bargaining disputes lead to prolonged strike action in key sectors (for example health and transportation), the government is empowered to order the workers back to work for a specific period. It has rarely done so in practice. Union officials and members are protected by law against antiunion discrimination. There are no export processing zones in Portugal, and labor law and practice are generally uniform throughout the country.

In Macau unions tend to resemble traditional neighborhood associations, promoting social and cultural activities rather than issues related to the workplace. Local custom, moreover, favors employment without the benefit of written labor contracts, the exception being the import of contract labor from China. Unions traditionally have not attempted to engage in collective bargaining. Accordingly, while the Macau Government does not impede or discourage collective bargaining, there are no government mechanisms to promote voluntary negotiations. There are no export processing zones in Macau.

c. Prohibition of Forced or Compulsory Labor

Forced labor does not exist.

d. Minimum Age for Employment of Children

The minimum employment age is 14 years. The government has cited plans to boost the minimum age to 16 years once new educational reforms take effect. Child labor is not a general problem in Portugal, but there are cases of companies operating outside the law. The UGT and CGTP-IN have charged that a number of companies in the textile, shoe, and construction industries in northern Portugal exploit child

labor. The government has acknowledged that abuses exist and has vowed to eliminate them.

e. Acceptable Conditions of Work

A national monthly minimum wage for full-time workers was first established in Portugal in 1974. Minimum wages for rural workers and domestic employees were legislatively established in 1977 and 1978 respectively. Except in 1982 minimum wages have increased every year. The current minimum monthly wage for general workers is $181; for agricultural workers and domestics, it is $165 and $130 respectively. The minimum wage is generally enforced.

Workers receive a Christmas bonus equal to one month's salary. Workers are required by law to be granted an individual written contract which must include their professional category and salary, the work site, the starting date, and the duration of the contract (in the case of temporary workers). Employers are required to contribute to an employee's social security fund. Legislation limits regular hours of work to 8 hours daily and 48 hours per week. Overtime is limited to 2 hours per work period, up to 160 hours annually. Overtime work on a normal day off is restricted to 8 hours. Workers are guaranteed 21 days of paid annual leave per year. The Ministry of Employment and Social Security monitors compliance with the above regulations through its regional inspectors.

Employers are required by law to hold accident insurance or to assume responsibility for accidents at the work site. Portugal has developed a compendium of legislation that regulates safety and health. Labor unions deem these regulations inadequate and continue to urge the government to implement and enforce stiffer legislation.

In Macau existing labor legislation provides for a 48-hour workweek (normally 8 hours per day and no more than 10.5 hours per day), overtime, annual leave, medical and maternity care, and employee compensation insurance. The labor department is responsible for processing complaints. However, government enforcement of the labor laws appears to be lax at times, partly owing to limited fiscal resources and personnel skills, but also to a lack of policy emphasis. In the absence of any statutory minimum wage or publicly administered social security program, some large companies have provided private welfare and security packages. Calls for reform of the existing labor law, for medical insurance, a social security system, and increases in employee compensation figured in campaign platforms of various candidates in the October elections for directly elected seats in the Legislative Assembly. To offset the current labor shortage, the Macau Government allows the importation of labor from China under contract. There are heavy fines on employers

harboring illegal immigrants. The number of imported workers in Macau is between 1,500 and 3,000 out of an estimated work force of 195,000.

f. Rights in Sectors with U.S. Investment

U.S. capital investment is significant in the following goods producing sectors:

- chemicals and related products
- electric and electronic equipment
- transportation equipment
- other manufacturing (personal care products).

An increasing number of youth are entering employment in these sectors through the government's three-year apprenticeship program. However, the minumum age laws are obeyed in practice in all these sectors.

Workers in all these sectors enjoy the same rights as those in other sectors of the economy.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		193
Food & Kindred Products	(D)	
Chemicals & Allied Products	-8	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	39	
Wholesale Trade		83
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

ROMANIA

Key Economic Indicators

Billions of Lei Unless Otherwise Stated

	1986	1987	1988 (proj)
Income, Production Employment			
Nat'l Income	771.8	799.2	N/A
Population (000s)	22,824	23,004	23,120(est)
Population Growth (pct)	0.7	0.5	.5
Nat'l Income per capita (Lei)	33,818	34,748	36,485
Investment	249.3	246.6	255
Indices (1979=100)			
Net Industrial Prod.	404	421.1	435
Net Agricultural Prod.	113	118.6	N/A
Labor Force (000s)	10,669.5	10,719	10,783.3
of which: Agriculture	3,020	2,929	2,850
Balance of Payments and Trade (Millions of US$)			
Total Exports fob	11,660	11,100	10,500
Total to U.S. cif (1)	838.8	781.6	780
Total Imports fob	9,660	8,300	8,000
Total from U.S. fas (1)	251.0	192.6	184
Trade Balance	2,000	2,800	2,500
Current Account Balance	1,325	1,700	1,500
Foreign Debt in Convertible Currencies (yr-end)	6,395	5,000	2,800
Debt Service (paid)	1,800	2,300	2,500
Debt-Service Ratio (pct)(2)	31	41	50
Foreign Exchange Reserves	N/A	N/A	N/A
Trade Balance (Mil$)	-587.8	-589.0	-425
Exchange Rate (Lei/US$)(yr avg)			
Primary (Commercial) Rate	16.15	14.56	14.25
Secondary (Tourist) Rate	11.34	9.38	8.70
Parallel Market Rate	60-70	70-80	75-85

Notes: National income is also called net material product (net national product minus services). All data are official Romanian Government statistics, unless noted.

(1) Data from the U.S. Department of Commerce.
(2) Debt-service ratio calculated as a percent of convertible currency exports.

1. General Policy Framework

Romania has a highly centralized and tightly controlled non-market economy. All industrial enterprises, and nearly all agricultural and service entities are either State owned or established as cooperatives under the effective control of the State. The few remaining small scale private agricultural producers must often make deliveries to State purchasing

agencies. The government plans imports and production for domestic consumption, generally without regard to market forces, although sometimes domestic products are diverted to exports if hard currency prices are attractive enough. Romanian policy opposes the use of the market as a basis for decision making, and has recently favored the extension of public ownership and control in even the few sectors remaining in private hands, such as small private farms in mountainous areas. Other barriers to the operation of market forces are not generally necessary, but they exist; for example, the government even attempts to set prices at farmers' markets.

Fiscal and monetary policies support the central planning system in the domestic economy, and are not independent policy instruments. Romanian enterprises and local governments are expected to avoid placing fiscal burdens on the central government, but local governments have little discretion in taxing or spending policies. Policies regarding issuance of currency and domestic credit show little flexibility. Generally speaking, only State foreign trade orgnaizations can engage in foreign financial transactions or borrowing; as described below, current foreign trade and credit policies are designed to retire foreign debt as rapidly as possible.

2. Exchange Rate Policies

The Romanian Lei is inconvertible and cannot be used for foreign trade. Romania's foreign trade is conducted by Foreign Trade Organizations (FTOs) that operate in foreign currencies and are thus largely insulated from the domestic economy.

Romania's commercial exchange rate serves primarily an accounting function: to credit domestic enterprises with Lei for their export products sold for foreign currencies, or to charge them for imports. The enterprises do not have direct access to foreign exchange. Prices in foreign trade are negotiated in hard currency terms and do not appear to be affected by Romanian costs of production.. Imports are not permitted to compete with domestic production.

The non-commercial (tourist) rate appears designed mainly to maximize hard currency revenues from foreign entities which do not have access to more favorable commercial or black market rates.

Romania uses a trade weighted matrix to adjust both the commercial and non-commercial exchange rates in response to shifts among convertible currencies, to avoid cross-rate problems, but market information is not used in setting the overall exchange rate levels. Under this system, U.S. exports compete only with those of other hard currency countries, not with Romanian products. There appears to be no effort to use the exchange rate system to discriminate among hard currency suppliers.

ROMANIA

3. Structural Policies

The structure and development of the Romanian economy are determined through the central planning process. Decisions on the sectors to be developed and particular enterprises to receive investment are made only by the central planners, who establish not only economic development priorities, but also control buying decisions. Equipment purchases, for example, follow decisions of the central planners on whether to manufacture in Romania, import for hard currency, or attempt to obtain from another soft currency source. Once a decision is made to purchase a particular item for hard currency there is an opportunity for suppliers from many countries, including the United States, to compete for an order. Policy makers, who inject political considerations into the process, must approve each major purchase contract. There is no hint that any change in the role of the planners is in prospect.

Neither domestic price, tax nor regulatory policies significantly affect the Romanian market for U.S. exports. Planners' decisions may or may not take account of any of these factors, but ultimately buying decisions are made on the basis of the plan.

4. Debt Management Policies

In 1982 President Ceausescu announced that Romania intended to repay its accumulated convertible currency debt of $ 10.5 billion in as short a time as possible. Romania has since followed that policy rigorously. The country's outstanding convertible currency debt has declined steadily since 1982 and may be fully repaid during 1990. Romania's unique reaction to the global debt crisis has taken the country off the list of potentially bankrupt debtors, but the cost to the national economy has been staggering. Imports have been sharply curtailed, the country's industrial capital and infrastructure have deteriorated and the resulting austerity and human suffering have far exceeded what most countries and bankers would have considered necessary for economic adjustment.

Romania has generated a hard currency trade surplus used for debt repayment by maximizing hard currency exports and foregoing hard currency imports. The trade surplus in some years has exceeded 50 percent of hard currency exports.

Restriction of hard currency imports has been more important than increases in hard currency exports in Romania's policy implementation. Many products formerly imported for hard currency have been eliminated, some have been produced locally and others have been imported from soft currency trading partners.

The Romanian Government views itself now as a "net creditor" because its outstanding hard-currency debts are less than the $2.5-3.0 billion owed to it by various third-world countries. The Government of Romania has made it clear that it plans to continue with its debt repayment policy until its

debt is totally repaid, regardless of its "net creditor" status. In the near term, continuation of Romania's debt repayment policies implies that U.S. exports to Romania will remain stagnant. After 1990, prospects for U.S. exporters may brighten somewhat, though a significant expansion in Romania's imports from the West is not expected.

5. Significant Barriers to U.S. Exports

A government decision to purchase is the critical element in U.S. exports to Romania. Once that decision has been made neither import licensing requirements nor standards constitute a trade barrier. Import licenses are simply a control mechanism to ensure that governmental decisions are properly implemented. Standards are worked out in the process of contract negotiation between the seller and the purchaser, which is a government agency.

Foreign investment in domestic service industries in Romania is not allowed, as State service enterprises have absolute monopolies in the domestic market. Two foreign owned banks and several foreign airlines have representative offices in Bucharest, but they operate on a limited basis to facilitate Romanian foreign economic relations.

Foreign investment in industry is allowed in Romania only on a joint venture basis. The Romanian joint venture partnermust be a State-owned enterprise with at least 51 percent ownership share in the joint venture. Limitations on foreign personnel and repatriation of profits exist and are specified in the contract under which the joint venture is established. Such contracts naturally are written to conform to the Romanian law, and bilateral agreements in this area. The U.S. bilateral agreement, inter alia, significantly protects investors from expropritation and provides for repatriation of profits.

Government procurement policies require the use of countertrade in all cases in which the government has sufficient bargaining power to force countertrade on the seller. Countertrade requirements are a barrier to entry in the Romanian market for some small or highly specialized vendors. Those firms in a position to absorb or resell goods purchased in countertrade or taken in barter have found it possible to profit in their trade with Romania. Nonetheless, countertrade and countertrade demands remain an irritant to some and an obstacle to other U.S. exporters, who usually find it necessary to raise their margins to cover transaction costs involved in countertrade.

6. Export Subsidies Policies

The Romanian Government does not have a system of export subsidies. Since there is no real market connection between Romanian local currency costs and hard currency prices, no explicit export subsidy system is needed. Government decisions to export particular products are based upon

perceptions of relative attractiveness in hard currency terms and on domestic availability.

7. Protection of U.S. Intellectual Property

Romania is party to the Berne Convention and the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty.

U.S. intellectual property holders have not raised questions regarding infringement in Romania of their rights, but there is an issue outstanding in regard to patent protection in Romania. Only State-owned entities may hold Romanian chemical product patents. This provision arguably complies with the requirement for national treatment in the Paris Convention, but it effectively makes it impossible for virtually all foreigners to have access to the Romanian patent system in this important area. However, there have been no recent cases of foreigners complaining of unfair competition because of this loophole.

8. Worker Rights

a. The Right of Association

According to the labor code, the primary function of the trade unions is to "mobilize the masses for the fulfillment of the Communist Party's program." Trade unions independent of the party are prohibited, and workers do not have the right to form their own associations, elect representatives, or affiliate with international organizations except through the official unions. The official trade unions, grouped in the General Confederation of Romanian Trade Unions (UGSR), receive all necessary government support for their activities. Membership in the official trade unions is compulsory to the extent that all workers are required to pay monthly dues. More extensive participation does not appear to be enforced, and there does not appear to be discrimination against those who do not participate beyond paying monthly dues. Attempts to form independent groups or unions are quickly and powerfully suppressed. The UGSR is affiliated with the Soviet-controlled World Federation of Trade Unions.

Romania's labor code is silent on the right to strike, except to elaborate procedures by which the union leadership is required to mediate disputes between the workers and management, with recourse to the courts when the dispute cannot be settled. In practice, sanctions available to the party and the union make it unlikely that such disputes will reach the courts. Workers who have been dismissed from their jobs may sometimes take their case to civil court. In the past, the government's reaction to actual strikes, or to advocacy of the worker's right to strike, has been harsh repression. Brutal suppression of the miners' strikes in the late 1970's led to an investigation by the International Labor Organization (ILO). Inadequate responses, failure to respond further to charges, and refusal to accept a direct-contact

mission led the ILO to find Romania substantially in violation of generally accepted labor standards.

b. The Right to Organize and Bargain Collectively

Workers do not have the right to organize or bargain collectively. While they nominally have a direct voice in the management of the workplace through the unions that all must join, in most factories the union's chief executive is also the senior party official, and a primary function of the unions is to channel party doctrine and directives to the workers. Unions also dispense social benefits, such as vacations at union-owned hotels (for which the member pays only a fraction of the real cost), low-interest loans, and access to cultural, educational, and other leisure activities.

c. Prohibition of Forced or Compulsory Labor

The labor code stipulates that each citizen over the age of 16 has the right and the duty to work. Unemployment is a crime ("social parasitism"). With certain exceptions, such as housewives, full-time students, and private farmers, any unemployed able-bodied citizen must report to a government employment bureau for job placement. A 1976 law states that persons who refuse to take up gainful employment may be fined or assigned to positions in the construction, agricultural, or other sectors of the economy where they are required to complete 1 year of service. Since 1985 the committee of experts of the ILO has observed that these provisions of Romanian law appear to constitute forced labor in that they are an obligation to work under the menace of penalties. In the 1988 ILO Conference Committee on the Application of Conventions and Recommendations, the Romanian Government took the position that these laws served to encourage able-bodied citizens to contribute productively to society and that the sanctions provided for by law had never been applied. However, persons are frequently convicted for "social parasitism" under a 1968 law which provides imprisonment as a sanction for persons not gainfully employed. Some observers allege that the government assigns persons to particularly dangerous or unpleasant jobs in a punitive or discriminatory manner.

d. Minimum Age for Employment of Children

There is no specific minimum employment age, although Romanian law requires schooling to age 16. According to the employment code, children over 16 not enrolled in full-time schooling are expected to work. Youths 14 years of age may be employed in temporary jobs, and youths of 15 may be employed in industrial work, so long as the employer provides continuing educational opportunities and shows that the work being performed is "appropriate for the age and condition" of the employee. In such cases, the law limits work to 6 hours per day. Children from age 11 may work in the fields or in other "patriotic work," usually as part of a school or other group activity.

ROMANIA

e. Acceptable Conditions of Work

The Constitution provides for an 8-hour workday (or a 6-hour day for arduous occupations), a 24-hour rest period each week, paid vacations, and the "right to leisure." Labor law elaborates these promises but allows employers to override them "if conditions warrant." In 1988 there were widespread reports of workers required to perform extra, uncompensated labor to make up for lagging production or for official holidays. The institution of unrealistic production and sales quotas and penalties in the form of salary deductions for failure to meet them has increased worker dissatisfaction. Workers reported that wages and salaries were cut even though production shortfalls were often due to the lack of raw materials or insufficient electrical energy. No mechanism exists by which the workers can protest such arbitrary reductions in pay. Worker demonstrations in Brasov in November 1987 to protest pay cuts and poor living conditions were swiftly suppressed.

In 1988 wage increases were approved for all workers starting with those at the lowest end of the wage scale. Even before considering deductions generally imposed for production shortfalls, the increases will probably not keep pace with inflation. The new monthly minimum wage is equivalent to $220 at the official exchange rate. As a result of the government's drastic austerity program, chronic shortages of foodstuffs and energy make it difficult to maintain an adequate standard of living at average wage levels.

The labor code theoretically ensures Romanian workers a safe environment. The Ministry of Labor has established safety standards for most industries and is responsible for enforcing these standards. In practice, however, observers report that conditions in many factories present substantial health and safety hazards. Although management is reportedly aware of these deficiencies in most cases, government emphasis on meeting production goals takes precedence over safety and health factors in light of the party leadership's insistence on rapidly paying off the foreign debt and on pursuing industrial and economic development at all cost. A government-run institute devoted to worker safety and health has existed since 1968. It is relatively small and does not appear capable of challenging unrealistic government production targets or eliminating hazardous working conditions, but it does ameliorate extreme conditions in some factories (workers receive supplementary benefits in some hazardous occupations). In 1988 Romania announced to the ILO that it would provide a report in accordance with Convention No. 81 on Labor Inspection. Since ratifying the Convention in 1973, Romania had not sent a single inspection report to the ILO.

ROMANIA

f. Rights in Sectors with U.S. Investment

U.S. capital is invested only in the electronic equipment sector. The U.S. investment in this sector consists of a minority interest in a single joint venture. The situation as regards workers' rights is the same in the electronics sector as in other sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		1
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	1	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

SPAIN

Key Economic Indicators

Millions of Pesetas Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
GDP (Mil. 1980 pesetas)	16,816,362	17,748,661	18,582,848
Growth Rate (pct)	3.3	5.5	4.7
GDP By Sector (pct)			
Agriculture	6.2	6.4	N/A
Manufacturing	29.8	29.7	N/A
Construction	8.0	8.3	N/A
Services	58.1	57.6	N/A
GDP per capita (1980 pesetas)	433,188	454,511	473,002
Labor Force (000s)	14,023	14,359	14,648
Unemployment Rate (pct)	21.0	20.5	19.8
Money and Prices			
M1 (Billions)	7,152	8,238	9,144
Prime Lending Rate (pct)	13.29	15.64	15.0
Savings Rate (pct of GDP)	21.5	21.9	N/A
Investment Rate (pct of GDP)	19.8	21.8	N/A
CPI (1983=100)	130.5	137.4	144.3
WPI (1974=100)	421.4	424.9	446.1
Exchange Rate (Peseta/US$) (avg)	140.05	123.5	118.0
Balance of Payments and Trade			
Merchandise Exports fob (Billions)	3,800	4,196	4,909
Total to U.S. (pct)	9.2	8.2	7.0
Merchandise Imports cif (Billions)	4,891	6,030	7,055
Total from U.S. (pct)	9.9	8.3	9.0
External Public Debt (Bil. US$)	12.978	14.030	13.0
Debt Service Payments	N/A	N/A	N/A
Foreign Reserves (Mil. US$)	16,001	30,172	38,000
Balance of Payments (current Acct, Mil. US$)	4,131	486.0	-3,300

1. General Policy Framework

In 1985 the Spanish economy embarked on a period of strong expansion, after more than a decade of economic stagnation, declining investment, rising unemployment, high inflation and chronic balance of payments problems. The market oriented economic adjustment policies implemented by the current Socialist government beginning in 1983 and

favorable international conditions, in particular the decline in petroleum prices, did much to prepare the way for the economic improvement. Real economic growth, led by strongly rising investment, was 5.5 percent in 1987 and will be close to five percent in 1988.

Spanish economic policy emphasizes the importance of strong economic growth as the surest remedy for the country's lingering problem of high unemployment. Economic growth above the European average is also necessary to achieve the goal of closing the economic gap between Spain and its partners in the European Communities (EC).

Spain's joining the EC in January 1986 added a new dimension to the economic outlook. EC membership has required Spain to open up its formerly closed and inefficient economy, modernize its industrial base, improve infrastructure and revise much of its economic legislation in order to conform to EC standards. Spanish tariffs on imports from other EC members must be phased out through 1992 and lowered to the EC's common external tariff for imports from non-EC countries. Many nontariff barriers must also be reduced or eliminated. While areas of dispute remain (as described in Section 5) the trend is toward a more open economy. The foreign investment and foreign exchange regimes have been liberalized substantially and, in 1990, complete freedom of capital movement should be established.

The strong economic expansion combined with appreciation of the peseta and the economic liberalization required by EC membership has led to a surge in Spanish imports in recent years that is only partly balanced by increased exports. The government is not overly concerned about the deterioration in the merchandise trade balance because much of the increase in imports is for capital equipment which will enable Spanish industry to cope with EC competition. Moreover, the balance of payments posture remains healthy thanks to tourism and huge foreign investment inflows. Rather than increase trade protectionism, the government has responded to the growing trade imbalance by emphasizing the need to improve competitiveness through wage moderation and productivity increases.

The need to upgrade Spain's economic infrastructure and strong pressure to improve social services have induced rapid growth in public spending in recent years, and government spending is projected to outpace economic growth through 1992. Thanks to economic growth and tighter enforcement of tax compliance, the growth in tax collections has been even more rapid. Consequently, there has been progress in bringing the public deficit down from a peak of seven percent of GDP in 1986 to roughly three percent for 1988. Largely by continuing to tighten tax compliance, the government expects to eliminate the deficit by 1992, despite the fact that expenditures will continue to grow above the average for the economy as a whole. For the most part, the deficit has been financed by government borrowing in domestic markets. At times, however, the pattern of financing has relied on substantial monetary creation later compensated by increased borrowing in credit

markets to repay the Bank of Spain. This policy has been disruptive to smooth monetary management.

The economic authorities have relied heavily on monetary discipline to moderate Spain's relatively high rate of inflation. In fact, some critics argue that too much emphasis is placed on monetary discipline and not enough on expenditure control. Consequently, interest rates are very high. Strong growth in credit demand, both by the public and private sector, and massive foreign capital inflows have made the task of monetary control particularly difficult during the past couple of years, when money growth has seldom fallen within target ranges, even though real interest rates have been very high. Moreover, the tools through which the monetary authorities can influence money supply are somewhat limited. The Bank of Spain's supply of funds to the interbank market has been the most active tool for monetary policy management, but wielding that tool has caused substantial swings in interbank interest rates. The market for government debt instruments is still developing, so that open market operations are not yet a significant option for monetary management.

2. Exchange Rate Policies

Spain's high interest rates and international confidence in its economic prospects have lead to dramatic increases in foreign investment and other categories of foreign capital inflows which have exerted strong upward pressure on the peseta. The Spanish Government, however, has been reluctant to allow the peseta to appreciate freely in response to these market forces because it believes that the pressures toward appreciation are temporary, and that the dismantlement of trade barriers mandated by the EC should eventually lead to a weakening of the peseta. In the meantime, the government fears that additional appreciation of the peseta, albeit temporary, would cause too much damage to the country's trade competitiveness at a time when the merchandise trade deficit is already deteriorating rapidly because of rapid economic growth and trade liberalization. The effort to resist greater appreciation of the currency, however, has induced the Bank of Spain to accumulate huge amounts of foreign reserves which increased from $13.3 billion at the end of 1985 to $37.7 billion by September 1988.

For the past two years, the authorities have allowed the peseta to appreciate slightly more than the deutsche mark. They have announced that the peseta eventually will be incorporated into the exchange stabilization mechanism of the European Monetary System (EMS), but have not set a date. They are reluctant to limit exchange rate flexibility when the peseta is in the process of adjusting to Spain's substantial economic changes and may be temporarily overvalued. Spanish inflation is still higher than the EMS average, and further trade liberalization measures must be introduced. Both factors might warrant future depreciation of the currency.

SPAIN

3. Structural Policies

Spain's membership in the EC requires significant restructuring of regulations affecting trade, foreign investment and foreign exchange, bringing them in line with EC norms over a transition period lasting for the most part through 1992. The EC program to establish a single internal market could accelerate the transition, although Spain will seek to avoid having to accelerate the dismantling of its trade barriers.

Spain's participation in the Common Agricultural Policy has major consequences for U.S. agricultural exports, since the United States has been Spain's major agricultural supplier. Faced with the loss of the Spanish and Portuguese grains markets, the United States negotiated an enlargement agreement with the EC in 1987 to establish a quota for Spanish corn and sorghum imports from non-EC countries and to provide several agricultural and industrial tariff concessions in compensation for losses in Iberian markets as a result of the EC's enlargement to 12 members.

Spain's EC accession agreement also provided for the establishment of a formal system of quantitative restrictions to replace the structure of formal and informal import restrictions existing prior to EC membership. The United States objected that GATT obligations do not permit the establishment of new restrictions and subsequently received Spanish assurances that the new restrictions will not adversely affect most U.S. exports to Spain.

EC membership has required Spain to accept the GATT Standards Code, which has provided the United States with a basis for arguing against attempts by some Spanish Government agencies to discriminate against non-EC products when recognizing standards certification granted by other EC countries.

The liberalization of EC telecommunications markets proposed in the EC Green Paper on telecommunications and the efforts of the EC Commission to implement the Green Paper are having a positive effect on Spanish telecommunications policy. Spain is required to meet the deadlines set by the EC Commission for liberalizing terminal equipment. In addition the Commission has been proposing broader liberalization of value-added-services than Spain would otherwise accept.

Spain's implementation of a value added tax upon accession to the EC replaced the former system of cascading sales taxes and tax rebates for exports. The latter had been the subject of trade disputes with the United States because in some instances the rebates were employed as export subsidies.

4. Debt Management Policies

Spain's total external debt (both public and private) at midyear 1988 was $31.6 billion compared to foreign reserves of

$37.7 billion. There is no difficulty servicing the foreign debt. In recent years the Bank of Spain has encouraged prepayment of foreign debt in the hope of slowing down the rate of foreign reserve accumulation. The Bank of Spain has also attempted to discourage short term foreign borrowing, which is attractive to Spaniards with access to foreign credit because foreign interest rates are lower than domestic Spanish rates and the short term exchange risk is considered negligible in view of the stable to rising value of the peseta.

5. Significant Barriers to U.S. Exports

In September of 1988 the Spanish Government assured the United States that most U.S. exports to Spain are not adversely affected by the system of import licences and quotas implemented by the Spanish Government as a result of EC accession. Applications for licenses to import U.S. products are automatically approved, and a computerized system for issuing such approvals went into effect on October 21, 1988. For a few products (e.g., miscellaneous plastic products, carpeting, tractors) the automatic approval system will not go into effect until 1989 or 1990, the date when restrictions on similar EC products also will be lifted.

Practically all major agricultural commodities imported by Spain (coffee, grains, soybeans and soybean meal, seeds, tallow and other animal fats, leaf tobacco, hides and skins and forest products) require a simple statistical document known as a "Statistical Declaration for Import Payments", which is usually processed by the Ministry of Economy and Finance in only 48 hours. Imports of a few agricultural products (casings, nuts, raw cotton, candy and bakery items, etc.) require the issuance of a "Prior Notification of Importation" document processed by the Ministry in about five days. An "Administrative Authorization for Importation" is issued at the discretion of the Ministry on products subject to import restrictions such as meat and live meat animals, dairy products, fresh fruit, peanuts, tobacco, confectionary, sunflower seeds, and wine. Finally, security deposits are required to import prunes, confectionery sunflower seeds and nuts for direct human consumption. In reality, none of the above documentation or financial procedures, by themselves, impose significant barriers to imports of U.S. agricultural products.

Spain maintains a soybean oil quota and consumption tax. The proceeds of the consumption tax are used to subsidize the export of soybean oil in excess of domestic consumption. The Spanish soybean regime displaces U.S.-origin soybean oil in third markets as well as in the Spanish market. Despite U.S. complaints Spain has yet to liberalize its soybean oil policies to a significant extent. Spain is expected to do so by 1991 as called for in its accession agreement to the EC.

Films produced outside the EC are required to obtain a dubbing license to be distributed in a Spanish language version in Spain. Because Spanish audiences generally do not accept subtitled original language films, only dubbed versions

can be commercially successful. To obtain a dubbing license, distributors must either finance a Spanish film's production or take a Spanish or a EC-produced film into distribution. The burden of the dubbing license requirement falls primarily on U.S. films because they represent the overwhelming portion of non-EC foreign films. U.S. films account for more than 65 percent of the Spanish exhibition market. The added cost per film of the dubbing license requirement is estimated by the industry at 17 to 22 million pesetas, or about $200,000.

Spain requires imports of certain products to be carried in Spanish flag vessels if available. As a result of Spain's EC accession, the government issued a May 1986 decree revising the terms and conditions for its flag reservations.

This decree continued Spanish cargo reservations on a reduced list of cargoes. Full liberalization is scheduled for 1992. Although this decree does provide some limited competition for coal, petroleum, and coke cargoes, it retains full flag carrier restrictions for cotton and tobacco and some other cargoes. These are of particular importance to U.S. shipping lines.

Although U.S. tobacco exports to Spain have declined, tobacco remains an important bilateral trade element. U.S. cotton exports to Spain have been increasing, and one U.S. carrier has inaugurated a service to Spain from U.S. gulf ports. The Spaniards have granted waivers for several shipments of U.S. cotton, in keeping with their flexible policy of application of this restriction. The restriction, however, remains on the books.

The National Telephone Company (CTNE) has had an effective monopoly over all telecommunications services. Spain's new Telecommunications Omnibus Law (LOT) provides for some liberalization of customer premise equipment and value-added services. The actual extent of this liberalization will be determined by the implementing regulations under Section 08 of the law, which are in the process of being developed and should be issued by the end of 1988 or early 1989. A major liberalization of Spanish telecommunications policies could significantly affect U.S. sales, opening a market worth $50 million to $75 million annually.

The procedures needed to obtain certification under Spanish standards regulations have served as an effective nontariff barrier in several high-tech product areas. These include computer peripherals, industrial programmable controllers and telecommunications equipment. The certification requirements for such products are costly and cumbersome. The Ministry of Industry recently provided an alternative certification route for some products by allowing products certified in another EC country (regardless of product origin) to apply for exemption from further certification in Spain.

SPAIN

The government recently issued ammendments to standards regulations for a variety of product sectors which simplify procedures for EC products; however, some of these require non-EC products to follow the old, more cumbersome and costly procedures. This discrimination violates the GATT Standards Code. The most serious example of this discrimination is a recent circular covering imports of additive-containing processed foods. Losses suffered by U.S. exporters of processed food products could amount to $10 to 25 million annually.

In the high-tech area, Spanish homologation procedures have been simplified somewhat and approvals for most electronic products, including computers and industrial programmable controllers, are being authorized at a faster rate. Nevertheless the cumbersome and expensive process can still serve as an effective trade barrier especially for small, new-to-market firms. The alternative certification route recently established by the Spaniards may provide relief to a significant amount of these exports. Since it is too early to determine how the system will function in practice, the total impact on U.S. exports cannot be estimated at this time.

Spanish customs inspection officials have failed to recognize the validity of health and safety certification documents accompanying imports of certain processed food products from the United States while at the same time accepting the equivalent documents attached to identical products imported from other EC member countries. Because of this apparent violation of GATT Standards Code procedures, Spanish importers have been forced to consider diverting their source of these imports away from the United States and toward suppliers elsewhere in the EC. Although the effects thus far have been modest, the potential for the large-scale diversion of trade to within the EC is significant as Spain progresses toward full integration into the EC's unified market in 1992.

Spain's regulatory regime for foreign investment was liberalized in 1986 to conform with EC requirements. Investment registration is now largely a pro forma process. However, when a foreign investment is to be financed locally it requires prior authorization. Except in limited sectors, there are no limitations on foreign equity participation or restrictions on repatriation of profits or capital. Foreign investor access to banking and investment services, however, technically requires reciprocity. Unless an investor is applying for special subsidies, there are no requirements for local content or export performance. With the exception of the banking sector, foreign investmerts receive national treatment. Even in the case of banking, restrictions on the number of branch offices a foreign bank may establish and on their ability to attract deposits are being phased out through 1992, which will make their regulation more equivalent to national treatment.

The Spanish Government has various incentive programs to promote the development of high technology industries, such as the national electronics and informatics development plan

(PEIN), now in its second phase. Under these programs firms are eligible for fiscal incentives and other benefits in exchange for commmitments, including local production, transfer of technology, local research and development, export targeting, employment generation or some mix of these. Since accession to the EC, these programs have been adjusted to meet EC regulations for development programs.

The impact of these incentive programs is difficult to assess. Programs such as the PEIN II may distort trade patterns, but it is frequently difficult to determine what the "normal" trade flows would have been in the absence of such programs, especially since the programs sometimes facilitate imports of components or products in exchange for commitments to export local production, etc. The PEIN II has a budget of approximately $435 million over the 1988-90 period. One U.S. firm has already reached agreement to participate in the program with commitments involving increased local production, exports and product development in Spain.

Spain has not yet completed the process of signing on to the GATT Government Procurement Code. In particular, it has not finalized the list of entities to be covered by the code. Although it is anticipated Spain will complete the process of adhering to the code in the coming months, the scope of the proposed Spanish entity list is not yet known. In the meantime major procurement decisions by national entities are generally made according to the following order of priority although there are no discriminatory legal requirements:

A) Locally-made products;
B) EC products;
C) U.S. and other non-Asian products; and
D) Products from the Far-East.

Offset and local content requirements are an established feature of all major Spanish military contracts. They are also becoming more common in civilian government contracts. Typical offset commitments for military sales reportedly range from 100 to 130 percent of the purchase price. The recent winning bid to supply approximately $380 million worth of aircraft to the national air carrier reportedly included offset commitments of 100 percent of the purchase price.

During the fall of 1988, Spanish phytosanitary customs inspectors instituted a close examination procedure for aflatoxin of U.S. corn entering the country under the U.S.-EC Enlargement Agreement. The corn already carried USDA aflatoxin certification documents and the more intense inspections were unnecessary and burdensome. By adding a delay of several days on the unloading of the U.S. corn, costs were raised to both U.S. exporters and Spanish corn users.

6. Export Subsidies Policies

While Spain eliminated explicit export subsidies when it joined the EC, three related export programs remain in the form of the temporary admission of imports, a goods replacement program for imports, and draw back facilities.

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Spain's temporary admission system waives the payment of customs duties on imports pending their re-export after processing by a domestic firm. The domestic exporter or beneficiary guarantees all customs duties by posting a bond or sureties in a registered bank.

The goods replacement system provides tariff exemptions for imports. It protects and promotes exports by granting customs exemptions on imports of raw materials or intermediate products of the same type as those included in products which have already been exported.

The draw back scheme is an export promotion system that refunds tariff duties paid by domestic firms on imported goods which are subsequently re-exported either in the same state or in a transformed state.

With the exception of a subsidized export payment insurance program, all other Spanish national agricultural export subsidy programs were discontinued when Spain joined the EC. The EC maintains a wide variety of export subsidies that have been of considerable assistance in the export of Spanish agricultural commodities.

7. Protection of U.S. Intellectual Property

As a precondition to EC entry, Spain agreed to revise its patent and copyright laws. In January 1986 Spain enacted a new patent law and in November 1987 a new copyright law. Both of these bring the protection of rights holders approximately up to EC standards. Spain is also a party to the Paris, Berne and Universal Copyright Conventions.

Although the new patent law greatly increased the protection accorded to patent holders, U.S. pharmaceutical and chemical companies remain concerned because only process patent protection is now available for pharmaceuticals. Product patent protection will not be available until the new law is fully operational in 1992. Industry is also concerned because the twenty-year protection period is less than that available in other EC countries.

The new copyright law attempts to redress historically weak protection accorded movies, home video cassettes, sound recordings and software. Computer software, which heretofore was not afforded copyright protection, was specifically included as intellectual property in the new law. Judicial sanctions for copyright violations have been toughened. According to industry sources, the law provides a clear legal framework for copyright protection.

Patent infringement appears most serious in the pharmaceutical and chemical industries, where U.S. investment and research and development requirements are high. U.S. pharmaceutical makers estimate U.S. firms lose $30 million to locally pirated products each year.

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Similarly, copyright infringements have been a serious problem. U.S. software producers estimate losses of up to $60 million annually from software piracy. A U.S. motion picture trade association has estimated that more than 55 percent of Spain's video cassette market is composed of pirated products. Another common abuse is for operators of small cable networks, called Community Video, to broadcast video programs without broadcast rights. Over one million households, especially in lower income areas, are hooked up to such systems. The losses in terms of unpaid rights are estimated at $45 to $55 million per year. Since U.S. productions are most frequently abused, U.S. firms or their agents suffer 80 percent of the loss.

Application of the new copyright law is beginning to alleviate the problem of abuse of authors' rights. The movie industry has an active anti-piracy program and reports a much-improved ability to secure court orders against abuses since the copyright law was enacted. The civil authorities have also begun to attempt to regulate cable systems and have moved to limit the extent of Community Video. Nevertheless, it is politically difficult to move against Community Video. Unauthorized use of author's rights thus persists in many cases. U.S. software firms, working with the local software industry association, have just begun to attack the problem of software piracy.

8. Worker Rights

a. The Right of Association

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 freely maintain ties with recognized international organizations. About 10 percent of the Spanish work force is unionized.

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, in 1986. The first civil service trade union representation elections took place during the last quarter of 1987. Collective bargaining is used extensively in both the private and public sectors. Labor relations in free trade zones and export processing zones are regulated in the same manner as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is outlawed in Spain and is not practiced.

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d. Minimum Age for Employment of Children

The legal minimum age of employment as established by the Workers Statute is 16 years. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and the service sector. It is more difficult to control on small farms and in family-owned businesses. The Workers Statute also prohibits the employment of persons under 18 years of age at night, during overtime, or in sectors considered hazardous by the Ministry of Labor 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 legal minimum wage is $12.60 per day or $380 per month for workers over 18. For 17-year-olds, the minimum stands at $7.70 per day or $233 per month. For 16-year-olds, it is $4.80 per day cr $146.50 per month. The minimum wage is revised every year in accordance with the consumer price index.

Government mechanisms exist for enforcing working conditions and occupational safety and health conditions, but bureaucratic procedures are cumbersome and inefficient.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested in the petroleum; food and related products; chemicals and related products; primary and fabricated metals; machinery, except electrical; electric and electronic equipment; and wholesale trade sectors. Workers in those sectors enjoy all the rights guaranteed under the Spanish constitution and law.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		124
Total Manufacturing		2,567
Food & Kindred Products	431	
Chemicals & Allied Products	519	
Metals, Primary & Fabricated	61	
Machinery, except Electrical	740	
Electric & Electronic Equipment	73	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		559
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		3,250

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Billions Swedish Kronor, Current Prices, Unless Noted

	1986	1987	1988
Income, Production, Employment			
Real GDP (1980 Prices)	580.6	596.0	612.8
Real GDP Growth Rate (pct)	1.2	2.7	2.8
GDP by Sector (1)			
Farming & Fishing	10.8	10.2	10.4
Forestry	8.3	8.5	8.7
Mining & Manufacturing	125.1	128.8	133.7
Public Utilities	19.1	20.7	21.3
Construction	40.4	42.1	43.9
Services	187.4	193.0	198.5
Real Per Capita Income (2)	66,568	70,443	72,445
Labor Force (000s)	4,399	4,419	4,470
Unemployment Rate (pct)	2.2	1.9	1.6
Money and Prices			
Money Supply (M3) (3)	537.8	568.9	568.0
Comm'l Interest Rates (4)	11.16	11.84	11.39
Savings Rate (5)	-0.7	-2.5	-2.6
Investment Rate (6)	18.2	18.9	19.4
Consumer Prices (7)	4.2	4.2	5.8
Producer Prices (8)	1.6	3.3	6.0
Exchange Rate (9)	7.11	6.33	6.13
Balance of Payments and Trade			
Total Exports fob	262.6	278.8	303.8
Total Exports to U.S.	29.9	30.1	N/A
Total Imports cif	233.6	258.8	282.8
Total Imports from U.S.	18.2	17.8	N/A
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt (10)	126.3	121.1	109.4
Debt Service Payments (10)	68.9	74.2	49.3
ForEx Reserves (11)	45.6	50.3	55.4
Balance on Current Acc't	0.6	-6.7	-10.0

Notes:

(1) Value added, 1980 prices.
(2) Per capita gross national product in kronor, 1980 prices.
(3) Year end and 09/30/88. Includes treasury discount notes held by public plus accrued monies in deductible national savings scheme. Central Bank does not compile M1.
(4) Industrial bonds, 30-month adjusted rates, percent. Annual averages and average for first 8 months of 1988.
(5) Percent. Ratio of personal saving to disposable personal income.
(6) Percent. Ratio of gross investment to GDP.
(7) Percentage change between annual CPI averages.

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(8) Percentage change. Product prices for total industry excluding shipbuilding.
(9) Swedish kronor (SEK). Average annual market exchange rate for U.S.$1.00. January-October for 1988.
(10) Central Government position at year end and 06/30/88 at prevailing exchange rates.
(11) Year end and 09/30/88.

Sources: Finance Ministry, Economic Research Institute, Central Bank, Statistics Sweden. Prepared with data available in early November 1988

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living and an extensive social services system. Situated in northwestern Europe with a climate like that of Minnesota, the country is slightly larger in area than California but with a population of only some 8.4 million inhabitants. Sweden is not a socialist country but a constitutional monarchy with a parliamentary form of government. With the exception of non-socialist governments 1976-82, the country's Social Democratic Party has been in power since the early thirties. Sweden has a modern distribution system, excellent internal and external communications, and a skilled and educated workforce. Timber and hydroelectric power constitute the traditional resource base of the economy. Around one-third of GDP is exported; consequently Sweden is a strong supporter of liberal trading practices. Privately owned firms account for nearly 90 percent of industrial output, with the engineering sector, which includes the production of electrical and transportation equipment, machinery, and metal goods, accounting for nearly half of all industrial production and exports. Much of the high-technology component of this production, which is growing, derives from U.S. technology. Approximately 500 industrial firms in Sweden are wholly owned or controlled by foreign entities. They employ around 125,000 people, or 15 percent of jobs in industry. Largest foreign investors in Sweden are Switzerland, Finland, the United States, the United Kingdom, and the Netherlands. Sweden ranks fourth highest among the industrialized countries in R & D expenditure (as a percentage of GDP).

Swedish firms are prospective customers for U.S. companies that can offer new technology, as well as quality goods and services, in a number of growth industries. These include automation (robotics, process control equipment, computer software), health-related industries (pharmaceuticals, biotechnology and medical equipment), and information technology (telecommunications systems, data processing equipment, and peripheral systems). The country is a signatory to the General Agreement on Tariffs and Trade, is a member of the OECD and the European Free Trade Association, and its industrial products enjoy duty-free access to the European Common Market (EC). There is a consensus to achieve

as harmonized a relationship with the EC as possible, short of actual membership, which is ruled out because of longstanding neutrality considerations.

Domestic economic policy goals are aimed at maintaining full employment, generating economic growth, promoting a more even distribution of income, and striving for a reasonable degree of price stability. The policy instruments used to achieve these goals are the traditional monetary and fiscal ones, as well as an active labor market policy (i.e. retraining and structural adjustment) and regional development policy (i.e. subsidies to economically weak areas). These policies, together with considerable aid to ailing sectors of industry over the past ten years or so, inflated the country's national debt from approximately 23 percent of GDP in the mid-70's to a peak of 68 percent in FY 84/85 (July through June). Since then the debt declined somewhat to stand at 57 percent in FY 1987/88. Roughly one-sixth is financed by foreign loans, the remainder by government bonds, treasury notes, a national savings scheme, and so forth.

In late 1988 the economy was operating near full capacity utilization, skilled workers were in much demand, inflation was still running at a couple of percentage points above the average of competitor countries, and there were record levels of growth in industrial production and investment. Backed by the results of a 1980 referendum, the Parliament has taken a decision to dismantle the country's existing 12 nuclear reactors by 2010, beginning in the mid-1990's. If this decision is carried out, it is sure to decrease Sweden's competitiveness internationally.

2. Exchange Rate Policies

After the collapse of the Bretton Woods system, Sweden, in 1973, joined the European Common Market's monetary system. This system came to be dominated by the Deutsche Mark, but although West Germany was (and still is) Sweden's largest trading partner, a price and wage explosion in Sweden in the mid-1970's led to devaluations of the krona against the Mark. These proved insufficient, however, and Sweden unhooked from the system in 1977, simultaneously devaluing the krona by 10 percent, and established a currency "basket." This pegged the krona to a trade-weighted "basket" of 15 foreign currencies (the U.S. dollar is accorded double weight because of its importance for international trade in such commodities as oil, pulp, and paper). This system, too, proved to be imperfect. Pressures built up in the early 80's and brought two successive Swedish devaluations of 10 and 16 percent, at which time the "basket" index was fixed at 132 (and can fluctuate between 130 and 134). That is still the situation today.

Sweden still has foreign exchange regulations in place but has been deregulating cautiously in recent years and further deregulation is in the cards. The controls are principally directed toward stopping or impeding destabilizing capital flows of a short-term nature and mainly involve transactions that are not directly connected with foreign

trade, i.e. straight financial placements. Among the areas still under tight control are bank deposits and trade in interest-bearing negotiables, which have a direct bearing on exchange and interest rates. Incoming and outgoing direct investment is subject to screening by the Central Bank. Foreign ownership is not permitted or is severely restricted in several sectors of the economy including air transportation, the merchant marine, manufacture of war materiel, publishing, mining, forestry, road transport, and credit information activities. Foreign acquisition of Swedish firms is also screened by the Industry Ministry, and there have been complaints to the effect that this procedure has occasionally scared off prospective buyers.

There are no restrictions on remittances of profits, of proceeds from liquidation of an investment, or of royalty and license fee payments. Similarly, a subsidiary or branch may transfer fees to a parent company outside of Sweden for management services, research expenditures, etc. In general, yields on invested funds, such as dividends and interest receipts, may be freely transferred. A foreign-owned firm may also raise foreign currency loans both from its parent corporation and credit institutions abroad.

3. Structural Policies

The Swedish tax burden is the highest in the OECD, with a record equivalent of 55 percent of GDP being collected in tax revenues. Since 1982, 91 percent of Sweden's economic growth has been taken by increased taxes. The marginal tax rates levied on personal income have inched up over the years to levels which are now recognized as detrimental to the efficient working of the economy, and efforts are now being made to reduce those rates to buttress the work incentive. On the corporate side, effective taxes are comparatively low and depreciation allowances on plant and equipment are generous, though social security contributions for the workforce add a further one-third or so to employers' wage bills. Like the situation in the EC countries, most goods and services for domestic consumption are subject to a value-added tax at an effective rate of 23.46 percent of retail price. Trade in industrial products between Sweden and EC and EFTA countries are not subject to customs duty, nor is a significant proportion of Sweden's imports from developing countries. Import duties are among the lowest in the world, averaging less than 5 percent ad valorem on finished goods and around 3 percent on semi-manufactures. Most raw materials are imported duty free.

Two areas of the economy are still substantively affected by regulation -- those of agriculture and clothing/textiles -- but external demands for reciprocity and domestic demands for lower prices have brought official promises of gradual deregulation in both these areas over the next couple of years. In order to maintain a high level of self-sufficiency, the country provides direct and indirect support to farming through a target price system protected by import levies, and calendar licensing for certain fruits. The calendar licensing

of apples and pears has long been a bone of contention between the United States and Sweden, but was abolished in November 1989 (Sweden is the largest foreign market for U.S. pears). The government has given assurances that agricultural subsidies will be at least reduced and other regulations in the area reviewed for decontrol. As to clothing/textiles, Sweden hopes to have removed all barriers by the time the current multifiber agreement expires, in mid-1991. Support will be provided to allow the domestic industry to adjust. Sweden controls exports of arms and of items that might contribute to nuclear proliferation. In 1987 Sweden introduced a new law governing the reexport of certain high technology products. This control is intended to stop Sweden from being used as a transit point for the smuggling of foreign high-technology equipment. The government has substantially deregulated telecommunications in Sweden, ending the government monopoly, and has restructured the industry to promote competition and encourage efficiency.

4. Debt Management Policies

Sweden's external debt was incurred chiefly by central government during the non-socialist era, 1976-82, in the aftermath of the first oil price hike in order to buttress ailing industry. Shipbuilding, iron ore mining, and forestry, once Swedish industrial staples, received support over a ten-year period to retrench and restructure. Current debt policy is to incur no further debt of this kind, which in mid-year 1988 was the equivalent of around 11 percent of GDP. Management of the debt is posing no problems to the country and has no implications for the United States.

5. Significant Barriers to U.S. Exports

To help ensure free Swedish access to foreign markets, Sweden has opened its own markets to imports and foreign investments, and campaigns vigorously for free trade in GATT and elsewhere. Import licenses are not required in Sweden, except for restricted items such as munitions, dangerous chemicals, etc., not unlike U.S. practice. Sweden widely uses EC and international standards, labeling, and customs documents, in order to facilitate its own exports.

Service exports to Sweden face some barriers. Swedish financial markets have been largely deregulated in recent years, and foreign banks may compete in many sectors. Nevertheless foreign banks may not open branches in Sweden, and may not have finance company subsidiaries. Recent banking reciprocity demands by the EC may force Sweden to permit the establishment of foreign bank branches and some foreign purchasing into Swedish banks in the near future.

Foreign investment is welcome in Sweden, except for the few restrictions noted below. Foreign acquisitions are more difficult, particularly if these are to be made in strategic areas of the economy or where their failure could result in severe local unemployment. Foreign ownership is not permitted

or is severely restricted in air transportation, the merchant marine, manufacture of war materiel, publishing, mining, and forestry. In addition, a state-sanctioned monopoly protects health care. Both incoming and outgoing direct investment is screened by the Central Bank; the process can take up to a year. Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government-sponsored incentives to business. There are certain limitations on aliens with regard to the formation of a corporation, membership on its board of directors, and its managing directorship, but there are wide exceptions.

Foreign individuals and legal entities must obtain permission to acquire shares that will increase voting power in already established companies to more than 10 percent, or to raise holdings above thresholds of 20, 40, or 50 percent. Such acquisitions are usually approved as long as they are viewed as not being detrimental to the public interest. Foreign nationals and companies--as well as Swedish companies controlled by them--need official permission to acquire real estate in Sweden, but again this is usually granted if the property is to be used for normal business or residential purposes.

Sweden has no performance requirements per se; in fact, the laws on foreign acquisition specifically reject such requirements. Two elements of the law, however, can work together to place performance obligations on an investor in the case of acquisition of an existing Swedish company. First, in considering permission for an acquisition, the government must ensure that the investment is not contrary to any vital public interest. Second, the government is directed to take into account any voluntary commitments or undertakings which both parties to the investment make and which are important to its successful conclusion. In recent cases it has appeared as if the government has been prepared to use these two terms to mitigate the employment effects of foreign takeovers (i.e. by refusing to approve an acquisition unless certain conditions are met). For example, in 1986, 21 of 80 acquisitions were approved conditionally, subject to restriction on dividends, employment guarantees, or capitalization levels. In some cases the foreign firm has refused attempts to impose conditions and received permission anyway, showing that adept bargaining can be just as important as the regulations.

The government offers support for research and development and loans from the National Industrial Board. A range of regional supports are available, including location and employment grants, reduced payroll taxes, low rent industrial parks and econ~~omic free~~ zones.

Government procurement is usually open to foreign bidders. Sweden recently opened to foreign bids its market for some heavy electrical equipment, in order to qualify for a waiver from the Buy America Act for exports of the same type

of equipment to the United States. The Swedish Government has no official policy of imposing countertrade requirements.

6. Export Subsidies Policies

The Swedish Government provides basic export promotion support through its financing, jointly with Swedish industry, of the Swedish Trade Council. The Council works through Swedish Embassies and trade offices in key markets, conducting a broad range of programs from preparation of promotional and technical literature to special exhibitions and seminars. The Swedish Government and Swedish industry also jointly finance the Swedish Export Credit Corporation (SEK), which grants medium- and long-term credits to finance exports of capital goods and large-scale service projects. Working with the Swedish Agency for Technical and Economic Cooperation (BITS), the SEK also provides mixed low-interest credits to Less Developed Countries (LDCs) with long maturity and grace periods.

The Swedish Export Credit Guarantee Board provides insurance against losses caused by default of a foreign debtor or buyer of Swedish exports. The guarantees on the average cover 85-95 percent of the exporter's credit risk.

The government agency Swedish National Board for Technical Development (STU) provides financial support for technical research and industrial development in the form of grants to major projects likely to become profitable in the future. Most of these grants go to universities and other research centers; in fact the STU provides half of the operating expenses of a number of industrial research centers. Where industrial R & D is likely to become profitable, 50 percent of the required financing could be provided by STU as a conditional loan.

The Swedish National Industrial Board, SIND, supervises Sweden's 24 regional development funds, which are tax-supported agencies providing financing and consultancy services to small and medium industries.

The Swedish Government supported Swedish industry with SEK 6 billion (about $1 billion) in FY 86/87, down $645 million from the previous year (there were drastic cuts of support to shipyards). From the mid-70's to FY 86/87, the Swedish Government paid a total of $12.9 billion in temporary industry support (in 1987 prices); this money was used to restructure and to phase out unprofitable industries (such as the shipyards).

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, and no multiple exchange rate system in Sweden.

SWEDEN

7. Protection of U.S. Intellectual Property

Sweden is a party to the Berne, Paris and Universal Copyright Conventions and has signed the Patent Cooperation Treaty.

Sweden has strong protection for intellectual property rights; the laws are adequate and clear, enforcement is good, and the courts are efficient and honest. Sweden supports efforts to strengthen international property rights, and often shares U.S. positions in international fora on the subject.

8. Worker Rights

a. The Right of Association

Workers have the right to associate freely and to strike. A large majority of the working population, including career military personnel and civilian government officials, belongs to trade unions. Unions conduct their activities with complete independence from the government and may freely affiliate with international organizations.

b. The Right to Organize and Bargain Collectively

Workers are free to organize and bargain collectively. This right is applied and practiced uniformly throughout Sweden.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist in Sweden.

d. Minimum Age of Employment of Children

In Sweden, compulsory education ends at age 16, and full-time employment is normally permitted at this age under supervision of local municipal or community authorities. Young people under 18 years old may work only during daytime and under a foreman's supervision. During the summer and in vacation periods, children as young as 13 years of age may be hired for part-time work or light "summer jobs" for periods of five days or less, although it is rare for young people under 15 years of age to find a job except with family members.

e. Acceptable Conditions of Work

Although there is no minimum wage law, wages are set by collective bargaining contracts. Wage rates typically are observed even at nonunion establishments. Even the lowest paid workers are able to maintain a decent standard of living. A designated and trained trade union steward monitors observance of the regulations governing working conditions.

Occupational health and safety rules are closely observed. Safety ombudsmen and safety committees are required by law in large enterprises. Safety ombudsmen have the

authority to stop immediately life-threatening activity and call for a labor inspector. The Swedish courts have upheld this authority. The Swedish authorities are in the process of compiling a list of the 400,000 most dangerous jobs that cause long-term health problems, and trying to find ways to improve the situation for those employees.

f. Rights in Sectors with U.S. Investment

Sweden has long been in the forefront of labor and social legislation, and has a well-developed system to protect labor abuses. The labor laws apply to all firms in Sweden, Swedish or foreign, and apply in some form to all sectors of the economy. Among goods producing industries, U.S. investment is mainly in the food and related products; chemicals and related products; primary and fabricated metals; machinery, except electrical; electric and electronic equipment; and wholesale trade.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		617
Food & Kindred Products	41	
Chemicals & Allied Products	32	
Metals, Primary & Fabricated	-32	
Machinery, except Electrical	468	
Electric & Electronic Equipment	6	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		209
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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SWITZERLAND

Key Economic Indicators

Millions of Swiss Francs Unless Noted

	1986	1987	1988
Income, Production, Employment			
GDP at Current Prices	243,350	255,130	268,000
Per Capita GNP (SF)	38,784	40,228	41,800
GDP Percent Change	2.8	2.3	2.6
Industrial Production (pct growth)	4.0	1.0	4.0
Labor Force (industy and services)(000s)	3,010	3,100	3,200
Of Which Foreign (000s)	744	779	855
Unemployment Rate (avg)(pct)	0.8	0.8	0.7
Balance of Payments and Trade			
Total Exports of Goods fob	67,004	67,477	68,300
Total to U.S.	6,343	5,918	N/A
Total Imports of Goods cif	73,513	75,171	77,300
Total from U.S.	3,970	3,994	N/A
Current Account Balance	12,348	10,808	8,000
ForEx Reserves (yr-end)	36,262	37,440	34,258(Sept)
Exchange Rate (SF/US$)(avg)	1.80	1.49	1.40(Jan-Jun)

1. General Economic Framework

Economic policy in Switzerland is characterized by prudent fiscal, monetary, and exchange rate policies. However, the success and impact of these policies on this small open economy is influenced by external developments. The degree of openness is illustrated by the fact that in 1987 exports of goods and services amounted to 46.7 percent of gross domestic product (GDP), while the comparable figure for imports was 55.3 percent (in constant prices). At present, the economy is enjoying full-employment, low inflation and a surplus in the current account of the balance of payments.

Fiscal policy is not actively employed as a countercyclical device. This seems to reflect both a philosophical conviction of Swiss policy makers and the reality of the Swiss federal system which effectively precludes it. In this system, the weight of the cantons and communities in the fiscal equation is both heavy and largely independent of federal policy. In 1987, the federal share of both total public expenditures and revenues amounted to about 35 percent. Expenditures are currently a little below the Swiss medium term objective of 10 percent of gross national product (GNP). In 1987, the federal government ran a budget

surplus of just over SF 1 billion, or 0.4 percent of GDP. A surplus of about half the 1987 level is expected this year. The cantons and communes ran small surpluses in 1986, but may have swung into deficit in 1987 and this year.

The Swiss National Bank (SNB) has established as its primary objective the control of inflation. The SNB targets the monetary base (currency and banks' sight deposits with the Central Bank). The primary monetary control mechanism is foreign currency swap transactions with the banks. Discount rate changes are fairly infrequent and generally occur simultaneous with those of other major European central banks. Because of a change in bank liquidity requirements and improvements in the interbank clearing system, banks' demand for liquidity has declined sharply in 1988. This is expected to result in a contraction of the monetary base for the year as a whole.

2. Exchange Rate Policies

A long standing central bank concern that monetary control not be eroded by an internationalization of the Franc has resulted in various capital market regulations. Until recently the Swiss required prior approval for some capital exports. However, in recent years this has been largely a formality and recently the SNB rescinded the rule as far as loans and credits are concerned. Still in place is the requirement that SF denominated foreign borrowings be conducted through syndicates of banks resident in Switzerland. However, many analysts believe that various factors are at work which mean that it will be only a matter of time before SF bonds are underwritten outside of Switzerland.

The Swiss National Bank is also concerned with the valuation of the Franc. In view of the currency's general strength, a particular concern has been that export competitiveness not be lost through an over-appreciation, especially vis-a-vis the German Mark. Despite the importance of the Franc/Mark relationship, the SNB attempts to pursue an independent monetary policy. This has led the central bank to state its emphatic opposition to Swiss participation in the European Monetary System.

3. Structural Policies

The Swiss use the market mechanism to establish prices for most manufactured product categories. The retail trade is dominated by a few large organizations with one, Migros, accounting for close to 40 percent of supermarket sales. Certain cartels are permitted to operate under Swiss law. However, there is a government cartel commission that determines whether a cartel is of public interest. Government agencies use competitive bids for procurement. The defense and Post, Telephone, and Telegraph (PTT) departments have some restrictions on foreign purchases (small arms, clothing and

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boots, telecommunications equipment). The PTT requires foreign vendors to have local representatives and service facilities. The use of government subsidies is rare. (Motion picture production is one of the few areas that receive direct subsidies.) Except for telecommunications, the impact of Swiss pricing policies on U.S. exports is insignificant.

Switzerland has two pricing systems (with some complicated overlap). For domestic products and for imports that compete with domestic products, prices are largely determined by government action. (Estimated 80-90 percent of raw material value.) Farmers receive guaranteed prices for bread grains, sugar beets, livestock and other basic products. Actual overseeing of prices is often delegated to private sector or mixed cartel-like organizations (e.g., "fruit bourses" for fruits and vegetables). Prices of imports are raised to domestic levels by quotas, variable import charges, and by requiring importers to take over domestic product at high prices as a condition of importing.

For imported products that do not compete significantly with domestic products, prices are determined by the market. (Estimated 10-20 percent of raw material value.) This sector includes labeled processed food products (except those containing grains, sugar or other domestically-supported products), some imported inputs to the domestic food industry (eg, cotton, tobacco, dried fruits and nuts), and non-competitive fruits and vegetables.

Although government influence on pricing is usually diluted as value is added in processing, it often remains important even at the retail level. Government offices administer retail price controls for many items (including milk, potatoes, fruits and vegetables), and surveil prices of others.

A multiplicity of tax systems and rates results from the division of fiscal and financial sovereignty in accordance with the federalistic structure of the nation. While the federal government levies a direct personal income tax, its most important source of revenue is from indirect taxation. The most important revenue source of the cantons and communities is taxes on earnings and capital. The direct and indirect taxes are collected independently of one another which tends to result in a degree of double taxation. Swiss citizens have the right of initiative and referendum at all levels of government. The constitutional basis for most present federal tax authority will expire in 1994. The United States has a bilateral tax treaty with Switzerland.

Along with a personal income tax and tax on income of corporations and cooperatives, the federal government levies a 35 percent witholding on dividend and interest income. An indirect (turnover) tax on wholesale and retail trade is also in effect. The federal government's most controversial tax is a stamp duty on securities issuance and sales. This tax has been bitterly criticized by Swiss banks. The banks maintain the tax has precluded the development of a money market in

Switzerland and driven business abroad. The finance department head is currently considering proposals to modify or eliminate the tax, but has argued that before doing so, alternative revenue sources must be identified.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland. Switzerland participates in the Paris Debt Club reschedulings and is an active member of the Organization for Economic Cooperation and Development (OECD). It is not a member of the International Monetary Fund (IMF), nor of the World Bank. However, Swiss finance authorities are keenly interested in the less developed countries' debt problem and frequently express their concerns about it and through the Bank for International Settlements (BIS) participate in bridge financing exercises. Some members of the government Department of Finance closely follow the activities of the international financial institutions.

5. Significant Barriers to U.S. Exports

The Swiss issue a general import license similar to that employed by the United States. In the case of manufactured products this license is granted freely and is basically used for statistical purposes. Swiss importers of sophisticated U.S. technology may, if required by the U.S. Government obtain a "Swiss blue" import certificate which prevents re-export without U.S./Swiss permission. Swiss licensing procedures do not hinder imports from the United States.

The motion picture law is currently being revised. The present law establishes a quota for each established distributor which is liberally applied. However, this law also contains a provision enabling the Swiss to deny quotas to U.S. suppliers seeking to change their distribution network in Switzerland. This provision was applied against a U.S. film producer in 1987. Vigorous U.S. Government protests and film company efforts resolved this problem satisfactorily. The revised law is expected to eliminate discriminatory provisions.

Swiss standard and testing requirements can pose difficulties to potential U.S. suppliers. All electrical products must be tested and approved by the Swiss electro-technical association, a semi-official body. Similarly, firms and individuals who install security devices that are approved by another private industry association receive insurance discounts. Drugs must receive approval from the Intercantonal Drug Commission. Labeling requirements in multiple languages (German, French and Italian) also pose difficulties. These handicaps do not represent formidable barriers and can be taken care of by local distributors.

Insurance is subject to an ordinance which requires the placement of all risks physically situated in Switzerland with companies located in Switzerland. Therefore, it is necessary

for foreign insurers wishing to write business in Switzerland to establish a subsidiary there. Government regulations do not call for any special restrictions on foreign insurers establishing in Switzerland. However, Swiss insurance companies are allowed to impose restrictions on the transfer of their registered shares, which effectively blocks unwelcome takeovers.

Swiss corporate shares are issued as registered shares (in the name of the holder) or bearer shares. Under current company law, Swiss corporations may in their articles of incorporation impose restrictions on the transfer of registered shares. This can, and often does, include restrictions on foreign ownership. The Swiss Parliament is currently debating a revision of company law which would continue to allow this practice. The executive branch has expressed its opposition to the foreign ownership restrictions, citing international capital code commitments.

Foreign banks established in Switzerland are subject to essentially the same regulatory requirements as domestic banks. Restraints on their competitive opportunity stem primarily from certain institutional features of the Swiss financial markets. Reciprocity is taken into account insofar as the issuance of banking licenses is concerned. Swiss stock exchanges have had foreign members for many years. However, personal licenses to represent professional securities traders and to trade on the floor are available only to Swiss nationals.

The Swiss generally welcome foreign investment and accord it national treatment. The federal government has adopted a neutral posture and plays no role in this area. However, certain cantons aggressively seek to promote themselves as sites for foreign investors. Work permits for foreign nationals remain the biggest barrier to investment, especially in the cantons of Zurich and Geneva.

With the exception of a few defense related items and telecommunications (a PTT monopoly) Swiss procurement relies on competitive bids. Countertrade is not used.

Switzerland may be the only country which applies customs duties on weight rather than value. For the most part, customs duties are low and not burdensome. There are a number of agreements between Switzerland, a European Free Trade Association (EFTA) member, and the European Communities (EC) under which manufactured products enter duty free. The United States does not benefit from this regime.

Purchase of property by foreign nationals (and non-resident Swiss) is subject to the provisions of the federal law on the acquisition of real estate by persons residing abroad as of december 16, 1983. All property sales to non-residents (foreign or Swiss) are subject to government approval and to a quota system fixed every two years. However, the quota system principally applies to holiday resort apartments and houses in the country's tourist areas, where land has become extremely scarce. Property sales to

foreigners for commercial or industrial purposes are also subject to a permit, but provisions are far less restrictive and no ceilings are imposed. Foreigners who have settled in Switzerland on the basis of a residence permit are not subject to any restrictions regarding purchase of real estate after ten years' residence.

Switzerland has a highly subsidized agricultural economy that is rigidly protected by a plethora of import restrictions -- licensing, quotas, supplementary import charges, variable levies, conditional import rules, import calendars, etc. According to press reports, the OECD has calculated that 75 cents of every dollar of income of Swiss farmers is attributable to subsidies, import restrictions, or other government measures. This results from the Swiss policy of maintaining a high level of self-sufficiency and is facilitated by the fact that the Swiss protocol of accession to the General Agreement on Tariffs and Trade (GATT) exempts certain agricultural laws and regulations.

6. Export Subsidies Policies

The Swiss government does not finance or subsidize Swiss exports. Financing of export credits is the sole responsibility of the private sector. Swiss Government support for export transactions is limited to coverage of non-commercial risks under an official export risk guarantee program, jointly funded from government and private sources.

Approximately 15 percent of total Swiss exports receive such coverage. Risks covered include transfer difficulties, payment moratoriums, insolvency and inability to pay of private corporations due to political pressures, political upheavals, including war, revolution, civil strife, and nationalization.

An exception to this rule are agricultural products. The federal government subsidizes the export of dairy products, primarily cheese, by making up the losses of the quasi-governmental export organizations. Exports of processed food products (chocolate products, grain-based bakery products, etc.) are subsidized by compensating exporters for the difference between world prices and high swiss prices for inputs (i.e., for the grain, milk, butter, sugar, etc., content of the exported product). The exportation of surpluses of domestic products are also subsidized by the government (e.g., beef, concentrated apple juice).

7. Protection of U.S. Intellectual Property

Switzerland is a party to the Berne, Paris and Universal Copyright Conventions and the Patent Cooperation Treaty.

Patent applications filed in Switzerland must be made in one of the country's three official languages (German, French, Italian), and must be accompanied by detailed specification and if necessary by technical drawings. Patents are granted

for new inventions designed for industrial use, the emphasis being on the originality of the device. No fees are levied during the first three years after a patent has been granted. Thereafter, renewal fees are payable annually on an ascending scale, starting at SF 100 and rising to SF 900. Patents are not renewable beyond the original 20 year term. According to articles 1a) and 2) of the Swiss patent law of 1954, as amended, the following items cannot be covered by patent protection: species of plants and animals and biological processes for their breeding; surgical, therapy and diagnostic processes for application on humans and animals; and inventions liable to disturb law and order and offend "good morals." Drugs, foodstuffs, and alloys are not excluded from patent protection. Under certain conditions, listed in Article 37 of the patent law, compulsory licensing of patent rights, held by Swiss or foreign nationals or companies, may be possible, but only after proper court proceedings, against payment of adequate compensation, and if the original patent holder did not use his patent rights within a period of four years, and he was moreover unable to provide the courts with convincing reasons why he failed to make use of his patent rights.

Foreign individuals or companies engaged in trade or manufacture in Switzerland may apply for the registration of trademarks, regardless of whether their trademarks are entitled to protection in their own country. Trademarks are protected for periods of 20 years, and may be renewed for like periods. Counterfeiting has become a problem, especially counterfeiting of Swiss trademarks which enjoy an international market lead and reputation. This applies in particular to watches, chocolate, textiles and apparel. Counterfeiting of foreign products in Switzerland on the other hand does not appear to be very widespread. A notorious case of recent date concerned the counterfeiting of "Lacoste" shirts in which a number of Swiss importers and distributors were involved. Swiss courts soon put an effective stop to their activities, and they received heavy fines.

Copyright protection is considered adequate and enforcement of copyright law is efficient and prompt. The only areas known in Switzerland where piracy occasionally occurs concerns the copying of video films and musical tapes. There are two agencies here which collect royalties for cable and other types of retransmission of foreign sound or film programs and remit these to the rightful owners abroad. One is Suisa in Zurich for audio, the other Swiss-Image for visual material. The aforementioned organizations will report any infringement of copyrights that come to their attention to the appropriate authorities which will then initiate the necessary proceedings against offenders.

Provision for protecting new technologies is made under the Unfair Trading Act, revised in May 1988. Without listing specific products or processes, Article 5 of the law stipulates that efforts and achievements of others in the field of new and marketable technologies shall not be exploited commercially through technical procedures by third parties. Furthermore, the Swiss Government is actively

interested in collaboration with other countries within the framework of the World Intellectual Property Organization (WIPO) in working out an international convention for the protection of new technologies. Protection would not actually cover, for example, integrated circuits or semiconductor chips, but entire circuit layouts and complete technical plans. With respect to computer software protection, the Swiss Government is currently revising the Swiss penal code, to include legislation dealing specifically with computer criminality and abuse of credit cards.

Lack of reliable data precludes a definitive analysis with respect to the impact of Swiss intellectual property practices on U.S. trade with this country. However, had there been serious problems they would certainly have come to our attention. Therefore it is reasonable to assume that Swiss intellectual property practices have not materially affected U.S. trade with Switzerland.

8. Worker Rights

a. The Right of Association

Workers have freedom to associate freely, to join unions of their choice, and to select their own representatives. Unions are free to publicize views and determine their own programs and policies to represent member interests without government interference. The right to strike is legally unfettered, but a unique labor peace agreement between unions and employers has provided a nearly strike-free environment for over 50 years.

b. The Right to Organize and Bargain Collectively

Swiss law provides workers the right to organize and bargain collectively and protects workers from acts of antiunion discrimination. The industrial sector is generally unionized; in the service sector, union membership is less general. The government encourages voluntary negotiations between employer and worker organizations, although for the most part employers and workers alike (in common with most Swiss institutions) seek successfully to exclude the government from involving itself in their affairs. Labor law and practice are uniformly applied throughout the country.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor.

d. Mimimum Age for Employment of Children

The minimum age for employment of children is 15 years. Children over 13 may be employed in light duties (e.g., helping in retail stores) for 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. These laws are observed in practice.

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e. Acceptable Conditions of Work

There is no national minimum wage. Employer associations and unions negotiate industrial wages during the collective bargaining process. The Labor Act established a maximum 45-hour workweek for blue- and white-collar workers in industry, offices, and retail trades, and a 50-hour workweek for all other workers. The workweek for blue-collar workers in most industries is 43 hours and for white-collar workers 40 to 43 hours. Overtime is limited by law to 120 hours annually. The economy is normally at or near full employment. The conjunction of wage rates and hours worked results in enough income to provide Swiss workers and their families with a standard of living among the highest in the world. There is little poverty except in unusual situations such as those of certain foreign residents. The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. Special provisions exist for female workers, who may not be employed for dangerous work or, in industrial enterprises, at night or on Sundays. There were no allegations of worker rights abuses from any domestic or foreign source.

f. Rights in Sectors with U.S. Investment

U.S. capital in Switzerland is in general not invested in sectors which entail employment of substantial numbers of production workers. In goods producing sectors, it is found primarily in the chemicals and related products, primary and fabricated metals, machinery, except electrical, electric and electronic equipment, and wholesale trade sectors. Except for special situations, e.g. employment in dangerous activities regulated for occupational health and safety or environmental reasons, Swiss legislation concerning worker rights does not distinguish among workers by sector, by nationality of employing firm, or in any other manner which would result in treatment of workers employed by U.S. firms that differs from that afforded workers employed by Swiss or other foreign firms.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		1,720
Food & Kindred Products	(D)	
Chemicals & Allied Products	251	
Metals, Primary & Fabricated	28	
Machinery, except Electrical	73	
Electric & Electronic Equipment	83	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		5,817
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

TURKEY

Key Economic Indicators

Millions of Turkish Lira Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (1968 factor cost)	251,386.4	267,671.5	287,552.7
Real GDP Growth Rate	7.3	6.5	7.4
Real per capita GDP (1968 prices)	4,877	5,065	5,037
Per capita GDP (current factor cost)	691,185	1,001,350	1,691,816
GDP By Sector (Billions)			
Agriculture	6,706.5	9,705.7	15,870.0
Industry	11,593.3	17,196.6	31,450.0
Manufacturing	9,201.2	13,892.6	25,842.9
Other	17,328.0	26,017.1	44,325.3
Total GDP	35,627.8	52,919.4	91,645.8
Labor Force (000s)	18,512	18,804	19,085
Unemployment Rate (yr avg)	15.8	15.2	14.4
Money and Prices			
Money Supply (M1)(Billions)	5,016.6	8,262.6	8753.5
Commercial Interest Rates (pct)			
Deposit Rates			
Sight	10	10	10-40 (1)
Time			
One month	28	28	40-63 (1)
Three months	35	35	45-68 (1)
Six months	39	38	52-73 (1)
One year	45	(2)	85 (3)
Lending Rate	68	72	100 (1)
Savings Rate (Domestic savings/GNP)	23.8	24.8	24.2
Investment Rate (Fixed Investment)	25.7	25.6	24.9
Consumer Price Index (pct change)	30.7	55.1	57.8(4)
Wholesale Price Index (pct change)	24.6	48.9	54.5(4)
Official Exchange Rate (TL/US$)			
Year Average	669.40	855.68	1379.11(5)
Yr-End rate	755.90	1,018.35	1681.61(6)
Unofficial Exchange Rate (TL/US$)			
Year Average	N/A	N/A	N/A
Yr-End Rate	N/A	N/A	1692.00(6)

TURKEY

Balance of Payments and Trade (Millions of US$)

Exports fob	7,583	10,322	11,450 (est)
Total Exports to U.S.	549	713	396.8 (7)
Imports cif	11,199	14,284	14,000
Total Imports from U.S.	1,177	1,366	940 (7)
Current Account Balance	-1,528	-987	-408 (10)
Overall Balance	786	993	755 (est)
Aid from U.S.(8)			
Economic	119.6	100	32
Military	737	493.5	490
External Public Debt	26,286	32,494	37,411 (9)
Debt Service (paid)	4,657	5,508	6,850 (est)
Gold and ForEx Reserves	4,347	5,212	3,550 (10)

Notes:
(1) As of November 1988.
(2) Rates were freed as of July 1, 1987 and remained as such until February 1988. Average rate for the 4th quarter of 1987 was 53 percent.
(3) Ceiling set by Central Bank as of November 1988.
(4) Change in index from end of December 1987 to end of October 1988.
(5) Estimate (10 month average).
(6) Exchange rate as of October 31, 1988
(7) Year to date as of Aug 1988.
(8) Turkey receives no bilateral economic aid from other countries.
(9) Provisional estimate as of June 1988.
(10) Year to date as of October 1988.

Sources: State Institute of Statistics, Central Bank of Turkey, State Planning Organization

1. General Policy Framework

The historic economic reforms of January 24, 1980 put Turkey on a prolonged path of economic recovery and adjustment. The Government of Turkey continues to build on the market-oriented economic framework initiated by Prime Minister Turgut Ozal. Pursuing an economic development plan based on export-led growth, a relatively free foreign currency regime and liberal foreign investment statutes, Turkey has been viewed as an exemplary debtor country. The strong pace of the gross national product (GNP) growth over the past three years has put Turkey in the ranks of the fastest growing economies of the Organization for Economic Cooperation and Development (OECD), but the pressures of rapid growth have led to an overheated economy. In 1987, there were strong domestic political pressures on the Turkish government. Public spending increased, and there was a worsening of the budget deficit, bringing about a high rate of inflation. The government has taken measures in 1988 to reduce the deficit. The latest government Economic Development Plan targets a real growth rate of 5 percent for 1989 (down from the 1988 estimated rate of 7.2 percent) and an inflation rate of 38 percent. If these necessary efforts to reduce GNP growth and

the rate of inflation are successful, growth in imports should decelerate, at least in the short run.

The consolidated central government budget deficit in 1987 was equal to 4.7 percent of gross domestic product (GDP). It is expected to amount to TL 4,098 billion in 1988, or 4.5 percent of projected GDP. The Turkish Government finances its budget deficit through domestic borrowing, printing money, and issuing government bonds. Since 1980, the Government of Turkey has stressed investment in infrastructure projects, such as the Southeast Anatolia Project. This project encompasses a massive development scheme to integrate the least-developed section of Turkey with the whole, focussing on agriculture. The chronic deficits of the State Economic Enterprises (SEEs) are among the major contributing factors to Turkey's deficit problems. While the government has announced an ambitious program to privatize the SEEs, the only substantial public asset sale was the February-March 1988 sale of a substantial portion of shares in the telecommunications manufacturing concern, Teletas. More sales are scheduled for the near future.

In its 1988 budget, the government proposed a system of financing the budget deficit similar to that of previous years, through the sale of Government bonds and Treasury bills and advances from the central bank. In order to increase Central Government revenues, for the first time since 1983, the Government of Turkey requested a transfer of 30 percent of revenues from the extra-budgetary funds (1.6 percent of GNP) to the Central Government budget. The 1989 budget proposal contains a similar request for revenues from these funds. The government also is trying to increase revenues through better tax collection methods and cracking down on tax dodgers. Because tax evasion is widespread, it remains to be seen whether or not these efforts will be successful.

The government, with the benefit of two financial sector loans from the World Bank, is engaged in an effort to improve the efficiency of its financial markets. The central bank, especially since February 1988, has attempted to place tighter control over the money supply, in an effort to stay in line with the projected growth and inflation rate targets.

The central bank sets targets for broad money (M2) which it seeks to realize through reserve and liquidity requirements and interest rate adjustment policy. Reserve requirements following February 1988 economic measures were at the highest levels in five years. Despite the tight money policies followed by the central bank, thus far in 1988, monetary targets have been exceeded. A "free" interest rate policy for deposits is still evolving, but rates quickly were capped at 85 percent following implementation of the policy in mid-October 1988 .

TURKEY

2. Exchange Rate Policies

Turkey follows a flexible exchange rate policy, with the central bank adjusting exchange rates daily. Current policy aims at an annual effective depreciation of the exchange rate of 5 percent, to keep Turkey's exports competitive. On September 14, 1988 new foreign exchange markets began operation in Turkey, allowing the participation of banks, companies authorized to conduct foreign exchange transactions and private financial institutions. The goal of the new markets is to narrow the discrepancy between official and unofficial exchange rates. So far, it has succeeded in doing so. The central bank, in September, reduced the margins financial institutions observe when fixing foreign exchange rates. The selling margin for checks, money orders and transfers is 0.2 percent above or below the rate set by the central bank; for effective (cash) transactions it is one percent. Buying rates may be set freely.

Although most imported items do not require licenses, importers must apply to commercial banks for foreign exchange allocations and must place non-interest earning guarantee deposits with banks (at the rate of 15 percent of the import value). The deposit is returned after the goods have cleared customs and the foreign payment has been made.

3. Structural Policies

Turkey's structural policies affecting demand for U.S. exports include those pertaining to pricing policies of the State Economic Enterprises, the freeze on new public sector investments, and efforts to reform the tax system.

An important part of Prime Minister Ozal's economic reform framework has been the more efficient and competitive operation of the deficit-ridden State Economic Enterprises (SEEs), using market principles to govern pricing decisions, with the eventual goal of privatization of some of the SEEs. In 1987, SEE production costs increased substantially due to inflation, but the government delayed necessary price increases for SEE products until December. Expected additional SEE price increases in 1988 did not go into effect until after the September referendum. Continued price increases, while necessary for SEE operation, contribute to inflationary pressures. Should wage increases fail to keep pace with the high rate of inflation, the rate of growth of imports could decline.

In early 1988, the government announced a hold on new public sector investment projects. "New project" has not been clearly defined, but projects already given State Planning Organization approval, as well as those for which there will be no initial government investment, such as the build-operate-transfer (BOT) projects, most likely will be completed. In addition, in October, the government published a "saving circular" which requires all public agencies, municipalities, and extra-budgetary fund administrators to seek ministerial permission for virtually all expenditures. The Ministry of

Defense is not excluded from this savings plan. This belt-tightening policy, which is necessary to combat the budget deficit problems, may have a detrimental effect on public sector demand for U.S. imports, but the overall effect still is not clear.

The government launched a major tax reform effort beginning in 1981 which decreased personal income tax rates to a current range of between 25 and 50 percent. In 1985, the government introduced a Value Added Tax (VAT), which helped to contribute to improved revenue levels in 1985 and 1986. Yet one of Turkey's thornier problems is the widespread practice of tax evasion and nonpayment of taxes. In 1988, the government is stressing the new, greater efforts it will be making to clamp down on tax dodgers. Efforts by Turkish authorities to increase tax revenues, if successful, could reduce the budget deficit, thus strengthening the Turkish economy and increasing Turkey's ability to repay its debt and purchase imports.

4. Debt Management Policies

Turkey underwent its balance of payments crisis in 1980, well in advance of the "debt crisis" experienced after 1982 by many other developing countries, but similar in nature. The free-market oriented, export-led strategy which was adopted with substantial financial support from international lenders turned the situation around. However, Turkey's external debt situation has deteriorated again, especially in the last two years.

At the end of 1987, Turkey's external debt amounted to $38.3 billion (exclusive of military debt) compared to $25.3 billion at the end of 1985. Short-term debt in particular, currently estimated at 22.8 percent of the total, has increased in importance. The bulk of the debt (58 percent) is owed by the central government, including the state-owned enterprises. On the creditor side, commercial banks and other private lenders account for nearly one quarter of Turkey's medium and long-term debt but virtually all short-term debt. Bilateral lenders hold slightly less than one-third of the total.

Multilateral agencies account for approximately one-fifth of Turkey's external debt obligations. The World Bank has substantially increased its portfolio in Turkey, which at the end of 1988 will amount to $4.7 billion. At the same time, International Monetary Fund (IMF) obligations will have been paid down to a balance of only $485 million. Since the last drawdown on its IMF program in 1984, Turkey has obtained from the World Bank one structural adjustment and four sector adjustment loans.

The decline in concessional lending, the increased reliance on short-term obligations and the repayment of principal have pushed debt service requirements upward. The debt service ratio, which was already a sizeable 32.1 percent in 1985, is projected to reach 37.9 percent in 1988. Such

high debt service obligations are likely to persist given Turkey's continuing need for external financing in years to come.

5. Significant Barriers to U.S. Exports

Since 1980, Turkey has made significant progress toward dismantling its complicated licensing system. As a result of January 1988 import regime changes, the government requires advance permission for the import of only 33 products, including some raw materials, spare parts, intermediate goods and tools for industry, and electrical equipment. This licensing requirement protects Turkey's domestic industries. Import certificates from the Ministry of Industry are required for most products which require after-sales service (for example photo-copiers, Electronic Data Processing (EDP) equipment, diesel generators, etc.). Although some delays in receiving import certificates for these products and goods on the "import with permission" list are occasionally experienced, import certificates are granted routinely.

Despite the post-1980 trade liberalization measures, Turkey collects a variety of import surcharges and fees to produce revenues as well as to protect domestic industries (specifically those specializing in the production of goods for export). Tariff rates range from 10 percent of the FOB value of the import for intermediate and semi-finished products to a ceiling of 50 percent for consumer goods considered to be luxury items. The number of import items subject to extra-budgetary fund surcharges has increased from 40 items in 1983 to approximately 790. Imported goods are also subject to a municipal tax, a stamp tax (recently raised from 6 to 10 percent), and a wharfage fee. All of these fees added together significantly raise the cost of imported items (particularly automobiles) to Turkish consumers and make the cost of certain imported items almost prohibitive.

The Turkish law regulating foreign investment is one of the most liberal in the world. All foreign investment projects (except petroleum) are evaluated by the Foreign Investment Department (FID) at the State Planning Organization, which can independently approve foreign capital investments up to a fixed investment value of $50 million. Investments in excess of $50 million require the permission of the Council of Ministers.

The U.S. Senate ratified the U.S.-Turkish Bilateral Investment Treaty on October 20, 1988. The treaty guarantees "national treatment" for investors of both countries, assures the right to transfer freely dividends and other payments related to investments and provides for an agreed dispute settlements procedure. The treaty now must be approved by the Turkish Parliament.

U.S. companies often become frustrated over the lengthy and often complicated bidding process for Turkish government tenders. Although the government normally follows competitive bidding procedures in both domestic and multilateral

development bank assisted tenders, the Turkish Government, on a case-by-case basis, requires ministries and public enterprises to include an offset clause in tender specifications when the estimated tender value is equal to or above $1 million.

6. Export Subsidies Policies

The Government of Turkey has used a number of incentives to promote its export-led growth policy. The most visible of these subsidies, is the rebate of indirect taxes paid in the course of manufacturing export goods. It is scheduled for elimination by January 1, 1989, in conjunction with Turkey's 1985 accession to the General Agreement on Tariffs and Trade (GATT) Subsidies Code and its bilateral commitments to the United States. To replace the rebates, the government is trying to expand the resources of the newly created Turkish Eximbank, which makes available short-term export credits at preferential rates. Other export subsidies include exemptions from corporate taxes for corporations engaged in export (which Turkey has pledged to phase out by the end of 1989), exemption from the Value Added Tax (VAT) for items purchased for export, freight incentives, duty-free import of goods that add value to exports, and exemptions from a variety of taxes, duties, and fees.

In 1986, the Turkish Government introduced a new export promotion program, whereby exporters receive from the Support and Price Stabilization Fund premium payments for the export of products on a list which has expanded to include 108 items. This export incentive program was to be a temporary measure to address Turkey's declining exports to the Middle East, but there are no signs that this program will end soon.

7. Protection of U.S. Intellectual Property

Although Turkey is a party to the Paris and Berne Conventions, its intellectual property laws are inadequate in modern commerce. The Turkish Government has given the United States assurances that Turkey is eager to move forward with a modern patent law, and that the eventual legislation would substantially address U.S. concerns about the lack of protection of pharmaceutical and chemical products and methods of their production.

A first step in attaining improved copyright protection for U.S. works in Turkey will occur when the U.S. adherence to the Berne Convention for the Protection of Literary and Artistic Works becomes effective. With the U.S. adherence to the Berne Convention, a copyright relationship between the United States and Turkey will be established. The next step is to encourage Turkey to live up to its commitments under the Berne Convention by modernizing its copyright law and providing effective enforcement mechanisms. Turkey passed a cinema and video law in 1986 to address concerns about extensive video and audio cassette piracy. The U.S. film industry has been working with the Government of Turkey to

establish a registration system that will aid implementation of the new law.

Existing Turkish patent law is inadequate. There is no patent protection available for human or veterinary drugs and biological inventions, including plant varieties. In addition, the patent term in Turkey is only 15 years, measured from the date of filing a patent application (as opposed to the U.S. term of 17 years from the granting of a patent).

Although Turkey does have a copyright law, unauthorized copying of U.S.-origin books, motion pictures, sound recordings, and computer programs is rampant. The U.S. and Turkey have held discussions concerning the term of protection for cinematographic and photographic works, the lack of copyright protection for sound recordings, and the strengthening of enforcement and penalties. The 1986 registration law for films, video cassettes, and sound recordings is not part of the copyright law. It is too early to make firm judgments on the enforcement of this law in local courts, but a mid-1987 case decided under the law enjoined illicit distribution of one U.S. film in videocassette format.

Turkey's seed registration, control and certification law does not ban unauthorized propagation of foreign firms' proprietary seed. Cases of seed pirating in Turkey have been documented.

The lack of adequate protection of intellectual property in Turkey has been a serious problem. It is difficult to estimate the degree of U.S. export losses due to these trade-distorting practices. As the government gives more priority to improving patent and copyright protection by enacting new legislation and strengthening enforcement, the market for U.S. goods should increase.

8. Worker Rights

a. The Right of Association

Most workers have the right to associate freely. Among those who do not have the right to form representative unions are public schoolteachers, civil servants, the police, and the military.

Union officers may serve no more than eight consecutive three-year terms in a given office. The Constitution requires candidates for office to have worked 10 years in the industry represented by the union. Like other associations, unions must have government permission to hold special meetings or rallies, and police officers must be allowed to attend and record the proceedings of both special and mandatory meetings. The government protects the person and property of trade unionists.

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The 1982 legislation banned unions and their officers from any political activities. The 1988 amendments to those laws clarified the right of unions and their officers to express their views on issues which directly affect their members' economic or social interests, but they did not undo constitutional provisions which forbid any union role in party politics. Unions may not establish organic or financial connections with any political party or other association. In practice, union leaders and the executive board of the Turkish Confederation of Labor (Turk-Is) have undertaken significant political activities. In 1988 Turk-Is campaigned hard against the government's position in a referendum on the timing of local elections, a clearly political issue. While several members of the ruling party called for legal action against Turk-Is, no case arising from its referendum activities has yet been opened against the Confederation.

In some circumstances, the government may take over the assets of a union or confederation after a lengthy court proceeding. This procedure was used in the case of the Confederation of Revolutionary Workers Unions (DISK), which was dissolved by a military court in a proceeding which began in 1981. At year's end the case was on appeal.

Workers have the right to strike. Turkish law and the labor court system, however, require collective bargaining before a strike. The law specifies a series of steps which a union must take before it may legally strike, and a similar series of steps before an employer may engage in a lockout. Nonbinding mediation is the last of those steps. Once a strike is declared, unions are restricted in the actions pickets may take, as well as the number of pickets they may place at each entrance and exit of a strike site. The struck employer may respond with a lockout. If he chooses to remain open, he is prohibited from hiring strikebreakers or from using administrative personnel to perform jobs normally done by strikers. Unions are forbidden to engage in secondary or solidarity strikes, wildcat strikes, or general strikes. In the peak strike year of 1987, all strikes were peaceful, and all ended in collective agreements. That trend continued in 1988.

The International Labor Organization (ILO) has, for a number of years, considered allegations that Turkish laws contravene the standards of ILO conventions which Turkey has ratified. Several ILO missions have visited Turkey in recent years and suggested significant changes in Turkey's labor laws and Constitution. The May 1988 amendments to the Labor Law addressed some of the ILO recommendations. In November the ILO's Committee on Freedom of Association noted improvements in the existing labor legislation but insisted on several additional major amendments to correct provisions incompatible with freedom of association: specifically, the right to establish organizations without previous authorization; to draw up constitutions and rules and elect representatives in full freedom; and to bargain collectively without government interference.

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Turk-Is is affiliated with the International Confederation of Free Trade Unions (ICFTU) and the European Trade Union Confederation (ETUC) and represents Turkish workers at the ILO. The Confederation of Revolutionary Trade Unions (DISK), although dissolved by court action, is still carried as a member of the ETUC, and its legal appeals have been actively supported by all three major trade union internationals: the ICFTU, the World Federation of Trade Unions, and the World Confederation of Labor.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively exists for almost all industrial workers in Turkey. The Constitution, the Labor Law, and the Collective Bargaining, Strike, and Lockout Laws make these rights clear. Most industrial activity is organized, as well as some public sector agricultural activities.

The law favors established unions by requiring that a union must have as members 10 percent of the workers in a given work branch as well as 50 percent plus one of the workers at a given work site in order to become a bargaining agent. There is no agent election. The union submits its membership roll to the Ministry of Labor and requests certification as the bargaining agent. Once certified, the union receives dues, check-off privileges, and compensatory payment from nonunion members. The employer must enter good-faith negotiations with the certified union.

In the organized sector of the economy, collective bargaining is the norm. Even in those sectors in which there is no right to strike (for reasons relating to national security, broadly defined, or in newly established free trade zones) collective bargaining, followed if necessary by binding arbitration, is the rule.

Unions complain that the ban on strikes outside the collective bargaining process makes it impossible to protect members against retribution for organizing or performing other union functions. Charges of employer retribution against union activists may be raised in labor courts, which most employers regard as fundamentally prolabor. Few incidents of antiunion discrimination are reported.

Although organization and collective bargaining are permitted in newly established, duty-free zones near Adana and Antalya, workers in those zones will not be allowed to strike until 1994 (10 years after the zones were legally established). Until that date, differences between union and employer which cannot be settled otherwise will be determined by binding arbitration. Workers in these zones are paid in foreign exchange rather than in Turkish currency.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not practiced.

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d. Minimum Age for Employment of Children

The Constitution and labor laws forbid employment of children younger than 14 years of age and require those above 14 who are in school to have their work hours adjusted accordingly. The Constitution also prohibits women and children from engaging in physically demanding jobs, such as underground mining, and from working at night. The Ministry of Education and Sports enforces the laws effectively in the organized industrial area.

In practice, many children work in Turkey. In the major cities, many young boys shine shoes and sell pretzels and sandwiches on the street. In family-owned businesses, including restaurants, boys visibly younger than 14 work long hours as busboys. Rural families frequently need the small income their children can generate by working outside the family.

In addition there is an informal and essentially unsupervised apprentice system, in which young boys work at low wages in hopes of learning a trade. Auto repair shops frequently have underage helpers. Girls, because of traditional efforts to shield them from public view, are rarely seen in such circumstances, but many are kept out of school to work at home, especially in rural areas, and may also be employed while under age in the manufacture of handicrafts and rugs.

e. Acceptable Conditions of Work

A tripartite group made up of representatives of labor, government, and employers sets an annual minimum wage. Inflation and rapid devaluation of the Turkish currency against the U.S. dollar had reduced its international value significantly by year's end.

The minimum wage is effectively enforced. Most workers, however, earn considerably more than the minimum wage. It should be noted that workers also receive a hot meal daily (or a food allowance), transportation to and from work, a fuel allowance, and other fringe benefits which make the salary only about one-third of total remuneration.

The Constitution provides for a nominal 45-hour workweek and mandates a right to leisure. Most unions have bargained for fewer hours in the workweek, both to produce more leisure time and to ensure more overtime, which earns premium pay. Labor law limits the number of overtime hours a worker may be required to work to 270 per year.

Occupational safety and health regulations are nominally mandated by the Constitution. In practice, limitations on financial resources and knowhow, lack of safety awareness, fatalism, and carelessness often lead workers and employers to eschew basic devices, frequently resulting in poor occupational safety and health records. To date, the government has not carried out an effective inspection and enforcement program.

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f. Rights in Sectors with U.S. Investment

Petroleum - Strikes are forbidden in this sector. Otherwise, worker rights are respected.

Food and related products - There are no restrictions on worker rights.

Chemicals and related products - There are some strike restrictions, depending upon the field.

Primary and fabricated metals - There are no restrictions in the private sector.

There are no restrictions in the machinery, except electrical electric and electronic equipment, transportation equipment, and other manufacturing and the wholesale trade sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		88
Total Manufacturing		52
Food & Kindred Products	3	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	(*)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	9	
Transportation Equipment	4	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Billions of Pounds Except as Stated

	1986	1987	1988 (1)
Income, Production, and Employment			
GDP (current prices)	377.71	411.07	443.84
GDP (constant 1985 prices)	364.66	378.48	392.86
GDP by Sector			
Manufacturing	143.2	157.0	168.7
Agriculture	6.8	7.4	7.8
Services	227.8	246.6	267.4
Real per capita GDP (pounds)	6,300	6,525	6,773
Labor Force (Millions)	28.6	27.7	27.6 (2)
Number of Unemployed (yr-end)	3.1	2.61	2.27
Unemployment Rate (pct)	10.8	9.4	8.2 (2)
Money and Prices			
Money Supply (M1)	74.2	91.5	102.01
Interest Rates (pct yr-end)	10.6	7.6	5.9
Savings Rate (pct)	6.3	4.4	3.8 (2)
Investment Rate (pct of GDP)	20.5	20.6	22.0
Consumer Price Index (Jan 87=100)	99.1	103.2	108.2 (2)
Exchange Rate (US$/pound)	1.4745	1.8715	1.6815
Balance of Payments and Trade			
Total Exports fob (3)	98.6	107.4	108.9
Total Imports cif (3)	101.5	111.7	123.4
Total to U.S.	15.3	18.2	18.6
Total from U.S.	-1.7	15.1	18.1
Trade Balance with U.S.	2.7	3.1	0.5
External Public Debt (4)	18,678	41,518	44,716 (2)
Annual Debt Service Payments	17.2	17.7	17.6
Gold and ForEx Reserves	11,700	19,101	17,367
Current Account Balance	0.12	-2.01	-12.5

(1) Annualized/projected from partial data
(2) End of second quarter
(3) Goods and services
(4) End of period, expressed in millions of dollars. Does not include special drawing rights of reserve position in the IMF.

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1. General Policy Framework

A member of the Organization for Economic Cooperation and Development (OECD), the UK economy operates largely on the basis of free markets and open competition. It has some remaining barriers to international trade and investment including preferential treatment for national firms in the oil and gas industry, telecommunications equipment supply and in heavy electrical equipment procurement. However, the UK is recognized as one of the most open countries for international trade, particularly in financial services. Recent national economic policy has been dominated by fiscal restraint in public spending, efforts to control increasing inflationary pressure and attempts to stabilize the exchange rate of the pound against the deutsche mark and the dollar. The government has largely succeeded in fiscal policy with a current budget surplus of over 10 billion pounds. It has been less successful in controlling inflation which is currently growing at an annual rate of over six percent.

Structurally the current government in the UK has adopted policies promoting economic liberalization: deregulation of industry (e.g., financial services, telecommunications, transportation), privatization of nationally owned enterprises (e.g., motor vehicles, aircraft, steel, electrical and water utilities) and labor supply (passage of four employment bills or amendments in five years). The UK is a signatory to the Berne Convention and adheres strictly to the protection of intellectual property rights. All companies (foreign and domestic) operating in the UK are required to abide by the employment laws covering worker rights, health and safety and contracts.

The UK Government is faced with a delightful dilemma. Despite a series of tax reductions in recent years, the budget is expected to be in surplus by over 10 billion pounds. Tax revenues have grown faster than expected as both corporate profits, personal income tax payments and consumption tax (particularly the Value Added Tax VAT) have all risen in response to rapid economic growth of the past few years. The government recently achieved its goal of reducing the basic rate of personal income tax to 25 percent and has now set a new target of 20 percent to be achieved "as and when prudent to do so".

Despite this embarrassment of riches, the government has kept a tight lid on public sector expenditures. Over the past five years real public expenditures have grown more slowly than the gross domestic product (GDP) and have now declined to an estimated 39.75 percent of GDP. The government expects this ratio to continue to fall to below 39 percent by the end of financial year 1990. In addition, savings have come from the privatization program which provides not only current income from asset sales but also reduces the heavy drain of subsidies from the Treasury. Repayment of the national debt should also reduce the burden of interest payments in coming years.

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With its own books in order, one might expect the government to face smooth sailing in the coming year. However, there is mounting pressure to adopt even more restrictive fiscal policies to rein in the galloping economy. The government has eschewed the use of an activist fiscal policy to fine-tune economic growth (relying instead on a five-year "medium-term financial strategy" and tight monetary policy to provide a steady basis for economic development). There is growing pressure to dampen consumption and ease inflationary pressures. Just how this is to be done remains problematical. However, a number of steps have recently been taken including de-indexation of certain social benefits (thus slowing growth of personal incomes), raising the income ceiling for national insurance payments (roughly the equivalent of social security taxes), which should put more money into savings and less into consumption and, creation of new national savings instruments to induce greater personal savings in lieu of consumption.

Monetary policy in the past year has been a difficult proposition. Using the base interest rate, the government has tried to control both consumption and the exchange rate, often conflicting goals. The government has also used exchange market intervention (usually sterilized) from time-to-time in an effort to stabilize the pound, particularly against the Deutsche Mark. Since the UK is among the most open economies in the world, particularly in terms of capital movement, the growth of the money supply has proven troublesome in recent years. Currently M3 is growing at annual rates approaching 20 percent and there seems to be little sign of a slowdown.

2. Exchange Rate Policies

There are no exchange controls in the UK.

3. Structural Policies

The UK currently boasts the third fastest growing economy (behind Japan and Canada) in the OECD. Real GDP grew by 3.6 percent in 1987 and most forecasters expected it to reach over 4 percent growth in 1988 before slowing somewhat in 1989. Underpinning the rapid growth has been an increase of almost seven percent in manufacturing productivity in 1987 and 1988.

Tax reform has reduced both marginal income tax rates and the number of income tax bands in recent years. Combined with rapid growth in the amount of overtime hours worked and the decline in the number of unemployed, these reforms have produced dramatic growth in real personal disposable income over the past eight years. Riding the crest of the property boom personal wealth has grown even more rapidly.

The government maintains a regime of investment incentives to encourage establishment of plants in economically depressed areas. These programs have been of decreasing importance and funding for them has diminished in recent years. In general, foreign direct investment is

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treated no differently than investment by UK entities. There have been recent exceptions to this rule as potential Kuwaiti and South African control of UK firms caused political reactions in the UK.

Reflective of the structural reform in the economy, per capita output has risen by over 7 percent in the past year while overall output in the production industries is currently growing at an annualized rate of almost 6.5 percent in real terms. Output of manufactures is growing even more rapidly, at an annualized rate of over 11 percent in real terms. The trend of high productivity growth should continue for some time as investment in new plant and equipment supports further output gains. The most important governmentally induced changes to the structure of the UK economy in recent years have been in the area of employment regulation. With four major employment acts passed in the last five years, much of the old labor rigidity has been thrust aside in favor of a new, more responsive work environment.

UK businesses have invested heavily for the future with record breaking levels of investment in each succeeding quarter over the past two years. Real investment in 1988 is expected to be almost 12 percent higher than in 1987. Housing, plant and equipment for the production industries and transportation equipment all contributed to the rapid growth of investment. Very high levels of corporate profits, combined with booming domestic sales prospects and better than expected export sales prospects all appear to have contributed to the investment boom. In addition, the national housing market remains strong (although the London market appears to be weakening). We do not expect investment to continue at the frantic pace of the past six quarters but it will continue to grow at a reasonable rate (approximately 7.3 percent) over the next year.

The UK trade account reflects the economic reality of an open trading nation with a very high rate of growth and a strong currency when compared with its major trading partners (the U.S. and Germany) it is currently heavily in deficit. While exports rose at a respectable rate of 9.2 percent in 1987 to 79.4 billion pounds, imports rose even more rapidly by 10.1 percent to 89.6 billion pounds. In 1988, the situation has been exacerbated by the continued decline in the price of oil (the UK is a net oil exporter) and by the continued high level of consumer demand. Current prospects are for slower growth of about 3.5 percent in exports for the year as a whole while imports are expected to grow by around ten percent again this year. As a result, the merchandise trade balance is expected to show a deficit of 17 billion pounds in 1988 compared to a deficit of about 10 billion pounds in 1987. At the same time, net income from the invisibles trade sector has declined in recent years. The current account balance is, therefore, expected to show a deficit this year of approximately 12 billion pounds compared to 2.5 billion pounds last year.

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The price of higher than average growth this year has been higher inflation. Prices for inputs in manufacturing have eased somewhat over the past year as the stronger pound slowed the growth in the costs of imported raw materials. In addition, lower oil prices have reduced the cost of energy inputs in manufacturing. However, wages have been growing steadily over the year as high corporate profit margins and moderate growth in unit labor costs have been transformed into higher wage agreements. These wage increases have been translated very quickly into higher output prices for manufactured products and the wholesale price index has shown a troubling upward trend in recent quarters. While the latest figures suggest that the retail price index is currently growing at an annual rate of almost seven percent, other measures of inflation show a somewhat more moderate picture. The government has set the fight against inflation as its first priority and most analysts believe that the longer run prospects are for lower inflation in the UK in the next few years following a peak in the retail price index in the second half of 1988. Because of the high productivity growth, unit labor cost growth has been moderate. (In the first seven months of 1988, unit labor costs in manufacturing in the UK grew by only 0.8 percent.) As productivity growth slows in the coming year, unit labor costs will turn up.

4. Debt Management Policies

Under present programs, the UK Government is not incurring any additional public debt. Barring any unforeseen and unanticipated expenditures, the government could pay off its public debt by the mid-1990s.

5. Significant Barriers to U.S. Exports

Although the UK maintains a liberal investment climate for foreign investors, it also has place certain limitations on foreign investment in the following sectors: cinema films, selected major manufacturing, aerospace, broadcasting, and maritime and shipping. In addition, the principle of reciprocity is applied in the investment banking field. The UK offers a range of investment incentives to firms investing in the country. The major incentives come in the form of capital allowances.

For more than ten years the United Kingdom has provided preferential treatment to British-based firms that provide offshore oil field supplies and equipment services. This is done through the operation of the Offshore Supplies Office (OSO) and its aggressive policy of providing a "full and fair opportunity" for British-based firms to compete for and win North Sea contracts. Her Majesty's Government reinforces this policy by linking the award of future exploration rights in the North Sea with the cooperation oil companies give to OSO.

In January 1985 the British made this policy more discriminatory by officially encouraging oil companies to award contracts involving new offshore technology to firms

with majority British ownership. The government described this as an effort to anchor new technology in the UK. The United States contended it violated the principle of national treatment for foreign investors.

U.S. companies located in the UK often have benefited from the "British based" aspect of OSO operations, even as U.S. companies seeking to export into the UK from the offshore may have been at a disadvantage. The 1985 twist to the policy favoring British-owned firms for new technology contracts coincided in time with the collapse of oil prices. Consequently, not enough new contracts have been awarded to gauge the commercial effects of that policy. Nonetheless, it appears that U.S. companies have decided to restructure their new technology operations by forming majority-owned British joint venture subsidiaries. In this way they are favorably placed, rather than disadvantaged, in the competition for such contracts. Consequently, it may turn out that the financial impact of the "technology anchoring" policy may be less significant than its effect on influencing company organizational decisions.

Almost all agricultural trade issues are US-EC and not bilateral US-UK matters, inasmuch as the EC is virtually a single market in agriculture. Nevertheless, in the poultry and processed meats area, the UK operates very restrictive plant certification criteria which severely limit the opportunities for US exports. In the absence, so far, of third country directives on poultry and processed meats, the government unilaterally applies conditions laid down in intra-Community directives in a very narrow and highly selective manner. As a result, only five U.S. poultry slaughter plants and only ten meat processing plants have UK approval for export.

In May 1987 the United Kingdom announced it would provide 775 million dollars in support for the launch of the Airbus A330 and A340 commercial transport aircraft programs. Existing aircraft developed through these programs compete directly against Boeing and McDonnell Douglas aircraft. The Airbus A330 and A340 aircraft compete with Boeing's B-767 and other models and with the McDonnell Douglas MD-11.

Insufficient information on the economic analysis behind these support decisions or the terms for providing this launch aid and its government repayment makes it difficult to estimate whether the support was provided with a reasonable expectation of reimbursement. The United States questions whether these launches are both economically viable based upon normal commercial criteria and consistent with government support obligations contained in the General Agreement on Tariffs and Trade (GATT) Aircraft Agreement.

In addition to these development supports, there is some evidence Airbus countries have intervened in third-country sales by offering political and economic inducements to promote Airbus over U.S. aircraft.

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The U.S. aircraft industry estimates the Airbus A320's introduction has cost it more than 150 commercial aircraft sales. Assuming U.S. producers would have made these sales and accounting for the portion of A320 value U.S. vendors provide, this support has affected 3 billion dollars in potential U.S. sales to date.

Although it is not possible to calculate the precise impact of Airbus programs on U.S. employment, about 50,000 U.S. jobs will be lost if Airbus industrie reaches its goal of 600 A320 unit sales by 1998. Reliable estimates are unavailable on U.S. job losses from other Airbus programs.

It also appears the aggressive sales practices of Airbus industrie have resulted in price suppression in various sales competitions. Continued erosion of profit margins could have a significant long-term impact on the U.S. industry. There is evidence that interventions by the United Kingdom and other Airbus governments in third-country and European aircraft sales competitions and in component and engine sourcing decisions may have added to U.S. aircraft industry sales losses.

Despite lighter regulation aimed at more competition in the UK telecommunications sector and recent privatization of the British telecommunications system, most switching and transmission equipment purchases are of UK-made equipment.

British Telecommunications (BT) is a 51 percent privately-owned and 49 percent government-owned company. It provides basic telephone service to 96 percent of the British public. As BT is a private company, British law does not require open bidding before BT can buy from its own equipment manufacturing subsidiaries. BT support of the national industry is still apparent although more muted than in the past.

All customer premises equipment has been opened to competition for supply, installation and maintenance. Subscribers are free to purchase type-approved instruments from any source and plug them into the network using approved connections. BT engineers must handle attachments to the network (i.e. wiring in).

The Telecommunications Act of 1981 authorized the British Standards Institute (BSI) to develop telecommunications standards. It also created the British Approvals Board for Telecommunications (BABT) to certify equipment in compliance with established standards.

In November 1986 the Office of Telecommunications (OfTel) recognized there were substanital BSI delays in writing technical standards. Pending BSI's establishment of standards, OfTel used "temporary" standards it developed and many existing BT standards.

BSI has developed comprehensive standards and the BABT has been set up as an independent test authority under the authority of OfTel. All equipment including that of BT must

undergo BABT's testing processes which, after November 1, 1988 began evaluating new applications for type approval. OfTel hopes to advise the Secretary of State in the near future to appoint BABT in its own right to grant certain approvals under Section 22 of the Telecommunications Act. Some consider the BABT's testing and certification processes difficult and time-consuming.

The United Kingdom now licenses two public telecommunications entities, British Telecom and Mercury, to provide basic domestic and international telecommunications services. The United Kingdom has scheduled a review of this duopoly for 1990. The resale of basic services is prohibited before 1989, when the prohibition will be reconsidered. Under the 1984 Telecommunications Act, the United Kingdom license private telecommunications systems. In April 1987, the United Kingdom issued a class license for telecommunications systems providing value-added and data services which permits resale of leased capacity for these telecommunications services.

However, simple resale, basic voice/telex, land mobile radio and cable television are excluded from the class license. Value-added and data service providers are subject to registration and publication requirements.

The United States is working with the United Kingdom to extend its liberalization of services to the provision of value-added and data services between the United States and the United Kingdom. In October 1988 the US and the UK concluded an arrangement to promote the use of private leased lines for this purpose.

The UK telecommunications market totaled 3.2 billion dollars in 1984 and could grow to 4.3 billion dollars by 1989. U.S. exports to the United Kingdom were 191 million in 1986, making it the largest European market for the United States.

If BT began buying a significant share of its central office equipment from non-British equipment suppliers, a 1.4 billion dollar market would open to U.S. companies each year.

All electricity in England and Wales is generated by the Central Electricity Generating Board (CEGB), a government-owned corporation. The electricity council manages its activities. In Scotland energy is generated by two government-owned utilities. No large steam turbine generator units or large power transformers in the system or any of their major parts used in the United Kingdom are imported.

The CEGB generally uses competitive bidding procedures. It operates an 'approved list' system for tendering. Any firm in the UK is eligible to apply for inclusion on the 'approved list' of potential bidders.

In the past some CEGB sources have stated that foreign firms are not considered acceptable suppliers for steam turbines or large transformers. There also appears to be a

strong tradition of direct, undocumented contact between CEGB and potential bidders based on previously satisfactory contracts. This makes it very difficult for U.S. companies to compete successfully.

The UK Government intends to introduce legislation to privatize the electricity industry in England and Wales. This should, in theory at least, do away with many of the barriers described above.

Given the extremely low investment in recent years, it is difficult to measure the full trade impact of this barrier. If allowed to compete, U.S. suppliers could obtain contracts in the upgrading plans anticipated for the near future.

6. Export Subsidies Policies

The UK does not subsidies exports and has no special export promotion programs.

7. Protection of U.S. Intellectual Property

The UK is a party to the Berne, Paris and Universal Copyright conventions and to the Patent Cooperation Treaty.

UK intellectual property laws are strict, comprehensive and rigorously enforced. A new copyright bill, currently under consideration in Parliament, is designed to make copyrighting a more simplified, user-friendly procedure and will also contain the authority to adhere to the most recent acts under the Berne Convention. The government positions in international fora, such as the World Intellectual Property Organization (WIPO) and the General Agreement on Tariffs and Trade (GATT) talks (Uruguay Round), are virtually identical to U.S. positions.

The one irritant is that the British library under both current laws and the new copyright bill is authorized to provide single copies of portions of U.S. copyrighted scientific journals to individuals. (Schools and other multiple-copy users are charged a royalty.) The issue has been raised with the government, which suggested that the Association of American Publishers (AAP) pursue the issue with the British library. The AAP has not provided estimates of losses.

8. Worker Rights

a. The Right of Association

British workers have the right to associate freely, choose their own representatives, publish their own journals, openly promote their members' interests and views, and elect representative assemblies through which union policies and procedures are determined. In the main, these rights are shared by workers in British dependent territories and

possessions. The UK Government, which has ratified ILO conventions covering trade union rights, has, on behalf of its dependent territories and possessions, declared their adherence to these conventions. The UK and Chinese Governments have agreed that these conventions will continue to apply in Hong Kong after 1997.

In law, there is no formal right to strike. Voluntary cessation of work may be considered as breaking the employment contract. However, a system of legal immunities has evolved which protects unions from prosecution when engaged in legitimate trade disputes. The circumstances in which such immunities exist have been narrowed in the UK following legislation adopted in the 1980's which has more tightly defined legitimate trade disputes, e.g., excluding unions and workers engaging in secondary industrial action. Industrial actions arising from political rather than industrial concerns, including sympathy strikes, are no longer immune from possible liability under civil law. In the rare instance where the right to strike is prohibited, e.g., for police officers, there are alternative means to resolve differences. Similar restrictions apply in the dependent territories and possessions. Hong Kong workers are not guaranteed the unequivocal right to strike. Employees hired on a contract basis can be fired for breach of contract if they walk out.

UK unions are free from government control. However, legislation adopted in 1988 set legal requirements for the periodic election by postal ballots of senior trade union officials, mandated postal ballots before a strike call may be issued, prohibited unions from disciplining individual members who choose not to honor a legally called strike, and established procedures by which individual trade union members could bring complaints against their union to government-appointed ombudsmen. The British Trades Union Congress (TUC) lodged a complaint with the ILO charging that these measures represent unwarranted interference in the internal affairs of the trade unions and are contrary to provisions of ILO conventions on the right of association and the freedom to organize. The UK Government informed the ILO that it would respond to this complaint.

There are no limitations on the freedom of UK unions to maintain relations with international organizations and they participate actively in a wide variety of international trade union groupings.

In common with other persons and organizations, trade unionists in the United Kingdom and dependent territories and possessions are afforded protection of self and property.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is deeply rooted in common law and widely practiced. This right is confirmed under appropriate ILO conventions in the UK and dependent territories and possessions. There is no legal obligation for employers to bargain with workers' representatives, but collective bargaining is extensively

practiced in the UK. Approximately 12.5 million workers, or 43 percent of the work force, are organized and working under collectively agreed conditions of employment. All collective bargaining in the UK is voluntary. There are no export processing zones in the UK. Allowing for the different legal systems applicable to England and Wales, Scotland, and Northern Ireland, their labor laws are, in effect, similar. The government actively encourages the resolution of disputes through the good offices of the governmental Advisory Conciliation and Arbitration Service (ACAS). Such arbitration is voluntary and under conditions agreed to by the parties to the dispute. Employers and trade unions make extensive use of ACAS assistance.

Following several years of inability to negotiate contracts over wages and conditions of employment for UK teachers under the then-existing negotiating machinery, in 1987 a bill was passed by Parliament on teachers' pay and conditions. Under this bill, the existing negotiation procedures were abolished and an advisory commission established to examine matters relating to pay and conditions of employment and to make recommendations to the Secretary of State for Education. The Secretary was empowered to accept, reject, or modify these recommendations. This bill is to be in effect until March 31, 1990, by which time a new negotiating procedure is to be in place. The government enforced its ban on trade union membership at its highly sensitive communications intelligence facility in Cheltenham in October when it fired four employees who retained union membership. The remaining trade union members either were dismissed, retired, or transferred during November and December.

The trade unions complained to the ILO Committee on Freedom of Association that these actions violated the provisions of Convention 98 on the right to bargain collectively. The government responded that its actions fall under the provisions of Convention 151 governing pay and conditions of public servants. The government further noted that the temporary nature of the bill on teachers' pay and conditions and the ongoing discussions with the teachers' unions over new negotiating procedures indicated that the dispute was on the way to resolution. The ILO Committee on Freedom of Association requested that the government report any developments which might take place.

Workers who believe themselves victims of antiunion discrimination, up to and including dismissal, may appeal for redress through industrial tribunals. Remedies could include the payment of substantial indemnities as well as reinstatement by employers found guilty of discriminatory practices.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited in the UK and its dependent territories and possessions and is not practiced.

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d. Minimum Age for Employment of Children

The Education Act of 1944, as amended, defines the compulsory school age as 16 years in the United Kingdom. Children under the age of 16 are prevented from working in an industrial undertaking, except in situations where they are participating in an organized work experience program as part of an educational course. Local education authorities are empowered to prohibit or restrict the hours of employment of children where they deem such employment to be a hindrance to a child's education.

Child labor is not deemed to be a problem in the UK, and such action by local education authorities is rare.

e. Acceptable Conditions of Work

The UK does not have a comprehensive minimum wage framework. In a small number of industries where union representation has traditionally been limited, or where workers are predominantly casual or part time, a system of wage councils operates. Until the enactment of the 1986 Wages Council Act, the councils, consisting of employers, trade unionists, and independents, established minimum hourly wages, basic hours of work, and holiday entitlement in the sectors concerned. The provisions were legally enforceable by the wages council inspectorate. The 1986 Act curtailed the scope of the councils by removing workers under the age of 21 from their protection and by limiting their influence to matters of minimum hourly rates and overtime rates. The minimum rates vary from industry to industry. The minimum wage at entry level in the service sectors is about $3.60 per hour. The average annual wage in the service sectors is about $11,285.

The keystone of UK occupational health and safety legislation is the Health and Safety at Work Act of 1974 which places a duty upon employers to act in such a way so to ensure "as far as is reasonably practicable" that the health and safety of employees and any others are not placed at risk. The Act established two bodies. The Health and Safety Executive, with its inspectorate, is responsible for enforcing health and safety regulations. It may initiate criminal proceedings against employers and may issue enforcement notices. The Health and Safety Commission submits proposals for regulations to the government, may appoint committees of inquiry to investigate accidents, and encourages research and training. The Safety Representatives and Safety Committees Regulations of 1977 provided that recognized trade unions may appoint safety representatives from among employees and that employers must grant paid leave to such representatives to undertake their duties and to receive health and safety training. Where two such representatives formally request, an employer is obliged to establish a safety committee in which the employer's and employees' representatives meet jointly to consider health and safety issues.

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It is a widely held view that the UK system of occupational health and safety is efficiently managed and operates with the full involvement of workers' representatives. In recent years, trade union leaders have commented that reductions in the numbers of health and safety executive inspectors have limited the inspectorate's ability to visit all workplaces. In Hong Kong, government regulations have set standards for industrial safety which follow the UK model.

f. Rights in Sectors with U.S. Investment

All U.S. corporations operating within the UK are obliged to obey legislation relating to workers' rights as outlined above. U.S. companies have adopted prevailing British practice in their sectors and so recognize and bargain with workers' representatives to the same degree as other UK-based companies.

Exception clauses written into the equal opportunity legislation allow employers to discriminate against the employment of women where the nature or location of the work requires workers to live on the premises and where it is not deemed to be reasonable for the employer to provide separate accommodation for women. As a result, U.S. employers in the petroleum industry who operate production rigs in the North Sea are not required to consider women job applicants.

U.S. companies operating in food and related products and the wholesale trade may be affected by wage council orders establishing a minimum wage.

In practice, the sectors where UK children do seek part-time employment, e.g., agriculture, retail industry, and other service industries, are not covered by this report.

Standards of health and safety in the petroleum industry generally are currently a subject for debate within Britain, in the wake of the 1988 Piper Alpha oil rig disaster in which more than 130 workers died. Discussion has focused on the adequacy of the safety inspections and upon the provision of safety training for contract workers employed on oil rigs in the North Sea. There has been no suggestion that U.S.-owned companies in the industry have a better or worse safety record than other companies.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		11,011
Total Manufacturing		18,268
Food & Kindred Products	2,599	
Chemicals & Allied Products	3,008	
Metals, Primary & Fabricated	583	
Machinery, except Electrical	3,865	
Electric & Electronic Equipment	1,238	
Transportation Equipment	2,188	
Other Manufacturing	4,787	
Wholesale Trade		2,035
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		31,314

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

	1986	1987	1988 (est)
Income, Production, Employment			
(Official Soviet Statistics)			
National Income Produced (billion rubles)	587.4	599.6	625.0
Real National Income Growth (pct)	4.1	2.3	4.4
By sector (pct)			
Industry	43.9	44.8	N/A
Agriculture	20.6	20.4	N/A
Construction	12.0	12.5	N/A
Trans & Communications	6.2	6.1	N/A
Trade, material and technical supply, and other sectors	17.3	16.2	N/A
GNP (billion rubles) (1)	N/A	825	866
Real GNP Growth (pct)	4.1	3.1	5.0
Unemployment	N/A	N/A	N/A
(US Estimates)			
GNP (billion 1987 US$) (2)	2,361	2,375	2,420
GNP (bil 1982 rubles estab prcs)	783	793	809
GNP (bil 1982 rubles, factor prcs)	712	719	733
Real GNP Growth (pct) (3)	3.9	0.5	2.0
GNP By Sector (pct) (3)			
Agriculture	20	19	N/A
Industry	34	34	N/A
Construction	8	8	N/A
Transportation	10	10	N/A
Communications	1	1	N/A
Trade	6	6	N/A
Services	19	20	N/A
Other	2	2	N/A
Per-capita GNP (1987 US$) (2)	8,390	8,360	8,450
Labor Force (millions)	150.09	154.84	155.65
Money and Prices			
Money Supply	N/A	N/A	N/A
Savings (billion rubles)	242.2	266.9	297.5
Average Account Balance (rubles)	1,361	1,424	N/A
Average Monthly Wage (rubles)	195.6	202.9	217.0
Industrial workers	215.7	221.9	N/A
Collective farmers	163.0	170.0	178.0
Commercial interest rates	N/A	N/A	N/A
Savings Rate (pct nat'l income)	41.0	44.5	47.6
Investment rate			
Percent of Nat'l Income (4)	33	34	36
Percent of GNP (US estimate)	33	33	N/A
Consumer Prices Indexes (1980=100)			
Offical State Retail Price Index	107	108	N/A
Official Collective Farm Market	112	119	N/A
U.S. Estimate CPI	115	117	N/A
Wholesale Price Index	N/A	N/A	N/A

USSR

Balance of Payments and Trade (Millions US$)	1986	1987	1988(est)
Total Exports fob	97,053	107,664	110 550
Exports to U.S.	444	445	N/A
Total Imports fob	88,874	95,969	107,250
Imports from U.S.	1,627	1,350	N/A
Hard-Currency Estimates			
Exports fob	25,111	28,908	N/A
Imports fob	23,098	22,909	N/A
Trade Balance	2,013	5,999	N/A
Net Interest	-1,740	-2,235	N/A
Current Account Balance	1,373	4,864	N/A
Change in Gross Debt	7,175	5,000	N/A
Change in Assets	1,635	0	N/A
Net Credits to LDCs	4,100	4,800	N/A
Gold Sales	4,000	3,500	N/A
Capital Account Balance	2,118	200	N/A
Errors and Omissions (5)	-3,491	-5,064	N/A
Gross Debt	36.2	41.2	N/A
Assets with Western Banks	15.0	15.0	N/A
Net Debt	21.2	26.2	N/A
Debt-Service Ratio (pct)	25	26	N/A
Gold Reserves (Million troy oz)	73.6	74.6	N/A

Notes: (1) In 1988, the USSR for the first time published data on Soviet economic growth using the Western concept of GNP. Its estimate for 1987 in current rubles is best compared with CIA's estimate of 796 billion rubles in 1982 "established" prices. The implicit USSR GNP deflator of 0.8 percent during 1983-87 probably grossly understates the rate of inflation in the Soviet economy. The USSR's initial published GNP estimates were for growth only, and for the years 1986 and 1987 (4.6% and 3.3%, respectively). These growth rates were subsequently revised downward (to 4.1% and 3.1%).

(2) The ruble estimate for GNP was converted to 1982 geometric-mean (GM) US dollars by multiplying the ruble value of estimated GNP by the geometric mean of two dollar-ruble ratios--one weighted with US price weights and the other with Soviet weights. The US GNP deflator was then applied to convert 1982 GM dollars to 1987 GM dollars.

(3) Based on estimates in 1982 rubles at factor cost.

(4) The USSR reports investment in 1984 prices, while national income produced is reported in current rubles.

(5) Errors and ommissions include Soviet hard-currency aid to and trade with other communist countries, trade credits extended to finance Soviet exports to developed countries, and other nonspecified hard-currency expenditures, as well as errors and omissions in other line items of the balance-of-payments accounts.

USSR

1. General Policy Framework

As a general rule, the basic economic decisions in the USSR -- the allocation of resources among consumption, investment, and defense, and the rate of expansion among the difference sectors -- are made administratively. Since Stalin instituted the centrally planned and administered economy in 1928, planners' preferences have supplanted market forces in guiding the nation's economic activity. Except for a very thin slice of private activity in agriculture and services, the means of production are owned and administered by the state.

When Gorbachev came to power in March 1985, he inherited a technologically backward country on a downward slope of economic growth. During the past decade, in particular, the economy was plagued by a string of poor grain harvests (1979-85), industrial bottlenecks, and shortages of labor and energy, all of which contributed to low productivity, declining efficiency of investments, and stagnant -- if not falling -- living standards. Gorbachev responded to these challenges with a bold and innovative strategy to reinvigorate the economy by modernizing industry and its technological base and by radically reforming the management of the economy through increased enterprise autonomy and a restructured incentive system. If he succeeds with his reform program, he will have implemented the most radical reform of the Soviet economic system since Stalin introduced central planning in 1928.

Gorbachev sees the need for continuous introduction of increasingly productive machinery and equipment in the Soviet economy. Accordingly, the machine-building and metal-working (MBMW) sector has been assigned near-Herculean tasks for the present five-year plan period (1986-90). While unattainable in our view, the targets clearly indicate the pace and direction of Soviet investment policy in the near term. Specifically, MBMW output is to increase by 43 percent during 1986-90, with significantly higher growth targets for high-technology equipment such as computers, industrial robots, and flexible manufacturing systems. Quality and technological level are to improve dramatically: by 1990, 85-90 percent of the most important types of machinery output are to meet world technical levels, compared to 13-15 percent of civilian machinery in 1986. New machinery is to be introduced more quickly than in the past and the retirement of old machinery is to accelerate.

2. Exchange Rate Policies

Information on Soviet exchange rate policies was not available for this report.

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3. Structural Policies

Gorbachev is in the process of implementing and proposing radical changes in five key areas: planning, prices, supply, finance and credit, and wages. The nature of these changes were spelled out in the 1987 law on state enterprises -- also applicable to state farms -- and its eleven implementing decrees. These changes are to be effected over a three-year transition period (1988-90) so that a "New Economic Mechanism" will be in place by the start of the next five-year plan period (1991). A 1988 law on cooperatives is designed to grant the same prerogatives to the collective farms as the state farms are to enjoy in the new economic mechanism.

In the area of planning, Gosplan is to concentrate on long-range strategic planning and use of "economic levers" instead of "administrative" methods. Beginning in 1991, enterprises are to formulate their own annual plans based on "non-binding control figures" that will be set by the Council of Ministers and used as "guidelines" for output, profits, and the like. Mandatory "state orders" will help determine enterprise output levels during the transition period.

Price reform is key to the success of the entire reform process. For now, however, it appears that the USSR is settling for a "revision" of wholesale prices -- i.e., adjustment of prices to better reflect production costs -- than to let market forces determine actual price levels. In the area of supply, Gossnab is to organize a 4-5 year transition from a centralized "fund"-dominated material supply system to a wholesale trade network -- where producers and customers negotiate business transactions--bringing the share of wholesale trade in total supply to 60 percent by 1990 and completing the transfer by 1992. At that time, only "particularly scare" goods are to be rationed (i.e. centrally allocated).

Separate decrees to the Ministry of Finance and the banks instruct these entities to use bank credits and interest rates as economic levers to promote efficient use of resources by the enterprises and to use bank credits (instead of ministry allocations) increasingly for financing investment. The banking system is being reorganized and expanded to six banks: Gosbank is to function as a central bank and bank of issue; The USSR Bank for Foreign Economic Activity, formerly the Bank for Foreign Trade, remains responsible for foreign trade and foreign exchange transactions; the USSR Industrial-Construction Bank (Promstroy Bank) is to handle banking for industry, construction, transportation and communications, and Gossnab; the Agro-Industrial Bank (Agroprombank) is to serve the agro-industrial complex; the USSR Bank of Housing, Municipal Services and Social Development (Zhilsotsbank), as the name would apply, is for housing and social cultural construction, cooperatives, and Credit (Sberegatel'niy Bank), formerly the State Workers' Saving Bank (Gostrudsberkassa), now has the authority to lend to individuals. Soviet authorities now also allow the

creation of other financial institutions (including commercial, joint-stock, and cooperative banks). By the end of 1988, 24 new banks -- primarily cooperatives -- had been established.

All banks are expected to operate on full cost-accounting and self-financing. Interest rates will be set by Gosbank with the agreement of Gosplan and the Ministry of Finance and can be differenciated depending on the use of the funds.

The intent of wage reform is to increase the share of basic wages in workers' earnings (from 50-60 percent to 70-75 percent), tailor bonuses more closely to employee and enterprises performance, tighten work norms (which are regularly overfulfilled by large margins), and promote general efficiency by eliminating "wage-leveling" (where workers receive equal pay regardless of performance), so as to encourage workers to work better and acquire new skills.

State budgetary expenditures account for more than three-fourths of the USSR's national income produced and more than half of its gross national product (GNP). Citing lost revenue associated with reduced oil prices and the anti-alcohol campaign and increased expenditures associated with the clean-up at Chernobyl, the Minister of Finance proposed a budget for 1989 with a deficit of 36.3 billion rubles, or 7.3 percent of the total budget. He also admitted that the budget had been in deficit for several years, although he failed to correct the official data, which show it to have been in surplus. But the Soviets incorrectly list bank loans as a revenue item. Correcting for this, the 1989 deficit grows to 100 billion rubles -- or one-tenth or more of projected Soviet GNP. These deficits are intensifying the inflationary pressures in the economy and are particularly ill-timed given Soviet efforts to reform the economy. Defense spending has long been a major drain on the economy, claiming some 15-17 percent of Soviet GNP. The leadership is putting increased pressure on the defense industries to produce consumer goods and otherwise to help the consumer-oriented industries. As was the case with the nuclear disaster in Chernobyl -- which the Soviets say had a budgetary impact -- the very destructive earthquake in Armenia will likely require billions of rubles of expenditures over the next few years.

Exports account for a very small share of Soviet economic activity (roughly less than 5 percent of estimated GNP). As part of their economic reform program, the Soviets are trying to open their economy more to the world. Beginning in January 1987, Soviet enterprises for the first time were allowed to engage directly in foreign trade. The USSR also is allowing foreign investment -- including Western equity investment on joint ventures on Soviet territory. By January 1, 1989, 191 joint ventures were registered, including 27 with other communist partners and 164 with the West, including a half dozen or so with U.S. companies. While the size of the foreign investments are relatively small, they could become a significant source of Western capital and technology over the

long run if problems of management control and profit repatriation are worked out to the satisfaction of the Western partners. The Soviets announced changes in their joint-venture law to allow Western majority ownership. Ruble convertibility also is now an offical goal. This will take a very long time to achieve, however, especially as long as the Soviets continue to duck serious price reform. Gosbank announces at least monthly, at the beginning of the month, the official exchange rate of the "transferable ruble" vis-a-vis a number of foreign currencies, apparently using a market-basket approach. The transferable ruble's significance is limited to tourist transactions and "translating" into a "common currency" the value of foreign trade transactions, which initially were denominated in foreign currencies or otherwise based on world market prices.

4. Debt Management Policies

Despite the recent run-up in Soviet hard-currency debt, the USSR remains an excellent credit risk in the eyes of its Western creditors. Gross debt roughly doubled since the early 1980s to $41 billion at end of year 1987, though the growth is much less when adjusted for exchange rate changes. The USSR's debt-service ratio -- interest and principal payments as a share of total hard-currency earnings -- climbed from 15 percent in the early 1980s to 26 percent in 1987 but remains very manageable. The Soviets historically have been very conservative about borrowing.

5. Significant Barriers to U.S. Exports.

Given the ruble's inconvertibility, Soviet import capacity is limited by the USSR's ability to increase export earnings--which have suffered from low world energy prices--and the availability of Western credit and Soviet willingness to draw on thoses credits. During the 1980s, the USSR has incurred sizable trade deficits with the United States -- from $1 billion to $3 billion, depending upon the size of U.S. grain exports. It seems likely that this pattern of trade will continue, particularly given the extension of the long-term agreement on grains. The United States faces stiff competition from the West Europeans and the Japanese, most of whom have been running trade deficits with the USSR and who are offering the USSR sizable lines of credit as they compete for Soviet orders for machinery and equipment, particularly for the food and light industries. U.S. companies do not have access to government-backed credit programs for exports to the Soviet Union.

7. Protection of U.S. Intellectual Property Rights

The USSR is a member of the World Intellectual Property Organization, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of

Marks, the Patent Cooperation Treaty, and the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, and other international treaties relating to intellectual property.

The USSR currently issues both patents and certificates of authorship. The right of the inventor can be protected, at the choice of the applicant, either by a certificate of authorship or by a patent; only a patent entails the exclusive right for the applicant to use the invention. Certificates of authorship acknowledge the authorship of the inventor, and grant him rights and advantages stipulated by the legislation in force, whereas the exclusive right to use the invention belongs, for a period of fifteen years, to the State. It is understood that the USSR is currently drafting a comprehensive and completely overhauled patent law.

Since the Soviet accession to Universal Copyright Convention (U.C.C.)in 1973, foreign works have enjoyed copyright protection in the Soviet Union. At present, foreign authors and publishers can negotiate publication contracts with soviet publication houses. There have been instances of unauthorized publishing of works created abroad before Soviet accession to the U.C.C..

8. Worker Rights

a. The Right of Association

In the Soviet Union, there is no right of association as defined by the International Labor Organization. Although approximately 30 functional trade unions exist in the USSR, encompassing virtually the entire Soviet labor force, all of these fall under the direction of the officially sponsored All-Union Council of Trade Unions (AUCCTU), a governmental umbrella mass organization which advances Soviet and Communist international labor interests. The AUCCTU serves primarily as a means of political indoctrination, control, and propaganda; neither it nor its constituent organizations actually advance worker interests. In a mid-1987 poll by the newspaper Sotsialisticheskaya Industriya, only 9 percent of the 11,500 workers questioned approved of the work of their trade unions. Only 7.3 percent gave management a favorable rating. Even the official trade union organ, the newspaper Trud, has commented on the need for unions to play a more active role in defending workers' interests. In the October 4, 1988, issue of Trud, for instance, a Kazakh trade union official noted worker characterization of trade unions as being "toothless" and unable to defend worker interests.

A fledgling and small-scale independent trade union movement exists in some Soviet cities, despite the disapproval of Soviet authorities. The Free Interprofessional Union of Workers (SMOT) was decimated by arrests and forced emigration in the late 1970's and early 1980's, but it has resumed a limited level of activity following the pardon of some of its

organizers in 1987. In an early 1988 interview with a British newspaper, a SMOT leader said SMOT had 400 members in Moscow, Leningrad, Riga, Kaliningrad, and Sverdlovsk. The Soviet press reported on the actions of the Leningrad informal group, "Committee for the Democratization of Trade Unions" (KDP), in early 1988. The KDP championed the cause of a dissident employee at a Leningrad factory who led protests against occupational safety hazards, was fired, but later reinstated with damages paid after Moscow authorities intervened. In addition, a group of unofficial editors and correspondents organized by the editor of the dissident publication Glasnost' has applied for affiliation with the International Federation of Journalists. The group claims some 40 members. It remains to be seen how far any of these incipient independent trade organizations will be allowed to go in advancing workers' interests.

The right to strike is not recognized, and strikes are still rare despite the loosening of Soviet society. Nevertheless, in Nagorno-Karabakh and Yerevan, Armenians conducted major prolonged strikes at various times to push an explicitly political demand: Karabakh's transfer to Armenia. Despite the severity of the economic dislocation and the economic losses to enterprises elsewhere in the Soviet Union, the authorities did not put the strikes down with force. Rather, they entered into a major effort--as yet unsuccessful--to resolve the Karabakh issue to the satisfaction of all parties. Shortly after the December 7 earthquake, Armenian organizers suspended their strike activities to focus on relief to the victims.

Purely economic strikes took place, for example in Omsk, where truck drivers struck in February to show their lack of confidence in their depot's leadership, and in Kishinev, where bus drivers struck over work conditions in May. In December 1987, workers at the Yaroslavl Motor Manufacturing Plant held a sitdown strike against being forced to work 20 Saturdays in 1 year; the number was reduced to 8. In most cases, the authorities entered into negotiations with the strikers. The media gave substantial coverage to a number of these strikes.

b. The Right to Organize and Bargain Collectively

Under terms of the June 1987 "Law on State Enterprises," managers can fire excess labor and divide the wage fund among fewer workers, thereby raising salaries. Soviet authorities have stated publicly that they anticipate 16 million workers will be "released" from their jobs by the year 2000 and 3 million in the current 5-year plan, which concludes in 1990. As the Soviet Constitution guarantees the right to work, those released theoretically will be retrained for other jobs, sometimes requiring relocation.

In disputes about these and other employment issues, workers may not resort to collective bargaining as practiced in the West. Soviet workers' interests generally are represented by leaders of the local chapter of the official

trade union, and local chapter party officials. These representatives are subordinate to government and Communist Party officials, respectively, and thus do not necessarily represent workers' interests fully. There are no economic incentive zones or special industries where labor standards differ from those elsewhere in the country, although the concept was being discussed in 1988.

c. Prohibition of Forced or Compulsory Labor

Most political prisoners, as well as most ordinary criminals, are confined to camps where they are forced to labor, often under harsh and degrading conditions, on Soviet developmental projects and to assist in the production of primary and manufactured goods. Goods are manufactured on behalf of nearby factories and are included in those factories' quotas and production statistics. Prisoners are theoretically paid the same wage as factory workers, but up to 90 percent of their pay goes to prison authorities, supposedly to cover the cost of their maintenance, according to the corrective labor code of the R.S.F.S.R.

d. Minimum Age for Employment of Children

The statutory minimum age for employment of children is 16, and the standard workweek is 40 hours. There is no indication of widespread violation of these norms, though the popular and progressive Soviet journal Ogonyok recently reported in a series of articles on the exploitation of child labor in some Central Asian textile plants.

e. Acceptable Conditions of Work

According to the Soviet state statistical committee, the average monthly wage for blue- and white-collar workers in mid-1988 was $350 and for collective farm workers $250 at the December 1988 official exchange rate. (The ruble is not a convertible currency, and its value here in terms of the U.S. dollar does not represent actual purchasing power for international comparison.) The mean wage, however, is estimated by Western observers to be in the area of $200-250 per month, and a third of all Soviet families get by on less than $165 per month. Labor performed under dangerous conditions, such as in mining or metallurgical enterprises or in harsh climates such as Siberia and the far north, is rewarded with percentage bonuses which can raise wages to $500-600 per month--somewhat offset by substantially higher living costs in these remote areas. General Secretary Gorbachev has supported efforts to raise the prestige of professions that are crucial to scientific and technical progress, such as design engineers, business managers, and teachers, by raising salaries. Wages in the health sector have also increased in the past year.

The average workweek is 40 hours for most white-collar workers and 48 hours for blue-collar workers. In addition, workers are required periodically to "donate" a working Saturday for which they receive no pay. For blue-collar

workers, this means an unpaid day at the factory; white-collar workers are expected to put in time cleaning up their neighborhoods and performing other social services. Labor resources frequently are drawn at harvest time on a paid and unpaid basis from educational institutions, the military, office workers, and other city residents for work in the fields. Annual leave for vacations varies according to a number of factors, but most Soviet citizens receive 4 weeks or more of paid vacation each year.

Monetary wages earned in the state sector do not tell the whole story of remuneration in the Soviet Union, however. The State supplements wages by heavily subsidizing the cost of basic foodstuffs (especially meat, milk and bread), education, health care, housing, and transportation--all of which are provided free of charge or at nominal cost. Soviet experts have published estimates that these services amount to about $132 of remuneration per worker per month.

Soviet law establishes minimum conditions of health and safety. Press reports, however, suggest that laws on health and safety standards are widely ignored, as are those regarding maximum hours of work.

f. Rights in Sectors with U.S. Investment

In early 1987, the Soviet Union allowed direct foreign investment for the first time. By the end of 1988, there were some 200 joint ventures with foreign partners, 12 of which were from the United States. Compared to the scale of the goods-producing sectors in the Soviet economy, total U.S. direct investment is relatively insignificant. The U.S. Commerce Department does not have any data on U.S. investment in the USSR.

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Key Economic Indicators

Millions of U.S. Dollars Unless Otherwise Noted

	1986	1987	1988(est)
Income, Production, Employment			
Gross Social Product (1) (Bil. US$)	47.6	47.1	46.1
Population (Millions)	23.3	23.4	23.6
Per Capita GSP (US$)(2)	2,045	2,011	1,959
GSP by Sector (pct)			
Industrial	57	58	N/A
Agriculture	15	15	N/A
Productive Services	28	27	N/A
Ind. Prod. (pct change)	3.9	-2.0	-1.0
Agric. Prod. (pct change)	11.5	-7.5	-5.0
Retail Price Increase	92.0	167.4	N/A
Producer Price Increase	67.6	158.1	280
Cost of Living Increase	90.6	170.6	220
Labor Force (000s)	N/A	6,866	6,913
Unemployment	13.9	13.6	13.9
Money and Prices			
Money Supply (M1) (Bil. Current Dinars)	3,895.9	7,786.1	18,686.7
Balance of Payments and Trade			
Exports (Worldwide)	11,084	11,425	12,339
Imports (Worldwide)	13,096	12,603	13,107
Trade Balance (Worldwide)	-2,012	-1,178	-768
Trade Balance (convert. currencies)	-2,490	-1,068	-570
Net Invisibles	3,112	2,426	N/A
Tourism Inflows	1,337	1,668	2,100
Net Convertible Invisibles	2,735	2,105	N/A
Current Account Balance	1,100	1,248	N/A
Convertible Current Acct. Bal.	245	1,037	1,200

Notes: Due to frequent changes in the dinar/dollar exchange rates, most of the table is presented in U.S. dollars to facilitate comparison.

(1) Gross Social Product (GSP or material product) is the total output of goods plus services regarded as productive which approximates but is 10-15 percent less than GNP.
(2) In 1985 U.S. dollars. Percent increase

Sources: Balance of payments data: National Bank of Yugoslavia. Other: Federal Institute for Statistics. 1988 Estimates prepared by U.S. Embassy Belgrade.

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1. General Policy Framework

Though official policies are developed from a Communist ideology, Yugoslavia is not a centrally-planned economy and it is not a member of the Council for Mutual Economic Assistance (CMEA). Yugoslavia holds associate status with CMEA, cooperates with the European Communities (EC) and the European Free Trade Association (EFTA), and holds special country status with the Organization for Economic Cooperation and Development (OECD). Yugoslavia's unique socialist system does not include parastatals, and the country's annual and five-year economic plans have been indicative rather than compulsory. Since the break with Stalin in 1948, Yugoslavia developed its own brand of socialism by which most physical means of production are considered to be owned by society as a whole, with resources self-managed by the workers in enterprises called 'organizations of associated labor'. In practice, although the workers' councils decide on economic activities such as production lines or labor force and wage levels, local political authorites exercise considerable influence on the management of enterprises.

Under Yugoslavia's federal system, the country's six republics and two provinces enjoy substantial legislative, tax and regulatory independence. As a consequence of efforts to maintain a balance among Yugoslavia's various designated 'nations', 'nationalities' and 'ethnic groups', post-World War II economic recovery plans resulted in autarkic development and the establishment of many "political" factories. Some of these plants were wholly unjustified economically, while duplication of others meant economies of scale and adequate markets could not be realized.

In the post-World War II period, Yugoslavia enjoyed remarkable recovery and development, recording gross social product (GSP) growth rates at an annual average rate of 7.2 percent. The overall economic strategy was one of import-substitution, and the economy now reflects pervasive protection for domestic industry and agriculture. As early as the mid-1960's, the economy began to manifest problems of cumbersome over-regulation, much of it designed to discourage competition and promote egalitarian income distribution, consistent with Yugoslav socialist values. However, the self-management system failed to regulate aggregate consumption adequately. Lacking direct or private ownership of capital, its cost was kept artificially low. Returns on capital were often paid out in the form of workers' income regardless of productivity, while neglecting reinvestment in production, marketing and research.

Heavy reliance on external borrowings enabled Yugoslavia to cope with deterioration in its terms of trade, but weakened its external payments position in the late 1970s ($3.3 billion current account deficit). Under conditions of balance of payments financing gaps, high and accelerating inflation, and uneven (most recently negative) gross social product growth, economic policies have been targeted at reducing the foreign debt service burden through rescheduling and at correcting

market distortions through price and trade liberalizations. Price controls have been used off and on as a stop-gap anti-inflation tool.

While recognition of the need for and principles of market-oriented reform are more and more widely accepted, political debate on implementing mechanisms remains contentious. Policy directives in the 1983 "Long Term Stabilization Program" included more free and realistic pricing of production factors, maintenance of an export-competitive value of the dinar with respect to foreign currencies, increased financial discipline coupled with monetary restraint, and gradual restructuring of the industrial sector of the economy. Reform legislation adopted through 1986 partially accomplished these objectives. Ideological resistance and evasion of law led to renewed economic reform efforts through revised policy directives and legislative changes in mid and late 1987, and then spring of 1988. In May 1988 the extensive system of price controls was relaxed, imports liberalized significantly and administrative allocation of foreign exchange suspended by the introduction of a unified domestic foreign exchange market, all measures in accord with terms of Yugoslavia's new International Monetary Fund (IMF) standby arrangement. The standby facilitated conclusion of agreements to reschedule about $7 billion in official and commercial debts.

The November 1988 adoption of federal constitutional amendments (and eventually an entirely rewritten constitution) and additional market-oriented legislative changes planned for late 1988 and 1989 are intended to advance further desired systemic reforms in monetary and credit policy (providing commercial and central bank independence), labor relations, personal income determination, and regulations on foreign exchange and international financial activities (trade and investment). Other measures will relax restrictions on private business, allow new property relations, and restructure socialized enterprises giving managers greater authority over labor.

Industrial production, stagnant in 1987, fell in 1988 as did agricultural output due to severe drought, but both sectors should recover slightly in 1989. Unemployment will remain roughly 14 percent, although it is highly unbalanced regionally, at a low of less than 3 percent in the most developed region (Slovenia), but over 30 percent in Kosovo province. Growth in private sector business is generating new employment, and should mitigate worsening unemployment in the socialist sector. Secondary school and university graduates looking for a first job constitute a majority of the unemployed.

Federal budget revenues are derived from customs duties, sales taxes, and from regional governments' contributions. The low percentage of GSP going to the federal government in Yugoslavia gives a distorted picture of the size, scope and role of government; republic, provincial and municipal

governments have considerable economic authority and autonomy, with taxing power to finance many public expenditures. Federal budgets are brought into balance by special taxes or by supplemental transfers from the republican/provincial funds, which impose personal and enterprise income taxes. The Yugoslav Government recently indicated it may introduce straightforward deficit financing through the sale of government bonds and bills.

Yugoslavia's 1987 and 1988 fiscal policy was intended to combat inflation by restraining the growth of public sector expenditures (to a target maximum of 30 pct of GSP by 1990) in order to release resources for investment. Federal government expenditures are primarily fixed and are allocated for defense, pensions and disability payments, grants and credits for development of lesser developed regions, and government administration. Public consumption in nominal terms in 1988 was to have been reduced to less than the increase in income of the social economy in 1988, but for most of the year, Yugoslav spending exceeded these limits. Private consumption cuts are also sought. Interim government restraints on wage increases are in effect and have led in 1988 to an estimated drop in real wages of over 10 percent.

The federal government also is trying to promote growth by obtaining republican and provincial consent to a unified tax policy that would reduce tax burdens on business. Yugoslav firms collectively are highly insolvent, and the amount of domestically-held debt is estimated to be at least as much as Yugoslavia's $20 billion foreign debt. Illiquidity worsens as firms fail to qualify for long-term credits and come to rely on costly, short-term bank credits to meet daily operating expenses.

Personal income tax rates range from zero percent for an annual income in the lowest bracket (less than 5.1 million dinars), increased rates for incomes between 5.1-7.1 million dinars, with that portion of income above 7.1 million dinars taxed at 80 percent (using 1987 dinars). For tax purposes, the 1987 average personal income in Yugoslavia was 1.7 million dinars.

Enterprise income tax rates vary significantly from republic to republic (or province) from 0.4 percent to 8.7 percent, but the Yugoslav concept of enterprise income includes a portion of workers' wages and salaries and therefore differs markedly from U.S. or Western European type business taxes. Sales and other (including luxury) taxes on most goods and services average about 14 percent, but range from 0-800 percent depending on the specific item and its value.

The National Bank of Yugoslavia (NBY--the central bank) employs the discount rate, a complex system of reserve requirements (depending on type of funds, e.g., dinar or foreign currency deposits and deposit terms), and credit ceilings on commerical banks to regulate the money supply. The NBY has based its discount rate formulation on recent

retail price inflation but has been erratically revising its formulation to moderate large fluctations in rates. The NBY, however, has limited independence, another problem which reform legislation is intended to address. Commercial banks, and to a lesser extent, the federal central bank and the constituent central banks of each republic and province, have historically covered the costs of a negative real interest rate policy as do some commercial borrowers who are not favored with debt writeoffs or advantageous credits. Lifting commercial bank credit ceilings establishing real interest rates, cutting selective subsidized credit allocations, creating financial market instruments, and strengthening the independence of the NBY are all among proposed reforms for more efficent use of capital resources and better inflation control.

The NBY has adhered to a restrictive monetary policy to slow inflation. In 1987, M1 increased in nominal terms by 100 percent i.e., 67 percent less than the retail price index, and by 72 percent during January-July 1988, 84 percent below the retail price index. Bank lending has fallen by 19 percent in real terms in the first seven months of 1988. However, the NBY's efforts are greatly complicated by its lack of control over the so-called 'grey emission'. As a result, Yugoslav efforts to cope with an accelerated rate of inflation have been unsuccessful. These officially unsanctioned and normally unrecorded injections into the money supply include, among other things, unsecured promissory notes issued between firms, bank credits not paid on time, and overdue accounts receivable. In addition, Yugoslav authorities have cited the high trade surplus with the Soviet Union as a major source of money creation and inflation since the NBY must pay dinars to Yugoslav firms who do not receive Soviet goods in exchange for their exports to the Soviet Union, while the NBY receives a lesser amount of dinars from Yugoslav firms obtaining Soviet imports.

Citizens may legally maintain both dinar and foreign exchange accounts. Household savings are held about 70 percent in foreign exchange as a hedge against inflation. To enhance the attractiveness of dinar bank deposits compared with yields on foreign exchange savings, monthly revaluations--indexed to retail price inflation--of dinar deposit interest rates are made to preserve the real interest rate.

Yugoslav society is adjusting reluctantly to financial discipline. Ready acceptance of promissory notes (without financial backing), toleration of uncollectable accounts receivable, and frequently revised Yugoslav accounting standards support financial indiscipline. Firms are accustomed to obtaining debt writeoffs or appealing for lower interest rates, and also contribute readily to 'solidarity funds' to support other firms in meeting their financial obligations, and to maintain in operation loss-making firms. Bankruptcy legislation, made tougher in 1985 and 1987, is not enforced due to the combination of high unemployment, lack of alternative jobs and a social safety net, and uncertainties related to 'buying off' socially-owned assets.

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2. Exchange Rate Policies

The value of the non-convertible Yugoslav dinar is based on a basket of currencies of Yugoslavia's six major Western trading parties, set by the U.S. dollar (43 percent), the Federal Republic of Germany mark (30 percent), Italian lira (9 percent), Austrian schilling (6 percent), French franc (4 percent) and United Kingdom pound (8 percent). The basket components were revised in 1987, raising the dollar share from 15 to 43 percent. The readjustment with greater weight to the U.S. dollar should have a generally beneficial effect on U.S. exports to the Yugoslav market by making U.S. prices relatively more stable than previously relative to goods from Japan and the EC.

The National Bank of Yugoslavia (NBY--the central bank) does not maintain a fully flexible exchange rate policy, nor does it maintain the exchange rate of the dinar within announced margins. Besides a one-time devaluation of 19.6 percent taken in May 1988, the dinar is adjusted (in practice, devalued) to compensate for the difference between Yugoslav inflation and inflation rates in the basket-of-currencies countries. Yugoslavia wishes to hold foreign exchange reserves of at least $2 billion at the end of 1988, providing coverage for about two months of imports, compared with $2.83 billion at the end of 1986 and a substantially lower $1.75 billion at the end of 1987.

The Federal Assembly formulates the decision on foreign exchange policy for the country each year, projecting the balance of payments and the foreign exchange balance. The Federal Executive Council (FEC --the Cabinet) establishes policy guidelines for foreign trade and exchange operations. The Federal Finance Secretariat, the National Bank of Yugoslavia and the national banks of the republics and provinces administer exchange controls. The Federal Secretariat for Foreign Economic Relations makes decisions governing foreign trade transactions and issues import and export licenses and instructions when required. It is also charged with securing balanced trade in cases where the condition applies in a bilateral agreement. Payments to and from the USSR, Czechoslovakia, the German Democratic Republic, and Albania must be denominated in clearing U.S. dollars according to procedures set in agreements with those countries.

3. Structural Policies

At present, only certain commercial banks within Yugoslavia are authorized to deal in foreign exchange business, acting on behalf of non-authorized banks for the latters' foreign exchange dealings. Prior to May 27, 1988, under conditions given in Article 110 of the January 1986 Foreign Exchange Law, foreign exchange allocations for payments for imported goods and services were made according to a complex formula of priorities not directly corresponding to a given firm's own foreign exchange revenues or import needs. Effective May 27, 1988 a unified foreign exchange

market was established providing access to foreign exchange for all firms able to pay in the counterpart dinars and holding rights to import.

Yugoslavia's external liquidity at the end of 1988 should be favorable despite a fall in the growth rate of convertible currency inflows in the second half of the year. Decreasing export growth may be due partly to slackening export orders in the first half of 1988, as some Yugoslav producers raised their export prices to compensate for a domestic price freeze. Additionally, declining industrial inventories simply left exporters with less to sell despite falling domestic retail sales. Partial lifting of the price controls in May probably revived export orders, and restored export growth is expected for early 1989. Yugoslavia projects that the value of total Yugoslav exports in 1988 will be eight percent higher than in 1987. Overall imports in 1988 are expected to grow by four percent.

Yugoslavia counts on foreign tourism revenues and remittances from Yugoslav workers employed abroad for approximately 20 percent of annual foreign exchange earnings. Invisibles income in 1988 is expected to surpass 1987 levels, although net workers' remittances have fallen off in the second half of 1988 compared to the high level of the first six months because of uncertainty over the domestic political situation. Growth in tourism receipts--inflated because of the drying out of the currency black market and the corresponding increased value of exchange office transactions by Yugoslavs--should decrease. Yugoslavia at the end of 1988 may enjoy a convertible currency current account surplus in the neighborhood of $1.5 billion.

In Yugoslavia, the physical means of production are "socially owned" with the exception of the agricultural sector where 80 percent of the land remains in private hands. There is also a small private enterprise sector dominated by services and craft industries. Enterprises, including public utilities such as transport and electric power, operate on an independent basis and are not parastatals or owned by the state. The small private sector is restricted in the number of employees which can be hired, and activities in which it can engage. The Yugoslav leadership has recognized the contribution small business enterprises (both private and in the socialized sector) can make to the economy, and began with deregulation and new measures in 1988 to encourage their development. Domestic private investment is now allowed, and in 1989 more socialized business will be allowed to register to conduct foreign trade operations.

Yugoslav federal and republican authorities are heavily involved in regulating economic activities. Five-year and yearly plan targets have been generally unmet, leading to recognition that more general guidelines of desired economic objectives should replace detailed but unrealistic planning documents. For many years, various price control regimes have played a major role in the Yugoslav economy. Awareness of distortions caused by price controls led to a desire to reduce controls, but rampant inflation has pressured the government

to revert to price controls. Price controls since 1986 have included procedures for prior notification/prior approval for increases. Price regulation has had little effect in dampening inflation.

The federal government in November 1987 also mandated staged price increases in certain key sectors, e.g., transport and utilities, to eliminate disparities between Yugoslav and world market prices. By year end 1989, only about 40 percent of total goods will remain subject to some form of price regime, compared with over 60 percent recently. Besides formal price administration, there is considerable cartelization in price-fixing practices notably to anticipate inflation and reimposition of price controls. Business continues to resort to cost-plus pricing, rather than take cost-reduction measures, or boosting productivity.

The agricultural price support system is complex. Prior to 1985, the federal government set both the market selling price of basic commodities and a lower, so-called protective price, at which government promises to purchase all products not sold at the fixed market price. Given the high level of demand for agricultural products, the protective price mechanism was rarely used in recent years. As part of economic liberalization measures, the government has eliminated the designated selling price but maintained the protective price, which until recently functioned as the farmgate price for most commodities. While the nominal protective prices are revised frequently, the adjustments lag behind inflation. With the exception of plums, commodities enjoying protective prices are not purchased directly by consumers, as most sales are to agricultural product processors.

Agricultural export prices vary widely depending on the seller, purchases and payments arrangements. A substantial portion of Yugoslav agricultural products is sold under countertrade arrangements, making it difficult to specify real export prices. Export market prices are further distorted by such practices as non-agricultural firms buying agricultural products in the domestic market at premium prices and exporting them illegally in order to obtain foreign exchange.

4. Debt Management Policies

The slowdown of global economic growth following the oil price increases of 1974 and 1979, combined with Yugoslavia's assumption of large foreign debts in the late 1970's and heavy investment in ill-considered projects led to serious balance-of-payments deficits and debt service problems beginning in the early 1980's, and aggravated domestic inflation.

Yugoslavia presently owes approximately $20 billion in foreign debt the servicing of which accounts for 43 percent of foreign exchange earnings. During 1988, rescheduling agreements were reached with government and commercial bank creditors, and on a new standby agreement with the International Monetary Fund (IMF) which came into effect in

June. Yugoslavia aims to reduce its debt service ratio to 25 percent, and Yugoslav officials are developing policy on debt-swap procedures. In 1988, Yugoslavia received IBRD support to ease financing for export industries, as well as continued disbursements on other outstanding loans. It is now holding discussions with the IBRD on a financial sector analysis that may lead to a second Structural Adjustment Loan (SAL) and additional credits for trade development. The IBRD has been active in every region of Yugoslavia in infrastructure, energy, and agricultural development projects. The steep devaluation of the dinar has posed an impediment to full utilization of IBRD loans, as local sources find them progressively more costly in dinar terms.

Yugoslavia's newest IMF standby became effective June 28, 1988 and its five-month performance in three agreed areas -- price, import and foreign exchange liberalization -- has been relatively good, although 1988 inflation at about 250 percent has far exceeded the IMF-Yugoslav estimated rate. Domestic consumption has dropped, and wages have fallen by at least 10 percent in real terms. Government wage restraints imposed in May 1988 were eased in October due to public pressures because of higher than expected inflation.

5. Significant Barriers to U.S. Exports

A healthier Yugoslav economy should boost overall commercial relations. Several barriers have been eliminated in goods trade. Nevertheless, cartelized industry associations operating within the quasi-official Yugoslav Chamber of Economy continue to exercise some restictions through quantity controls on import permits for certain commodities, to protect domestic producers. These quantity limits, however, are typically revised upward when domestic output falls short of demand.

Yugoslav tariffs are applied on an *ad valorem* basis and are generally low, between 10-18 percent. All imports, including those free of duty are also subject to import surcharges amounting to 15.8 percent, based on CIF (cost, insurance, freight) value at the Yugoslav border. National treatment applies in airport and port user fees, with charges set independently by individual airport and port authorities based on actual costs to handle shipments (i.e., by weight or volume). Yugoslavia at different times has imposed import surcharges, particularly in the agricultural sector. In some cases, the surcharges could prove prohibitive, but to avoid paying these surcharges traders resort to multiple countertrade arrangments assigning arbitrary values to Yugoslav exports. In this way, traders can raise the import 'price', and the effective impact on U.S. export quantities is negligible.

The primary obstacle to U.S. export purchases, domestic access to foreign exchange, has been eliminated, and with currency adjustments and healthy foreign exchange reserves as well as a more active market presence, U.S. exporters should

be able continue recent gains in the Yugoslav market. Total two-way trade has grown in the past several years, amounting to $1.195 billion for the first 10 months of 1988. Since its jump from sixth place among Yugoslavia's major trade partners in 1984, the United States has held a steady fourth place ranking, after the Soviet Union, the Federal Republic of Germany, and Italy.

Because Yugoslavia's debt service requirements force it to stress export-oriented growth, most favorable consideration will be given to commercial proposals that have a positive influence on Yugoslav exports. Compensation, essentially barter trade, is provided for under Yugoslav law. Countertrade, a system of balancing a sale to Yugoslavia with the purchase of a product equal to some portion of the value of that sale is an unofficial but common business practice. Yugoslavia offers free-trade zones that can be used to import materials, parts, and machinery on a duty free basis, if reexported.

The U.S. Export-Import Bank is active in Yugoslavia providing long-term direct and guaranteed credits to finance heavy equipment purchases and engineering projects. The U.S. Trade and Development Program is also active in Yugoslavia and assists in funding feasibility studies for major projects involving onward U.S. export potential.

The major barriers in trade with Yugoslavia apply in the services sector. Despite extensive debate on reform in the economic area, no consideration is being given to opening the insurance sector to foreigners. Tourism services must be provided by Yugoslav firms except in the case where a foreigner has become a joint venture partner. The only transparent government procurement practice of which the U.S. Embassy is aware is the requirement which stipulates that foreign firms are not to be engaged for public works projects (projects funded by federal republican or local authorities) unless there is no domestic firm able to do the work. However, exceptions do apply, and these restrictions do not pertain to military projects. Actually, a project won by a Yugoslav firm may be subcontracted to a foreign firm. (Separate legislation applies to projects financed by multilateral institutions such as the World Bank.) In cases of a foreign joint venture agreement, the contractual terms of the joint venture apply which could provide for foreign contractor construction.

In 1967, Yugoslavia enacted joint venture legislation which allowed foreign firms to enter into cooperative arrangement with Yugoslav firms on a renewable contractual basis. Foreign participation, however, was strictly a contractual contribution and no equity rights were extended. Forced disinvestment could occur if the Yugoslav partner refused to renew the joint venture contract. However, regulations and practice in joint venture operations have a guaranteed repatriation of profits and capital (although the shortage of foreign exchange requently gave rise to exchange rate differential losses on these transactions). Foreign trade representative offices may be established under a joint

venture with Yugoslavs, but foreign personnel may not exceed one-half of the total employees except for the case of a two-person office in which case both may be foreigners.

Policy on investment incentives or performance requirements for foreign investors is not uniform at federal, republican, provincial, or municipal lower levels, but federal support programs exist for "joint production/export programs" offering, e.g., favorable access to credit. Federal support in the form of special foreign exchange availability also is accorded to particularly active exporting firms, including joint ventures. Duty-free zones are accessible to, and in some respects intended for, joint ventures, and reform legislation should offer new benefits and rights. No level of Yugoslav Government imposes formal foreign investment performance requirements. In arriving at (contractual) joint venture agreements, the foreign and domestic partners may negotiate "performance requirements" of one another, provided there is no violation of Yugoslav law.

Investment disputes between Yugoslav and foreign companies are settled by arbitration. The rules governing this arbitration are set down in Yugoslav federal law. Yugoslavia is a signatory to numerous bilateral and multilateral conventions dealing with international commercial disputes. Joint venture contracts may specify dispute arbitration in Yugoslavia, third country courts, or the International Court for Arbitration in Paris. Such arbitration decisions enjoy equal enforceability in Yugoslavia.

Yugoslavia at this time is not a party to any bilateral investment promotion treaties (BIT's). Yugoslavia is a signatory, however, to six bilateral agreements on non-commercial risk, including the 1973 agreement with the United States on investment guarantees.

Of Yugoslavia's present 150 joint venture contracts only about 16 involve U.S. companies. These have a total investment value of about $90 million, of which 1 percent is in services, 1.3 percent in agriculture and food processing, 15.9 percent in mineral extraction, and the remainder in industry/manufacturing. Health and safety standards apply equally to domestic and joint venture operations.

Economic incentives are provided by local governments through discounts on key factor inputs such as transportation or electricity or tax reductions which indirectly subsidize export industries as well as to industries producing for the domestic market. Federally subsidized credits are available selectively to support agricultural production and exports.

7. Protection of U.S. Intellectual Property

Yugoslavia is a signatory of the Paris Convention, the Berne Convention, the Brussels Satellites Convention, the Madrid Agreement and the Universal Copyright Convention, and is a member of the World Intellectual Property Organization. It has signed, but not ratified, the Patent Cooperation Treaty.

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Industrial property rights are governed under the Joint Venture Law, the Law on Marketing Drugs, the Patent Law and the Law on Long-Term Cooperation and the Acquiring of Rights to Technology Between Domestic Organizations of Associated Labor and Foreign Persons (the Transfer of Technology Law). Intellectual property rights are protected under the Law on the Protection of Inventions, Technical Improvements and Trademarks. Industrial property is also regulated by this law as well as by the recently passed Law on Unlawful Competition and Monopolistic Agreements.

The 1981 Patent Law requires a foreign investor to obtain a Yugoslav patent to enjoy the patent protection in Yugoslavia, regardless of whether a patent is held in another country. Presently the patent term is seven years, renewable for another seven years. Yearly executive branch efforts to extend patent durations and introduce product instead of process protection have been stalled in the legislature. The right to a trademark has unlimited duration, but the owner of the trademark must use it within three years of registration or face the possibility of a third party obtaining the trademark rights. Foreign trademarks can be applied to products manufactured in Yugoslavia only in combination with the Yugoslav manufacturer's own trademark. Excluded from current patent protection are pharmaceuticals and chemical products, alloys and compositions containing more than two substances, and products obtained through the use of micro-organisms. Within the Patent Law is a "compulsory use" clause, granting rights to a third party if the patent owner fails to use, or uses inefficiently, a patented invention within three years of the patent registration.

8. Worker Rights

a. The Right of Association

Trade unions are organized geographically by republic and province and by trade within these boundaries. Workers do not have the right to form their own trade unions. They are not required to join the government-established unions, although most do. They elect their own representatives, directly at the local level and indirectly at higher levels. At the Federal level, the Confederation of Trade Unions of Yugoslavia (SSJ) has traditionally supported government policies, while pleading that any negative effects on workers be minimized. In practice, responding to Yugoslavia's persistent economic difficulties, union leaders are becoming more active in advocating worker interests on such matters as the impact of wage policies and inflation on the standard of living. At the republic level, the trade union organization of Slovenia took the lead in early 1988 in establishing Yugoslavia's first strike code, which instructs local unions to organize strikes when workers have no other option for pursuing just demands. The same organization in September threatened Yugoslavia's first republicwide general strike in seeking changes to wage policies that had reduced gross real personal incomes by 21.5 percent from the previous year.

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In November, through an amendment to the Yugoslav Constitution, Yugoslav workers acquired the right to strike, the first time this right has been granted constitutionally in a Communist state. Instances of police action against strikers are almost nonexistent. Disciplinary action by firms against strike organizers is rare and in some cases has been successfully contested in court by the trade unions. During 1988 the Yugoslav trade unions recorded 1,720 strikes (up 2 percent over 1987) involving 388,000 workers (up 34 percent over 1987). A growing number of strikes have involved peaceful protest rallies in front of government buildings, including the Federal Assembly in Belgrade, at which workers have presented their demands directly to politicians.

Yugoslavia participates in the international labor environment through its individual workers abroad and the activities of the SSJ. Roughly 1 million Yugoslav workers and dependents live in Western Europe, including 700,000 in countries of the European Community. The SSJ concentrates its international exchanges on neighboring central and Western European countries. Its most developed bilateral contacts are with trade unions (of all ideological stripes) in Austria, Italy, and West Germany. Most of the SSJ's bilateral exchanges are at the craft union level.

The SSJ represents Yugoslav workers at the International Labor Organization (ILO). Among international trade union organizations, it has good cooperation with the World Confederation of Labor and the European Trade Union Confederation. The SSJ participates in the Trade Unions Advisory Council of the Organization for Economic Cooperation and Development. The SSJ expects its ties with Western unions to grow parallel with the gradual market orientation of the Yugoslav economy and the integration in 1992 of the Western European market (a process in which Yugoslavia hopes to participate at some point). The SSJ, although not a member, has also begun cooperation with the Soviet-controlled World Federation of Trade Unions at the craft union level.

b. The Right to Organize and Bargain Collectively

Collective bargaining in a Western sense is not entirely applicable to Yugoslavia, where all large firms are socially rather than privately owned. Under Yugoslavia's law on associated labor, workers elect a workers' council (a body separate from the trade unions) which has a voice in selecting management and must approve by majority vote major (and sometimes minor) business decisions, including wage levels, by the enterprise. A series of Federal laws in recent years, most recently in May 1988, strictly limiting firms' (and hence workers') ability to increase wages through these normal channels has fueled the increase in strike activity. Enterprise managers are increasingly bound by law to more Western-style standards of business discipline. During the reporting period, Yugoslavia had no economic incentive zones or special industries where labor standards differed from those elsewhere in the country. This situation may change with the introduction of new laws on enterprises and foreign investment.

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There are no export processing zones, and labor legislation and practice are similar throughout the country.

c. Prohibition of Forced or Compulsory Labor

There were no reports of the use of forced labor, which is prohibited by the Yugoslav Constitution.

d. Minimum Age for Employment of Children

The minimum age for employment of children is 16 years. Of those unemployed in Yugoslavia, 78 percent are under the age of 30, and, in practice, young people often must wait a long time for their first job.

e. Acceptable Conditions of Work

Yugoslavia has an official 42-hour workweek with generous vacation time and sick leave benefits. The republics set minimum wage levels, which vary widely in keeping with varied levels of economic development and prices. Yugoslavia has extensive Federal and Republic laws and regulations on worker safety, although occasional press reports suggest that enforcement is lax.

f. Rights in Sectors with U.S. Investment

Yugoslav law presently does not permit equity rights (i.e., formal investment) to foreign (or domestic, for that matter) partners, who instead make a contribution of capital under contractual agreement. There are two U.S. firms in partnerships in the petroleum sector; two in the food and related products sector; three in chemicals and related products; three in transportation equipment; three in electric and electronic equipment; and three in other manufacturing.

In general, for all sectors involving even minimal levels of U.S. capital contributions, labor rights and standards by regulation and practice would apply on the same basis as for wholly Yugoslav enterprises. In theory, differing standards could be applied to enterprises located in export processing zones, but U.S. partners are not now present in designated custom free zones.

In the U.S. Embassy's telephone survey, the firms with U.S. partners report following a wage structure comparable to wholly Yugoslav firms in the same sector and region. Only the joint ventures in oil extraction reported upgrading their wage point scales with the intention of attracting better qualified, more conscientious employees. These two operations were also the only ones which claimed their U.S. managers strive to raise safety practices above local norms.

YUGOSLAVIA

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		(*)
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(D)	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

ARGENTINA

Key Economic Indicators

Millions of Dollars and Period Averages Unless Noted

	1986	1987	1988 (proj)
Income, Production, and Employment			
Population (000s)	31,013	31,470	31,933
Population Growth (pct)	1.5	1.5	1.5
GDP (mils current $)	70,100	74,300	78,000
GDP by Sector (pct)			
Agriculture	14.6	14.7	N/A
Industrial	24.2	23 6	N/A
Services	16.7	16.6	N/A
GDP per capita (current $)	2,260	2,360	2,443
GDP (constant 1970 pcs pct chg)	5.4	1.6	1.5
Labor Force (000s)	11,618	11,786	11,956
Unemployment Rate (pct Oct)	5.2	5.7	5.8
Underemployment Rate (pct Oct)	7.3	8.1	8.4
Industrial Production (pct chg)	12.8	-0.5	3.0
Combined Deficit (pct GDP) (1)	4.5	7.2	4.0
Money and Prices			
Money Supply (M1) (pct chg Dec)	70.7	106.6	N/A
Commercial Int. Rate (pct) (2)	44.0	19.0	N/A
Savings Rate (pct) (2)	1.2	0.5	N/A
Investment Rate (pct of GDP)	11.4	13.2	N/A
Price Indices (annual pct chg Dec)			
Consumer	81.9	174.6	390.0
Wholesale	57.9	181.8	430.0
Exchange Rate (Australes=$1)			
Average	0.94	2.15	8.16
Parallel	1.06	2.73	10.80
Balance of Payments and Trade			
Total Exports fob	6,852	6,275	8,300
Total Imports cif	4,724	5,785	5,500
Trade Balance	2,128	490	2,800
Current Account Balance	-2,641	-4,300	-2,300
Foreign Debt			
Public and Private (yr-end)	51,704	56,000	58,000
Interest Paid	4,138	4,200	4,350
Interest Accrued	4,291	4,300	4,350
Interest Accrued (pct exports)	62.7	68.3	57.2
ForEx Reserves			
Gross (yr-end)	4,287	3,100	NA
Gold (yr-end) (4)	1,421	1,421	1,421
U.S.-Argentine Trade			
U.S. Exports to Argentina fas	943	1,089	1,050
U.S. Imports from Argentina cif	938	1,176	1,400

ARGENTINA

U.S. Share of Argentine Exports (pct)(5)	9.9	14.1	13.5
U.S. Share of Argentine Imports (pct)(5)	17.5	16.0	16.0

Principal U.S. exports (1987): Organic chemicals and products; parts for office machines and ADP machinery and auxiliary equipment; synthetic resins, rubber and plastic materials; bituminous coal; parts of road vehicles and tractors; medicinals and pharmaceuticals.

Principal U.S. Imports (1987): Petroleum products; leather and manufactures; meat; organic chemicals and related products; aluminum and aluminum alloys; fruits and nuts; fish, fresh, chilled or frozen; iron and steel plates sheets and pipes; sugar.

(Proj): As Projected by Embassy
(1) Combined deficit: non-financial public sector plus the operating loss of the Central Bank.
(2) Free market, non-regulated rates from Ministry of Economy and Central Bank.
(3) Includes debt to equity conversions.
(4) Valued at $42.22 per troy ounce
(5) Percentages calculated using Argentine data for both total exports/imports and trade with U.S. U.S. bilateral trade reported in table is official U.S. Government data.

1. General Policy Framework

Despite a wealth of natural and human resources, the Argentine economy has largely stagnated over recent decades. Since 1973 economic performance has been extremely variable, marked by low growth and high inflation. Averaging roughly 10 percent per month since 1973, inflation has fallen below 100 percent on an annual basis only in 1980 and 1986. The underground economy is large -- equal perhaps to half the officially recorded economy. Argentine governments have generally stressed industrial development and import substitution policies since the 1940s, tapping resources from the country's rich agricultural sector as needed. The state presence in the economy is considerable. The economy is highly "dollarized." Official estimates put the amount of U.S. currency in circulation at $4 to $5 billion, an amount which exceeds by several times the value of the domestic currency in circulation.

Large and persistent public sector deficits -- which have ranged as high as 17 percent of the gross domestic product (GDP) -- underlie Argentina's high inflation. The Alfonsin Administration has reduced the deficit by more than half, to an average of about six percent of GDP since 1985. The government has embarked on a number of structural economic reforms designed to lower the deficit over time. Progress has been slow. Certain measures -- for example, the reduction of taxes on agricultural exports -- have actually added to the deficit. With the imposition of the Austral Plan in June 1985, the Argentine Government committed itself to financing

the deficit through means other than monetary emission and has largely done so. Since 1987 the government has relied increasingly on government securities and monetary measures -- including various quasi-reserve requirements -- as well as on external financing to finance the deficit.

There are several major structural components to Argentina's public sector deficit, which includes the operating losses of the state enterprises and the Central Bank. Annual debt service payments are roughly five percent of GDP, or roughly equivalent to the deficits of recent years. Losses by state enterprises -- which also include a portion of debt service -- total several percentage points of GDP each year. More generally expenditures remain largely resistant to cuts. The public sector -- whether in the central or provincial governments or state enterprises -- is overstaffed. Revenues are inconsistent, eroded by high inflation and considerable tax evasion. Public tariffs are often managed with an eye to their impact on inflationary expectations and not as a means of achieving enterprise solvency.

The Alfonsin Administration has relied heavily on monetary policy to curb inflation. Short-term and highly speculative financial markets complicate the government's task. Monetization of the economy is low; the average term of bank deposits is 7-10 days. Beginning in 1985 the Central Bank reduced reserve and quasi- reserve requirements -- once as high as 100 percent of the deposit base. Confronted with the need to maintain tight credit conditions, the central bank has deemed it necessary to increase the overall level of reserve requirements modestly since October 1987. Commercial banks can presently loan out only about 30 percent of any new deposits received. The government has created a number of new Treasury bonds through which to finance the deficit and to use in open market operations. Since August 1988 liberalization of exchange markets has enabled the central bank to use sales of U.S. dollars in its open market operations.

The government's most recent economic plan -- unveiled in August 1988 -- seeks to lower inflation to about five percent per month through deindexation of the economy, negotiated price controls, tight monetary policy, and some fiscal adjustment. Although inflation fell notably in the initial months of the program, prospects for continued success will depend on the government's ability to sustain confidence in the Austral, to maintain the price controls negotiated with key business groups and to pare the fiscal deficit.

2. Exchange Rate Policies

The Alfonsin Administration began to liberalize foreign exchange markets in October 1987 when it first permitted a small free exchange market for certain purely financial transactions. The government then moved all imports and non-agricultural exports to the free market in August 1988 and committed itself to unifying the official and free exchange rates by the end of 1989. The government has since moved a

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number of agricultural export products to the free market. Despite the exchange market liberalization, government decrees -- dating from 1984 -- still require that foreign companies remit profits and dividends on the basis of dollar denominated government bonds ("BONEX"). The government's August 1988 economic program seeks exchange market stability as a means of dampening inflationary expectations. Current policies and market trends suggest some depreciation in the dollar vis-a-vis the Austral in the second half of 1988 and into 1989, implying some improvement in U.S. trade prospects over the near-term.

3. Structural Policies

The Alfonsin Administration has embarked on a number of measures to open the Argentine economy to world market influences as part of its structural reform effort. Under the impetus of its World Bank loan program, the government began to reduce quantitative restrictions in 1987. In October 1988 the government took a major step forward by further reducing quantitative restrictions and by lowering tariff levels. The government has also cut or eliminated most taxes on agricultural exports with the help of a 1986 World Bank agricultural sector loan. Prospects for exporters interested in doing business with Argentina could improve as a result of more flexible Argentine trade policies.

The Alfonsin Administration's efforts to curb inflation since the mid-1985 Austral Plan have relied heavily on price controls and guidelines. Since August 1988 the government has attempted to control private sector prices through an agreement negotiated with representatives of the Argentine Industrial Union and Argentine Chamber of Commerce. In the past such controls have generally represented a substantial constraint on private sector planning and profits and have added a continual element of uncertainty to business decision-making. A high incidence of tax evasion and the existence of a large underground economy dilute the impact of government tax policy on overall economic activity. Still, tax policies do affect the major firms -- including U.S. and other foreign companies -- which operate in the registered segment of the economy. Such extraordinary government revenue measures as the so-called "forced savings" programs of recent years have clearly had an impact on U.S companies operating in Argentina.

A number of government policies and law directly affect prospects for foreign investments in Argentina. Many foreign companies see the government as preferring to tax equity rather than debt to the detriment of potential new equity investments. Moreover, the shortage of affordable credit is a major constraint on investment -- now at or near historic lows -- in Argentina. Working capital is available only on a short-term basis and often at interest rates above five per cent per month in real terms. The government has put "on-lending" programs -- by which external financing from foreign banks is channeled through the central bank to the private sector -- on hold. The government's evolving debt

capitalization program represents a potentially interesting vehicle for funding new investments. But investors generally consider the program to be rigid, with the government seeking to capture for itself a large portion of the Argentine debt's deep discount on secondary markets. Despite these obstacles, a number of multinationals, together with local partners, have embarked on new investments, most notably in the oil, petrochemical and steel sectors.

4. Debt Management Policies

The Alfonsin Administration inherited a large foreign debt when it came to power in December 1983, following more than seven years of military rule. Continued borrowing to finance current account deficits has since increased the debt from $46 billion to roughly $56 billion at the end of 1987. The government has generally eschewed arbitrary measures in favor of a negotiated approach to the debt.

President Alfonsin has publicly and repeatedly rejected the concept of a unilateral debt moratorium. But, at the same time, he has spoken out strongly in favor of debt relief, specifically a cap on interest rates and payments. Alfonsin also stresses the political dimension of the Latin American debt, calling for a "Marshall Plan" for Latin America. He argues that economic difficulties -- attributable to the debt burden -- are seriously endangering democratic governments in the region.

Protracted negotiations with the International Monetary Fund (IMF) and commercial banks have led to three major refinancing and new money packages since 1982. The most recent (1987) agreement with the banks rescheduled virtually all principal payments (about $34 billion) over nineteen years with a seven-year grace period. Paris Club governments have rescheduled $4 billion of Argentina's official debt due through June 1988. Relations with the IMF have suffered somewhat in light of Argentina's failure to comply with many performance targets in the two IMF stand-by agreements negotiated since 1984. In 1988 the government opted to accumulate considerable interest arrears to commercial banks during the period of negotiations on a new financing package for 1988-89. As of November 1988 Argentina is negotiating a $1.2 billion stand-by agreement with the IMF and is seeking $3.5 billion in new financing from commercial banks through the end of 1989.

In early 1987 the World Bank began to assume a more prominent role in providing Argentina with new financing. The Bank made a highly publicized commitment of $2 billion in new loans for 1987-88 under an ambitious program of structural adjustment and project loans for Argentina. Building on the 1986 agricultural sector loan, the new program focused on the trade, financial, housing, and energy sectors.

ARGENTINA

5. Significant Barriers to U.S. Exports

As part of a major liberalization of Argentina's import regime announced in September 1988, the list of items requiring import licenses and prior consultations with industry was reduced from 3,100 to about 1,000. Other imports require an automatic import permit. Before the trade reform measures were taken, import license barriers were estimated to reduce U.S. exports by about $100 million yearly, most especially consumer goods and light industrial products.

In services the most affected area is that of international air courier services, with the national postal service charging discriminatory and unreasonable fees for packages carried by private international couriers. There is a long-standing dispute under Section 301.

While other barriers exist, they do not adversely effect U.S. opportunities to such a degree that they comprise "significant barriers."

Standards, testing, labeling, and certification do not pose difficulties for U.S. firms in this market.

In general Argentine laws governing foreign investment are among the most liberal in the region. One exception is the automotive sector, where there are significant local content requirements.

Restrictions on repatriation of profit and capital exist in the form of taxation on excessive remittances and a restriction of not allowing repatriation until three years after the investment. However, U.S. firms do repatriate and remit via a system of dollar denominated bonds, traded in secondary markets, known as BONEX.

Government approval is required for certain types of investments by foreign governments including those in areas of the national interest such as; defense, utilities, media, energy, education, finance, steel, petrochemicals, mining, aluminum, and informatics. Government approval is necessary to purchase locally-owned shares of Argentine companies or the addition of capital which would convert an Argentine company into a foreign-owned one.

The "Buy Argentine" Government Procurement Act offers preferences to local producers for government bids. (The "Buy Argentine" Act also applies to private companies working under contract or concession to the government, such as is the case with all petroleum activity in Argentina.) The Act was modified in July 1988 with the aim of making it more transparent and less restrictive. In practice the "Buy Argentine" requirement remains largely unchanged.

Customs procedures are lengthy and unnecessarily slow. However, no systematic procedural difficulties are directed at U.S. firms.

ARGENTINA

6. Export Subsidies Policies

The Argentine Government provides three export financing programs: pre-financing, export financing, and post-financing. The availability of funds to carry out these programs has traditionally fluctuated widely. The programs remain in place, but the Government of Argentina is trying to maintain key program elements within current fiscal constraints. To reduce the subsidy element of the programs, the central bank has raised effective interest rates.

A differential soybean oil and meal tax acts to restrict exports of raw, low value soybeans while it promotes exports of higher value processed soybean products. This practice is the subject of an ongoing Section 301 investigation.

Some fruits and fruit product exports receive export financing. In addition the Argentine domestic sugar program subsidizes exports.

A separate program, "Reembolso", provides export subsidies through a reimbursement of 10 to 15 percent ad valorem of the indirect taxes on certain non-traditional exports.

The Special Export Program (PEEX) has been eliminated; however, the Argentine Government has agreed to make some disbursements under its prior PEEX commitments. The program was established to provide incentives to exporters of non-traditional products.

Another Argentine program allows exporters to deduct up to ten percent of the FOB value of their exports from taxable income.

Argentina also imposes duties on some exports, primarily agricultural products.

7. Protection of U.S. Intellectual Property

Argentina is a party to the Berne, Paris, and Universal Copyright Conventions. The Argentine Government protects intellectual property rights through a legal system offering patent, trademark, and copyright protection. Although the legal system generally affords adequate protection, problems do exist, particularly with regard to the lack of product patent protection for pharmaceuticals. The Pharmaceutical Manufacturers Association (PMA) filed a Section 301 petition against Argentina in August 1988. The United States held bilateral consultation with Argentina in December 1988 and will continue to pursue this issue.

Video piracy in Argentina is estimated by the motion picture industry to fall between 30 and 40 percent of the total market. Local police are conducting successful raids against the video pirates.

ARGENTINA

8. Worker Rights

a. The Right of Association

There is the free right of labor association in Argentina. The labor movement is a major independent, economic, and political force. About one-third of the national work force is unionized. Previous military regimes suspended laws governing labor relations and systematically blocked many trade union rights. Congress passed legislation in 1987 enhancing the free right of labor association. It granted legal status to trade unions and guaranteed their right to strike, subject to compulsory arbitration by the Labor Ministry. Argentine organized labor enjoys the right of association with international organizations. The General Confederation of Labor (CGT), Argentina's national labor federation, participates actively in the International Labor Organization (ILO) in Geneva. In fact, the ILO honored Argentina's return to democracy in 1987 by inviting President Alfonsin to address its annual conference. Many Argentine unions are affiliated with trade union international groups.

Unions have the right to strike -- members have the right to receive their salaries while on strike until the Labor Ministry orders compulsory arbitration -- and many exercised that right in 1988. The CGT led several strikes of one day or less, including controversial national strikes on September 9 and September 12. On September 9, a labor rally in Buenos Aires, protesting the government's economic austerity plan, degenerated into large-scale violence. Organizers accused the police of precipitating the violence, and the government accused extremist groups in the crowd. The September 12 strike was called to protest alleged police repression at that rally.

b. The Right to Organize and Bargain Collectively

Legislation passed by Congress in 1987 introduced binding collective bargaining between labor and management and generally reduced state involvement in labor relations. The government continues to offer wage guidelines under its national "Plan Primavera" economic recovery program and directly sets wages in state-owned enterprises. In addition, under the new legislation (as under the old), if a striking union refuses to accept compulsory arbitration by the Labor Ministry, the workers lose their right to continued receipt of salaries during the strike.

Argentine labor law is uniformly applied throughout the country. Some provinces provide rights and obligations additional to those in federal legislation. There are no officially designated export processing zones.

Legislation passed by Congress in 1987 provided for free collective bargaining and established ground rules for industrial relations and trade union activities. Argentina's largest labor organization, the CGT, and its individual unions engaged in consultations with employers and the government on issues affecting labor and the economy.

ARGENTINA

c. Prohibition of Forced or Compulsory Labor

Forced labor is illegal in Argentina and is not practiced.

d. Minimum Age for Employment of Children

Children under 14 years of age may not work in Argentina except in the family. Minors of ages 14 and 15 may work, but not more than 6 hours a day or 35 hours a week. The same law applies to minors 16 to 18 years of age, although competent authority may allow an exception.

e. Acceptable Conditions of Work

Argentina offers comprehensive protection of workers' rights. The maximum workday is 8 hours; the workweek is 48 hours. Premiums must be paid for work beyond those limits. Rules governing vacations, minimum wages, and occupational health and safety are comparable to those in Western industrial nations and are respected in practice.

The minimum wage in Argentina is currently set at about $85 per month. It is subject to frequent revision.

f. Rights in Sectors with U.S. Investment

U.S. investment in goods-producing sectors is relatively insignificant in Argentina.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		398
Total Manufacturing		1,616
Food & Kindred Products	295	
Chemicals & Allied Products	269	
Metals, Primary & Fabricated	89	
Machinery, except Electrical	305	
Electric & Electronic Equipment	62	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		169
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2,183

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

THE BAHAMAS

Key Economic Indicators

Millions of U.S. Dollars

	1986	1987(est)	1988 (proj)
Income, Production, and Employment			
Gross Domestic Product (GDP)	2384	2479	2429
GDP Growth Rate (pct)	5.5	4	-2
GDP by Sector (pct)			
Tourism	46	60	47
Finance	6	6	6
Manufacturing	6	6	6
Agriculture	1	1	1
Income per capita	10,094	10,314	9627
Size Of Labor Force	10,900	N/A	N/A
Unemployment Rate (pct)	12	N/A	N/A
Money and Prices			
Money Supply (M1)	267	270	260
Commercial Interest Rates	9.0	9.0	9.0
Consumer Price Index	5.4	5.7	6.0
Exchange Rate	1:1	1:1	1:1
Balance of Payments and Trade			
Total Exports	293.7	273.1	290
Total Exports to U.S.	211.8	168.1	180
Total Imports	1013.9	1097.4	1020
Total Imports from U.S.	8.0	768.3	715
Aid From U.S.	0	0	0
Aid From Other Countries	0	0	0
External Debt	167	144	116
Debt Service Paid	25	45	42
Reserves	230	171	150
Balance of Payments	48.8	-60.6	-21

1. General Policy Framework

The Bahamas is a stable, middle-income developing nation whose economy is based principally on tourism and offshore banking. The agricultural and industrial sectors are comparatively small. The economy, fueled by steady annual increases in the number of tourists, boomed in recent years, but faltered in late 1987 as the result of a decline in the number of tourist arrivals and a decrease in the flow of narcodollars into the system. Per capita gross domestic product (GDP), at about $10,000, is one of the highest in the region.

THE BAHAMAS

The Bahamas is the Caribbean's leading tourist destination, and the tourism sector has long been the engine of the Bahamian economy. Tourism typically generates more than 50 percent of total GDP and directly or indirectly employs about 50,000 people, roughly half of the total work force.

About 90 percent of The Bahamas' tourists come from the United States; thus the Bahamian economic performance is closely linked to that of the U.S.

The banking and finance sector is the second pillar of the Bahamian economy. Most of the banks are nonresident or offshore companies engaged in the management of assets for wealthy individuals. Banking typically accounts for roughly six percent of GDP and employs a little over 3,000 persons, 95 percent of whom are Bahamian.

The Bahamian economy is open; the country imports nearly everything, both to supply domestic requirements and to support the needs of the tourist trade. As a result, each year it incurs a large deficit in the balance of trade which it finances with a surplus in the services account generated by the tourism industry.

The great bulk of Bahamian imports come from the United States. In 1987, 70 percent of all imports came from the United States.

The government does not use fiscal policy as a tool to influence the economy. It runs on a balanced budget. Current expenditures are financed from current revenues. Nor does it actively manage the money supply. Monetary policy in 1987 focused on an unexpected liquidity crisis and a sharp decline in foreign exchange reserves that resulted, in part, from aggressive consumer lending campaigns by the commercial banks. In response to the crisis, the central bank directed all banks to regularize their statutory reserve positions and raised its discount rate from 7.5 percent to 9 percent, while instructing commercial banks to hold their prime rate at 9 percent, thus discouraging the financing of new loans with credit from the central bank. As a result commercial banks severely restricted lending, an action which should lead to a slight decrease in imports in 1988.

2. Exchange Rate Policies

The Bahamian dollar and the U.S. dollar are traded on a one-to-one basis. Because the Bahamian Government views the one-to-one exchange rate as a way to encourage American tourists to come to The Bahamas, it does not use the exchange rate as a tool to influence the performance of the economy, nor does it use exchange control regulations to restrict the level of imports. In recent months as a result of the decline of the dollar on world currency markets, U.S. imports have become more competitive in The Bahamas.

THE BAHAMAS

3. Structural Policies

The Bahamas has a predominantly free market economy. Prices, for the most part, are set by the market, although a price commission does set maximum prices of certain breadbasket items, such as eggs, sugar and rice, and non-food items like automobiles, gasoline and cooking gas. There are no personal income, corporate income, export, sales or value added taxes.

The government derives most of its income through Customs duties which it views primarily as a way to raise revenue, and only secondarily as a way to protect local industries. (The only locally-produced goods that receive special tariff protection are certain agricultural products, like eggs and vegetables, and a few manufactured goods such as confectionary products.) Manufacturers have unsuccessfully lobbied the government to raise tariffs on more locally-produced goods.

4. Debt Management Policies

The Bahamian debt position is good. Service on its $144 million foreign debt amounts to only about three percent of the total of export earnings and tourist expenditures. The government has never missed a payment on the debt.

5. Significant Barriers to U.S. Exports

Any report card on Bahamian trade policy has to start with the fact that it imports almost all of its goods from abroad and that 70 percent of its imports come from the United States. Neither import licenses, standards, government procurement practices or customs procedures act as a barrier to U.S. exports.

The Hotel Encouragement Act promotes private investment for building hotels and resorts by exempting from taxes construction of the proposed facilities for up to 10 years.

The Bahamian Government encourages foreign investment in the agricultural and manufacturing sectors, as well as in the already well-developed tourism and banking sectors. However, certain businesses such as small farming, real estate, advertising and public relations are reserved exclusively for Bahamians. Others, such as international sea and air transportation, debit insurance or maufacturing for the local markets are reserved for joint venture operations that include Bahamian owners.

The Immovable Property (Aquisition of Foreign Persons) Act requires foreigners to obtain approval from the Foreign Investment Board before purchasing real property in The Bahamas.

Like its trade policies, Bahamian investment policies are very liberal. There are no income or corporate taxes, or taxes on capital gains, dividends, interest, payroll, private

income, profits, royalties, sales, estates, or inheritances. The only tax is the real estate property tax. In addition to being able to produce for local consumption the investors may now export their products duty free to the United States under the Caribbean Basin Initiative (CBI).

The Immigration Act requires foreign personnel to obtain work permits before they can be employed in The Bahamas. The government will permit foreign employees to work in a technical, supervisory, or managerial capacity to initiate and operate industries, provided no similarly qualified Bahamians are available for the job.

6. Export Subsidies Policies

The Bahamian Government does not directly subsidize exports. The Industries Encouragment Act allows the government to exempt from import duties the machinery, tools, equipment and raw materials imported for factories established to produce or process goods either for local consumption or for export.

7. Protection of U.S. Intellectual Property

The Bahamas is a party to the Berne, Paris and Universal Copyright Conventions. Legislation passed in 1965 gives intellectual property holders the right to obtain an injunction against the unauthorized use of their properties. The government itself, including The Bahamas Broadcasting Corporation, the only radio and television station in the country, pays royalties for the use of copyrighted material.

In the private sector, however, piracy of videos, satellite signals and records is rampant. Most of the tapes rented by video stores are pirated. Many homes in Nassau and Freeport have satellite dishes; local merchants sell special electronic chips which allow dish owners to unscramble the signals from channels like Home Box Office and the Movie Channel. However, the prevalance of such practices is due not to an inability to obtain redress in the courts, but rather to a failure to seek protection there.

8. Worker Rights

a. The Right of Association

The constitutional provision for the right of free assembly and association specifically mentions labor unions, and unions operate freely without restriction. They are independent of government control, have the right to strike, choose their own delegations to the International Labor Organization (ILO), and maintain affiliations with international and regional labor organizations.

b. The Right to Organize and Bargain Collectively

Workers are free to organize, and unions engage in collective bargaining without government interference or restriction in any sector. Collective bargaining is extensive for the 30 percent of the work force which is organized. The Department of Labor attempts to mediate disputes, and the law provides for arbitration tribunals to help break stalled contract negotiations. Unionization of retail store and restaurant employees has been discouraged over the years by employer pressure and arbitrary dismissal practices. Labor laws and regulations are enforced uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

The Constitution specifically prohibits forced or compulsory labor, which are nonexistent in practice.

d. Minimum Age for Employment of Children

There is no legal minimum age for the employment of children. Although the law does not specifically address child labor, the requirement of compulsory education until age 14 effectively discourages child employment.

e. Acceptable Conditions of Work

Under the Fair Labor Standards Act, employers cannot permit their employees to work more than 48 hours a week. This provision is effectively enforced. In 1988 Parliament passed a law authorizing maternity leave for female workers which guaranteed their right to reemployment following the child's birth. The Labor Department conducts periodic checks of workplaces to ensure lighting, safety, and ventilation standards are met. There is no minimum wage law in The Bahamas.

f. Rights in Sectors with U.S. Investment

The goods-producing portion of the Bahamian economy is relatively small, and U.S. investment is limited to the petroleum, food and related products, chemicals and related products, and wholesale trade sectors. Workers' rights in these sectors of the economy are identical, in both law and practice, to those in all other sectors and in all parts of the country, although complaints have arisen on occasion about labor conditions affecting Haitian workers on agricultural projects in the Family Islands.

BAHAMAS

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		792
Total Manufacturing		26
Food & Kindred Products	(D)	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(*)	
Wholesale Trade		318
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,136

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business
August 1988, Vol. 68, No. 8, Table 13

BARBADOS

Key Economic Indicators

Barbados $ millions unless otherwise noted

	1986	1987	1988(est)
Income, Production, and Employment			
Real GDP (1974 prices)	827.0	845.0	878.8
Tourism	96.7	110.2	116.8
Manufacturing	86.0	80.3	85.9
Agriculture	78.8	70.0	67.2
Real GDP Growth Rate	5.1	2.2	4.0
Real per capita Income (1,000)	3.2	3.3	3.4
Labor Force (000s)	116.9	119.3	121.0
Unemployment Rate (avg/year)	17.8	17.9	17.5
Money and Prices			
Money Supply (M1)	395.3	466.9	539.0
Lending Rate	9.0	8.7	10.5
Deposit Rate	4.3	3.6	4.0
Retail Price Index (pct change)	1.3	3.4	4.0
Official Exchange Rate	2.0	2.0	2.0
Balance of Payments and Trade			
Total Exports fob	555.3	313.7	370.1
Total Exports to U.S.	131.0	67.6	71.6
Total Imports cif	1181.1	1035.9	1191.2
Total Imports from U.S.	470.3	333.5	440.2
Bilateral U.S. Aid	0	0	0
Aid from Other Countries	40.0	66.2	30.0
External Public Debt	809.1	888.0	1000.0
Debt Service Paid	97.0	194.0	142.0
Gold and ForEx Reserves	304.4	296.8	340.0
Balance of Payments	6.3	34.1	50.0

1. General Policy Framework

Since independence in 1966, Barbados has followed free market, private enterprise-oriented policies regardless of the party in power (Barbados Labor Party or Democratic Labor Party). Major economic activities include tourism, services, light manufacturing, and agriculture (sugar production). The economy is highly trade dependent -- the average propensity to import, for example, has been estimated at .50. The United States is Barbados' leading trade partner and a major source of investment capital.

Barbados historically has striven to maintain recurrent budget surpluses, relying increasingly on indirect taxes for revenue generation. However, rising expenditures, coupled with supply-side tax cuts in 1986, resulted in a recurrent

budget deficit the following year (the first since 1977). The overall budget deficit -- including capital spending -- was financed by foreign commercial loans and official development aid.

The government maintains a package of incentives for domestic (and foreign) private investment. Under the Caribbean Common Market (CARICOM) Fiscal Incentives Act, new manufacturing firms may be granted tax holidays and duty free privileges of up to 10 years. (The Government's Industrial Development Corporation provides low cost factory space.) Separate pieces of legislation govern the hotel and "off-shore" financial/services sector.

The Barbadian Government has no foreign investment code, but offers to investors the possibility of duty free privileges of up to ten years for new manufacturing firms. The government seeks to attract investment in highly specialized and sophisticated industries.

Overall the rules governing foreign direct investment are minimal. There is no screening process. In addition the government guarantees the right of profit repatriation. There are no barriers to technology transfer. Also Barbados imposes no performance requirements.

The Central Bank of Barbados controls the country's money supply through credit controls, reserve requirements, and regulation of domestic borrowing rates for commercial banks. (The central bank generally takes its cues from prevailing international interest rates.) In January 1988 in the face of mounting budget and balance of trade deficits, the central bank instructed commercial banks to raise their rates on savings and lending.

2. Exchange Rate Policies

The Barbados dollar has been officialy pegged to the United States dollar at a rate of two to one since 1975. Barbados maintains exchange controls regarding foreign payments, international travel allowances, incoming foreign investment, and purchase of Barbadian real estate by non-residents. Authorized dealers are delegated the authority to approve nominal import payments and the allocation of foreign exchange for certain other current payments and for cash gifts. In addition payments for imports of crude oil require central bank permission.

3. Structural Policies

The Government of Barbados relies heavily on indirect taxes -- consumption taxes, import duties, stamp duties -- which accounted for 61 percent of total tax receipts in 1987. Barbados adheres to the CARICOM external tariff; hence imports from outside the Caribbean are usually heavily taxed, unquestionably driving up the cost of many imports from the United States, and placing them out of reach of many consumers.

BARBADOS

4. Debt Management Policies

Barbados' external public debt has expanded markedly over the past several years (52.5 percent since 1982), and in 1987 debt service reached 21 percent of domestic earnings and tourism receipts (almost triple the 1982 figure). Extensive commercial borrowing (on the British and Japanese markets) has accounted for most of the increase in foreign debt, which unfortunately has paralleled a general decline in export earnings. Nevertheless, Barbados' debt situation is not particularly alarming -- the country remains current on its payments -- mainly because tourism revenue is expanding and the export base is fairly diversified. Barbados is not engaged in an adjustment program with the International Monetary Fund and World Bank.

5. Significant Barriers to U.S. Exports

The Ministry of Trade, Industry and Commerce restricts the importation of a number of items -- foodstuffs, clothing and some manufactured goods -- through licensing and quantative restrictions. The stated purpose of this policy is to conserve foreign exchange, protect domestic and regional CARICOM industries, and to monitor the importation of products that are subject to price controls. The policy, coupled with customs duties, stamp taxes and consumption taxes, drives up costs, thus putting some products out of reach to average consumers. The extent of diversion of American exports is unquantifiable.

6. Export Subsidies Policies

The government (through a specialized agency) provides a number of export promotion subsidies. These include grants for advertising or promotion activities abroad (including trade missions) or for travel of overseas buyers to Barbados for factory visits and the like. The government also provides tax rebates for firms that export outside the regional market. New exporting firms may also apply for duty free import privileges.

The Barbados Development Bank (whose shareholders are the government and the central bank) also provides medium and long-term finance to enterprises (including exporters) which contribute to the country's economic growth. Finally the government, through the Industrial Development Corporation, provides below cost factory space as well as training grants for new enterprises.

7. Protection of Intellectual Property

Barbados is a party to the Berne, Paris and Universal Copyright Conventions as well as the Patent Cooperation Treaty. By the government's own admission, Barbados is "new to the game" of intellectual property. It recently enacted a patents act, which protects patent rights for a minimum of 14

years, and a copyright law providing protection for the life of the author plus 50 years. Barbados joined the World Intellectual Property Organization in 1985. The most obvious problem area at this time appears to be piracy of videos, satellite signals, and computer software. The impact of any of these practices on trade with the United States is impossible to quantify.

8. Workers Rights

a. The Right of Association

Workers have the right to organize and strike, and freely exercise these rights. There are two major unions and several smaller ones, representing various sectors of labor. The largest union, the Barbados Worker's Union (BWU), is historically closely associated with the governing DLP (BWU officers hold three elected parliamentary seats and the appointed post of President of the Senate), but the union is not controlled by the government. Trade unionists' personal and property rights are given full protection under law. Barbadian trade unions are free to affiliate to trade union internationals and are active in a variety of regional and international labor organizations. Barbados is a member of the International Labor Organization (ILO) and has ratified ILO Conventions 87 and 98 dealing with freedom of association and collective bargaining.

b. The Right to Organize and Bargain Collectively

The right of collective bargaining is provided by law and respected in practice. Approximately 20 percent of the working population is organized, and wages and working conditions are negotiated through the collective bargaining process. Employers have no legal obligation to recognize unions but most do when a majority of their employees are organized. Workers who may be subject to antiunion discrimination have recourse to the Department of Labor, whose chief labor officer conducts inquiries. One incident in 1988 involved workers who were dismissed, allegedly for joining a union. The case is still under investigation. There are no manufacturing or special areas where collective bargaining rights are legally or administratively impaired.

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

The legal minimum working age of 16 in Barbados is generally observed. Minimum age limitations are reinforced by compulsory primary and secondary education policies.

BARBADOS

e. Acceptable Conditions of Work

The workweek is 40 hours in 5 days, and workers are guaranteed a minimum of 3 weeks of annual leave. Occupational safety and health conditions are in keeping with ILO standards. Minimum wages for specified categories of workers are administratively established and enforced by law. All workers are covered by unemployment benefits legislation, and by national insurance (social security) legislation. A comprehensive government-sponsored health program offers heavily subsidized treatment and medication.

f. Rights in Sectors With U.S. Investment

Acceptable conditions of work generally prevail in all sectors. However, due to low levels of unionization in some areas (notably electric and electronic and other manufacturing) there may be some companies which ignore minimum standards of health and safety and hours of work. There are no minimum wages in industry, but wage rates are generally higher than in most countries in this region.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		3
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

BELIZE

Key Economic Indicators

Millions of Belize Dollars Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production and Employment			
Real GDP (mrkt prices, 86 base)	415	438	466
GDP Real Growth Rate (pct)	3.6	5.5	6.5
GDP (factor cost by sector)			
Agriculture	56.9	71.1	75.6
Construction	20.6	26.9	29.6
Fishing	10.9	12.8	13.6
Manufacturing	40.5	52.9	56.2
Public Administration	45.1	53.1	56.8
Trade and Tourism	56.4	72.3	77.0
Income per capita ($)	1214	1238	1273
Size Labor Force (000s)	46.8	48.1	50.1
Unemployment Rate (pct)	15.1	15.0	14.0
Money and Prices			
Money supply (M1)	73.4	87.6	95.0
Commercial Interest Rate (prime)	12.0	12.0	10.0
Domestic savings rate (pct)	10.4	3.9	6.8
Investment rate (pct)	16.2	16.5	16.7
Consumer Price Index (86 base)	100.0	102.1	105.8
Wholesale price index	N/A	N/A	N/A
Exchange Rate	--	$1 = $2 Belize	--
Balance of Payments and Trade			
Total Exports	148.0	173.8	215.0
Total Exports to U.S.	90.6	86.8	95.0
Total Imports cif	244.0	256.6	297.0
Total Imports from U.S.	139.0	163.0	154.0
Aid from U.S.	18.7	23.9	15.0
Aid from Others (grants)	13.8	17.4	8.7
External Public Debt (US$ mil)	96.6	107.3	104.0
Net Foreign Reserves	17.6	37.5	62.5
Annual Debt Service	18.2	21.0	18.8
Balance of Payments (pct increase in reserves)	21.6	18.6	N/A

1. General Policy Framework

Belize's economy is small, heavily dependent on trade, and relatively free of government regulation. The economy is dominated by agricultural activities. The small size of the domestic market has been a key factor inhibiting development, since industries have had to find export markets in order to achieve any economies of scale. Distributive enterprises are significant in the domestic economy because Belize imports

most of what it consumes.

Central government revenues depend, by more than 50 percent, on taxes on foreign trade. The budget for Belize FY1988 (ending April 30, 1989) projects a deficit of BZD35.3 million, or 7.5 percent of gross domestic product (GDP). Eighty percent of the deficit is due to non-recurrent, development project expenditure. There is very little room for reduced current account expenditure of the public sector, since recurrent expenditures are primarily wages and pensions (50.1 percent) and debt service (25.8 percent). Yet there are pressing, but unfunded, needs for improving infrastructure.

The central bank is responsible for implementing, and to some extent determining, government monetary policy. The central bank exercises considerable control over the availability of credit through its ability to set minimum and maximum rates on commercial bank loans and deposits. Since 1985 central bank policy has been conservative.

Real interest rates have been set high to encourage savings. The central bank regards maintenance of the external value of the Belize dollar as one of its primary objectives. The bank monitors its gross external asset position relative to its total demand liabilities. Expansionary or contractionary policies are based on movement in this ratio.

2. Exchange Rate Policies

The Belize dollar (BZD) is set at two BZD to one U.S. dollar. There are no multiple exchange rate systems. There is a statutory annual maximum of U.S.$1250 that a Belizean can exchange for shopping abroad. In practice this restraint seems to be widely circumvented. Reflecting the ease of obtaining U.S. dollars, the black market is very small and the premium paid for U.S. dollars is generally less than 10 percent.

3. Structural Policies

The government's stated policy is that most economic decisions should be made in the private sector. For the most part, the government has followed this objective. However, there are a few restrictions that could affect demand for U.S. exports. The most significant of these are: import licensing; import tariff rates; and the 25 percent withholding tax on services imports.

Import tariff rates increased in 1986 as a result of Belize's membership in the Caribbean Common Market (CARICOM). The rate increase on personal care products, household goods, and other consumer items seems to have affected Mexican exporters more than U.S. exporters.

4. Debt Management Policies

The 25 percent tax on services imports may be affecting

demand for services from the United States. The purpose of the tax appears to be revenue generation, rather than protection of domestic industry. The primary service demanded is outside consulting -- a non-development bank is Belize's largest creditor, holding 25 percent of the country's external debt. Total public debt outstanding is approximately U.S.$104 million. The ration of debt service to exports is 11 percent. Most borrowing has been for infrastructure projects, which are generating returns. The World Bank projects that debt service to exports will fall to seven percent by 1997.

5. Significant Barriers to U.S. Exports

Belize requires import licenses on 33 different products. The stated reason for the licensing requirement is to protect domestic infant industries.

The government has been responsive to U.S. complaints about the import regime. In 1986, 50 items were on the import license list and 20 items were on an import prohibition list. The import prohibition list has been eliminated and the import licensing list modified.

6. Export Subsidies Policies

The Belize Government does not subsidize exports.

7. Protection of U.S. Intellectual Property

Belize is party to the Universal Copyright Convention and has continued to apply a bilateral agreement between the United States and the United Kingdom regarding reciprocal protection to trademarks.

Belizean law provides protection for copyrights, patents, and tradenames. The major intellectual property issue in Belize is satellite signal piracy. Belizean law does not appear to provide protection to broadcast signals.

Small scale piracy of both cable and network television transmissions is common. Several entrepreneurs have purchased rudimentary cable systems and satellite dishes to provide signals to their neighborhoods for a fee. The government now licenses specific local firms to provide cable service to different sections of Belize City.

8. Worker rights

a. The Right of Association

By statute and in practice Belizean workers and employers are free to establish and join together in their own organizations, and the labor union movement is a significant factor in Belize's economy. Eleven active unions, with an estimated 30 per cent of the labor force on their rolls,

effectively represent a broad cross section of white-collar, blue-collar, and professional workers, including most civil service employees. The unions are considered official by the Ministry of Labor when they have filed with the Office of Registry. Members are empowered to draft the bylaws and constitutions of their unions, and they are free to elect officers from among the membership at large. Unions which choose not to hold elections can act as representatives for their membership, but only unions which hold free and annual elections of officers are permitted to join the national Trades Union Congress of Belize (TUC), which is affiliated with the Caribbean Congress of Labor and, through the Inter-American Organization of Workers, with the International Confederation of Free Trade Unions (ICFTU). By both law and precedent, unions are effectively protected against dissolution or suspension by administrative authority.

Unions are legally permitted to strike, but unions representing essential services may strike only after giving 21 days' notice to the ministry concerned. In practice, the Labor Commissioner acts as a conciliator in deadlocked collective bargaining negotiations between labor and management, offering nonbinding counsel to both sides. Historically, the Commissioner's guidance has been voluntarily accepted. However, should either union or management choose not to accept the conciliator's decision, both are empowered to a legal hearing of the case, provided that it is linked to some valid provision of civil or criminal law. No union is officially affiliated with any political party, although several unions are clearly allied to one or the other of the two main parties.

b. The Right to Organize and Bargain Collectively

Theoretically, all unions may freely organize. In practice, however, some employers attempt to block union organization by terminating the employment of key union sympathizers, usually on grounds purportedly unrelated to union activities. Despite such employer resistance, virtually every sector of the economy but the garment industry has been unionized to some degree. Established unions are effectively protected from antiunion interference by both precedent and law, and union officials and membership rarely, if ever, encounter discrimination. Collective bargaining is the rule rather than the exception in most labor negotiations, and workers are fully represented in negotiations for the prevention or settlement of disputes with employers.

Labor laws and regulations are applied uniformly throughout Belize.

c. Prohibition of Forced or Compulsory Labor

Forced labor is forbidden by the Constitution and does not occur.

d. Minimum Age for Employment of Children

The minimum age of employment in Belize is 14, or 17 for employment near hazardous machinery. Inspectors of the

Ministries of Labor and Education enforce this regulation, although in recent years school truancy officers, who have historically borne the brunt of the enforcement burden, have been less active.

e. Acceptable Conditions of Work

No set minimum wage covers all Belizeans, but some categories of service employment, such as retail, restaurant, domestic, and health care jobs have minimum hourly wage standards ranging from $0.55 to $0.75 per hour. No worker is obliged to work more than 6 days or 45 hours per week. Payment of overtime work is obligatory, as is an annual paid holiday of 2 weeks. A patchwork of health and safety regulations covers numerous industries, and these are enforced to varying degrees by the Ministries of Labor and Public Health. Enforcement is not universal countrywide, and in 1988 limited inspection and investigative resources were committed principally to urban and the more accessible rural areas where labor, health, and safety complaints had been registered.

f. Rights in Sectors With U.S. Investment

Belizean workers have all of the internationally recognized worker rights. The only goods producing sector in Belize in which there is significant U.S. investment is other manufacturing (textiles). Workers in that sector have the right to unionize, although they have not done so. The government monitors work conditions through the Ministry of Labour and Social Services.

BELIZE

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		7
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		7

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

BOLIVIA

Key Economic Indicators

	1986	1987	1988
Income, Production, and Employment (1980 Pesos)			
Real GDP (pct change)	-2.9	2.1	2.5
Real GDP per capita (Bs)	1,639	1,624	1,620
GDP (producer prices)	105,965	108,075	110,765
GDP by Sector			
Agriculture	51,068	50,966	50,806
Mining	24,124	24,760	27,478
Manufacturing	11,038	11,423	11,906
Gas, Water and Electricity	987	926	946
Public Works and Building	2,918	2,895	3,046
Commerce	12,895	13,534	13,829
Trans/Communications	7,557	7,971	8,172
Services	3,904	3,922	3,930
Banking	(1,267)	(1,294)	(1,300)
Public Administration Services	14,646	15,171	15,247
Domestic Services	719	726	727
Others	29,944	30,126	20,234
Unemployment Rate (pct)	20.0	20.2	21.0
Money and Prices (Millions Bs)			
Money Supply (M1)	310.06	241.9	237.5
Commercial Interest Rate	14.50	14.50	14.50
Savings Interest Rate	14.10	14.26	14.50
Investment Rates	65.78	39.45	38.69
Consumer Price Index (pct increase 12 months)	65.96	10.66	20.78
Wholesale Price Index	1.99	2.49	3.10
Exchange Rates			
Official (yr-end)	1.92	2.18	2.45
Official (yrly avg)	1.90	2.05	2.35
Parallel (yr-end)	1.94	2.19	2.50
Parallel (yrly avg)	1.95	2.06	2.37
Balance of Payments and Trade (Millions US$)			
Total Exports fob	637.8	569.6	675.0
Total Exports to the U.S.	89.2	44.8	56.9
Total Imports cif	674.0	767.2	750.0
Imports from the U.S.	150.0	158.9	169.0
External Public Debt	5,328.13	6,141.09	5,926.09
Annual Debt Service Payments	120.2	76.6	185.7
Central Bank Reserves			
Gold	37,761.5	37,761.5	37,740.4
Gross ForEx (yr-end)	505.3	451.7	446.6
Net ForEx (yr-end)	293.4	265.7	219.3
Balance of Payments	-236.0	-366.7	-208.5
Aid from U.S.	155	76	89
Aid from Other Countries	77	95	112

BOLIVIA

Sources: Banco Central de Bolivia; Instituto Nacional de Estadisticas; Embassy La Paz; Planning Ministry; Direccion de Comercio Exterior (DICOMEX).

1. General Policy Framework

The Bolivian economy expanded slightly in 1987 after five consecutive years of negative growth. From 1982 to 1985 Bolivia financed its growing fiscal deficits through expansion of the money supply. On August 29, 1985 President Victor Paz Estenssoro implemented a drastic anti-inflationary economic program designed to reduce spiraling inflation which had reached a rate of over 20,000 percent a year. Paz' reforms abolished foreign exchange restrictions and devalued and stabilized the currency. The decree also deregulated bank deposit and commercial lending rates and authorized banks to offer foreign currency accounts. The more stable economy encouraged capital retention and repatriation, but lending rates rose to such an extent that most businesses could not afford to borrow.

The reactivation decree issued on July 10, 1987 aims to restore public confidence in the economy and create a climate more favorable to investment. Many of its provisions are designed to strengthen the banking sector by establishing more stringent reserve requirements and increasing supervision and other controls. Financial reform is crucial to the success of other aspects of the plan. The decree emphasizes export promotion and diversification and offers additional credits and incentives to the private sector. It also redefines the government's social program, giving particular priority to housing problems. Nevertheless, Bolivia's large external debt and its weak reserve position limit its ability to finance many of its projects.

Bolivia's public sector deficit totals about eight percent of gross domestic product GDP). Almost all of the deficit is financed by bilateral and multilateral loans. The current government maintained a tight fiscal policy in 1987, limiting spending based upon available resources. Public sector expenditures were significantly lower than anticipated. Rigorous enforcement of a simplified tax code dramatically increased tax and customs revenues in 1987 as the government implemented reforms in both areas. Tax collections rose by over 100 percent. Nevertheless, the government continues to depend heavily on its natural gas exports for revenues.

The government has slightly relaxed its fiscal policy in 1988, in response to growing public pressure to increase wages and public sector spending. It granted a slight wage increase in April, although it has acted to reduce salaries in some government-owned enterprises which arbitrarily raised salaries.

BOLIVIA

Bolivia signed a three-year enhanced structural adjustment facility with the International Monetary Fund (IMF) in May 1988. The program establishes targets for the amount of local currency in circulation.

The Bolivian economy continues to be heavily dollarized. Foreign exchange is readily obtainable, and many prices are quoted in dollars rather than in local currency. The government controls the flow of foreign exchange through the central bank's daily dollar auction, in which the bank sells a fixed amount of dollars at a predetermined exchange rate. The bank may refuse any offers at other than the established rate of exchange.

Bolivia is anxious to attract foreign investors, although current incentives are limited to the deferral of duty on capital goods imports, with payment over a three-year period. Current law permits 100 percent foreign ownership.

2. Exchange Rate Policies

The Boliviano (Bs) is freely convertible for all transactions. Foreign exchange is available without restriction from local commercial banks and exchange houses, or through the daily central bank auction system. Foreign exchange is also available through a legal parallel market. There is little difference between the official and the parallel rate, since the exchange auction follows market trends and provides dollars for the parallel market. There are no restrictions on export of capital.

The central bank sets the prevailing exchange rate, at which dollars are offered for sale on the auction. The rate is announced immediately prior to opening, after all bids have been submitted. The bank may reject any bids which do not meet the bank's proposed selling price. In this way the bank controls the flow of dollars into the market. It also may adjust the total number of dollars offered for sale per day.

3. Structural Policies

In general prices are controlled only by supply and demand. The government sets prices for hydrocarbons products, utilities, and pharmaceuticals. In addition the government requires that sugar importers obtain an import licensing certificate, as domestically-produced sugar sells for higher prices on the local market. The municipalities set prices for transportation services independently of the central government. The price of bread is also regulated by the municipalities since the government controls the price of PL-480 wheat sold in the country.

Law No. 843 of May 20, 1986 revised Bolivia's tax code by establishing six types of taxes. These include taxes on consumption and taxes on "presumed personal and corporate income" based on assets.

BOLIVIA

Taxes on consumption comprise: (a) Value Added Tax; (b) Complementary Tax to the Value Added Tax; (c) Tax on Transactions; and (d) Tax on Specific Consumption Items. Taxes on assumed income include a tax on assumed corporate profits and a tax on assumed profits of property holders.

Capital goods imports are subject to a 10 percent tariff. Tariffs for all other imports gradually will be reduced on a trimestral basis until reaching 10 percent on January 1, 1990.

Existing law permits 100 percent foreign ownership, with no requirement to register foreign investments. Current investment incentives are limited to the deferral of import duty on capital goods, with payment over a three-year period. The government is preparing a draft of a new investment law, scheduled to be presented to the Congress by the end of 1988.

4. Debt Management Policies

Bolivia's large external debt remains the single greatest obstacle to economic growth. Total public external debt is estimated at $3.9 billion. Private sector external debt is estimated at $60 to $100 million, although no accurate statistics are available. Bolivia owes 53 percent of its total debt to official agencies of other nations. Bolivia's major bilateral creditors are Argentina, Brazil, the United States, and Japan, in order of importance. Debt owed to multilateral financial institutions totals $1.2 billion, or 27 percent. Creditors in this category include the Inter-American Development Bank ($674 million) and the World Bank ($401 million).

Bolivia's annual debt servicing averages 50 percent of total exports. Bolivia paid $131.4 million of its $251.3 million debt service due in 1987. Bolivia finalized debt rescheduling agreements with several bilateral creditors in accordance with a decision reached at a June 1986 Paris Club meeting, and returned to the Paris Club in November 1988 to seek improved credit lines on existing debt. In addition, it signed a three-year enhanced structural adjustment facility with the International Monetary Fund in May 1988.

Bolivia repurchased $325 million of its debt with commercial banks through a debt buy-back scheme in early 1988. Bolivia financed the purchase with donations obtained from several countries. It hopes to repurchase the remainder of its commercial debt ($336 million) in a similar fashion. In addition the debt may also be exchanged for "investment bonds" that may be used to finance a qualified investment in Bolivian enterprises, in accordance with regulations issued in March 1988.

5. Significant Barriers to U.S. Exports

Import licenses are used to control the import of goods considered undesirable or dangerous, or to facilitate

importation of needed goods. These categories include lubricants and fuels, arms and explosives, narcotics, psychotropic drugs, food colorings, purebred stock, seeds, crude edible oils, and printed material. Imports of sugar also require a license in order to protect domestic sugar, which sells for prices above world market levels in the local market. In addition certain pharmaceuticals for human use (antibiotics, serums, vitamins, and sulfa drugs) are subject to quality control. Bolivia prohibits the import of certain products, including but not limited to unregistered firearms or pharmaceuticals, spoiled beverages or food products, and gambling devices.

The capital requirement for foreign insurance firms is double that of domestic firms. In addition foreign firms are required to register with the Bolivian Government. Any contract underwritten by a non-admitted firm will have no legal value, and the company and/or the insured will be subject to a Bs10,000 fine. With regard to marine insurance, sellers are prohibited from insuring exports abroad, and buyers are prohibited from insuring imports abroad.

The national airline, Lloyd Aereo Boliviano, charges lower fares than IATA regulations permit on some routes on which regional fares apply. These include flights to neighboring countries such as Peru and Paraguay. U.S. carriers flying these routes must, as a third party, adhere to IATA regulations.

Special labelling indicating origin or type of merchandise is not required for import into Bolivia. However, retail packages must show weight or measure of contents in metric units. There are also special regulations governing cigars, cigarettes, and tobacco. Pharmaceutical imports must be accompanied by a certificate of analysis in Spanish, which may be issued by a reliable manufacturer. This certificate must include expiration dates. Labels on pharmaceutical products should be in Spanish. In addition, pharmaceuticals must be registered with the Ministry of Health and Welfare before importation.

Most American investment in the past has been in minerals or petroleum. Such investments are governed by the General Law of Hydrocarbons and the Mining Code. Both require the renunciation of all rights to make any claims via diplomatic channels. The mining code prohibits foreign ownership of property or possession of a mining concession located within 50 kilometers of Bolivia's international borders.

The revised Andean Pact protocol to liberalize investments, which Bolivia ratified in early 1988, establishes a schedule of divestiture for firms wishing privileged access to the Andean market, but it provides that member governments may follow more liberal investment policies if they so choose. Bolivia has pursued its own investment policies in the past.

All government purchases of goods or services valued over 100,000 Bolivianos must be conducted through one of the qualifying agencies contracted by the Bolivian government.

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Bolivia currently uses two firms, the British Government Corporation Crown Agents and the Office for Project Services of the United Nations Development Program (UNDP). Public sector procurement of goods and services requires competition and agreement between parties. Nevertheless, domestic goods and services receive a 10 percent preference when qualifying bids in order to protect local industry.

All shipments entering Bolivia must be accompanied by five documents:

(1) the seller's commercial invoice;
(2) a bill of lading or airway bill;
(3) an insurance policy (required to calculate the value added tax);
(4) a packing list;
(5) an inspection certificate (Inspections are required of all imported products with an FOB value of $1,000 or more.)

In addition imports of live animals require certificates of origin indicating state of health. Purebred livestock imported for breeding purposes also require pedigree certificates. Shipments of food, live plants, and all seeds except vegetable and flower seeds require a sanitary certificate issued by the appropriate authority of the exporting country, such as the Department of Agriculture.

6. Export Subsidies Policies

Two recent governmental decrees are designed to promote exports by refunding national taxes. Supreme Decree 21998 dated August 31, 1988 states that any company wishing to establish assembly plants in Bolivia will be exempt from tariffs and duties. including the value added tax (VAT). However, the final product must be only for export, rather than local consumption. The importer must post a 180-day guarantee bond in the amount of 150 percent of the CIF value. Neither raw materials nor capital goods are considered assembly parts.

Supreme Decree 22013 of September 16, 1988 established tariff reimbursement certificates (CRA) in order to promote non-traditional exports. All exporters will obtain a 10 percent reimbursement of tariffs paid for products or capital goods imported to manufacture an exportable good. This 10 percent includes the VAT. Mining, hydrocarbons, and timber exports are not eligible to receive certificates. All companies which exported from July 10, 1987 through March 31, 1988 will receive a special bonus which may be redeemed one year after the actual importation. All goods exported after April 1, 1988 will receive the CRA. The exporter may use either the bonus or the CRA to pay any tariffs or taxes set by the Bolivian Internal Revenue or Customs.

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7. Protection of U.S. Intellectual Property

Bolivia is not a member of the World Intellectual Property Organization (WIPO) but is considering joining. It also is not a party to any of the major intellectual property accords. Existing Bolivian legislation on copyright, patents, and trademarks is outdated and does not provide adequate intellectual property protection. The 1947 Bolivian legislation provides copyright protection for literary, scientific, and artistic works and specifies that the author or inventor retains the exclusive use, or the right to authorize the use, of the work. The law does not address movies or video cassettes. A 1978 film bill attempts to protect and encourage cinematographic activities, particularly production, distribution, and exhibition, but the bill does not adequately protect against unauthorized broadcasting of copyrighted films and video tape pirating.

The General Regulations for Television Service, issued by the National Telecommunications Service on May 8, 1986, protect foreign and local copyrighted films against unauthorized broadcasting. It is expected, however, that the government will issue additional legislation to control video tape pirating and contraband films.

The 1918 trademarks legislation requires extensive bureaucratic procedures for foreign firms wishing to register trademarks in Bolivia. The foreign company must:

(a) file a legal request to the industrial property office of the Ministry of Industry and Commerce;
(b) post a $20 bond in the Central Bank;
(c) include six black and white 4x4 centimeter copies of the design of the trademark;
(d) file a requisition form for trademark registration;
(e) fill out company-specific industrial data for national trademarks;
(f) issue a power of attorney to an authorized local lawyer;
(g) purchase the filing folder and legal forms from the Ministry of Industry and Commerce;
(h) request the issue of the trademark certificate if no opposition was filed within fifty days after the initial request;
(i) pay a special tax to the Bolivian Internal Revenue;
(j) buy the trademark certificate form from the Bolivian Internal Revenue;
(k) attach one copy of the government's official monthly publication which shows the request for a trademark registration;
(l) include one legal paper to elicit the final resolution.

Foreign companies can protect their trademark by filing opposition against the registration of a foreign trademark in Bolivia with the Industrial Property Department of the Ministry of Industry, Commerce and Tourism. However, opposition must be filed through a legal action handled by Bolivian lawyers.

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Piracy of computer software, videos, and records is common; many computer outlets routinely provide elaborate pirated software packages free of charge as an incentive to buy their product. Industry sources indicate that contraband films enter from several neighboring countries, particularly Chile. However, as yet there have been no legal actions taken to prevent illegal pirating.

To avoid satellite signal and cable television piracy, the Bolivian government mandates that any company or individual must obtain a previous license to operate a ground satellite station or broadcast cable T.V. Those operations must follow the regulations set by the government. In order to obtain a license, cable companies must present a copy of the contracts providing them broadcasting rights. Operation licenses and copies of the regulations can be obtained from the office of the Director General of Telecommunications.

Government officials indicate that new legislation on intellectual property rights, patents, and trademarks may be approved in the first semester of 1989. Losses to U.S. firms arise primarily from pirating of videos, records, and computer software.

8. Worker Rights

a. The Right of Association

Bolivian workers have the right to establish and join organizations of their own choosing, and they are free to elect their own leaders. They possess and exercise the right to strike. Labor law prohibits any labor contract which denies workers' constitutional rights and freedoms. The Bolivian Workers Central (COB), an umbrella labor organization which represents the majority of workers, is independent and politically powerful. In past years it has frequently paralyzed the economy with crippling strikes. In 1988 it mobilized a number of demonstrations on various social and economic issues throughout the country. Antigovernment labor demonstrations occasionally result in violence between demonstrators and police or military personnel.

The government places no restrictions on a union's right to join international labor organizations. COB Executive Secretary Simon Reyes was the spokesman for Bolivian labor at the June meeting of the International Labor Organization in Geneva, and the COB is affiliated to the Soviet-controlled World Federation of Trade Unions.

b. The Right to Organize and Bargain Collectively

Bolivian workers have the right to organize and bargain collectively. The law does not extend this right to government workers, but the distinction is largely ignored in practice, as virtually all government workers are unionized. Government-employed petroleum workers, for example, conducted a brief strike for higher wages and improved benefits in March, and teachers also engaged in labor actions during

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1988. In Bolivia's government-dominated economy, negotiations between government representatives and freely elected labor leaders are common. In early 1988, the government invited the COB to join government officials in discussions about the national budget, which directly controls employee compensation in important sectors of the economy.

After government-union talks reached an impasse and petroleum workers went on strike in March, the military secured the country's two refineries against vandalism, the government-run petroleum company began issuing dismissal notices, and police arrested three labor representatives in Santa Cruz on various formal charges. The union officials, who were promptly charged and brought before a judge, were released after about 3 weeks.

Labor laws and regulations are enforced uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

Bolivian law prohibits forced or compulsory labor, and neither has been reported.

d. Minimum Age for Employment of Children

Bolivian law prohibits the employment of minors under 18 years of age in dangerous, unhealthy, or immoral work; no other restriction on employment of minors exists. Government officials state that the revised labor code now in preparation should clarify ambiguities in the law concerning the employment of children under 14 years of age. In practice this law is not rigorously enforced.

e. Acceptable Conditions of Work

Bolivia's labor laws contain conditions for child protection, paid vacations, and protection of workers' health and safety. In practice these laws are not rigorously observed, and the government has not provided funds for adequate enforcement. The mines, often old and operated with antiquated equipment, are particularly dangerous and unhealthy. In urban areas, most workers (about half the labor force) observe an 8-hour day and a 5- or 5 1/2-day workweek.

Bolivia has a minimum wage law as well as an elaborate system of bonuses and compensations for the private sector. In 1988, after talks with COB leaders, the government raised the minimum wage to $25 per month. Moreover, labor leaders and the Permanent Assembly on Human Rights have expressed concern that continuing high rates of unemployment are contributing to a worsening of living conditions, despite the modest economic gains of 1987-88.

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f. Rights in Sectors With U.S. Investment

U.S. investment in Bolivia is minimal. Most U.S. investments historically have been in the mining and petroleum sectors. Employees in these sectors are included in the Bolivian Labor Law, which provides employees the right to establish and join organizations of their own choosing. Employees in both sectors are unionized and possess the right to strike. (Petroleum workers staged strikes in mid-1987 and again in March 1988 in an effort to increase salaries and improve benefits.)

Workers in firms employing 15 or more persons may form their own union. Employees of smaller organizations automatically are included in the National Workers' Federation. In practice workers in most firms containing substantial U.S. investment have organized their own unions, which negotiate directly with management. These unions in turn are part of the national, "umbrella" labor organization.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		128
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

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Key Economic Indicators

	1986	1987	1988
Income, Production, and Employment			
GDP (bil $) (1)1	271	313	325 (est)
Real GDP Growth (pct)(1)	8.0	2.9	0.04(est)
by Sector (pct)(1)			
Agriculture	-7.8	14.0	0.06
Industry	12.1	0.2	2.23
Services	8.1	2.8	1.09
GDP per capita ($)(1)	1964	2224	N/A
Unemployment Rate (mid-yr pct) (1)	3.8	4.4	3.9
Money and Prices			
M-1 (Bil Cruzados yr-end)2/	456	1036	N/A
Commercial Interest Rate (real pct) (3)	6.4	30.8	N/A
Savings Rate (pct of GDP)(2)	16.9	19.2	N/A
Investment (pct of GDP)(2)	18.5	19.6	N/A
Consumer Price Increase (pct)(1)	59.0	366.0	933
Exchange Rate (Cz/US$)(yr-end)			
Official (2)	14.9	71.1	753(est)
Parallel (3)	27.0	94.0	1,195
Balance of Payments and Trade			
Total Exports ($bil)(4)	22.3	26.2	34 (est)
Total to U.S. ($bil)	3.9	4.0	N/A
Total Imports ($bil)(5)	15.6	16.7	14 (est)
Total from U.S.($bil)(5)	7.3	8.4	N/A
Aid from U.S. ($mil)(6)	11.5	9.3	8.5
Total Aid (6)	Neg	Neg	Neg
Total Foreign Debt (yr-end) ($bil)	N/A	107.5	115
Annual Debt Service ($bil)(2)	10.1	9.3.	10.8
ForEx (less gold) ($bil)(7)	5.8	6.3	N/A
Gold ($bil)(7)	1.0	1.2	N/A
Current Account ($bil)	-4.1	-0.9	1.9

The statistics above are compiled from the following sources:
(1) FIBGE (Brazilian Institute of Geography and Statistics Foundation)
(2) Central Bank
(3) Brazilian "Cenarios" Newsletter
(4) CACEX - Foreign Trade Department of the Bank of Brazil
(5) USDOC
(6) U.S. AID: Traditional AID assistance is not provided to Brazil, both because of nuclear proliferation issues and because Brazil is considered an advanced developing country. The non-traditional assistance noted below includes the following

areas: (a) continuation of population programs through U.S. private voluntary agencies; (b) response to natural disasters; (c) continuation of limited training activities; and (d) modest complementary efforts related to worldwide or regional research.

	1986	1987	1988
U.S. Dols (mil)			
(a)	8	7	6.5
(b)	0	0	0.1
(c)	2	1.8	1.7
(d)	0.3	0.5	0.3

(7) International Monetary Fund

1. General Policy Framework

Since Vargas' "New Republic" in the 1930s, and with greater emphasis since World War II, Brazil has followed an "import substitution, government led" development policy, reflecting the intellectual influence of Raul Prebisch. In the last 20 years, and especially with its increasing indebtedness in the 1970s, Brazil has emphasized exports, often through subsidies and incentives. Thus, within an overall market orientation, Brazil combines a large private sector, which dominates light and medium industry, commerce and services, with significant government ownership of basic and heavy industry and utilities, such as steel, electricity, petroleum and basic chemicals. Foreign investors dominate domestic production of automobiles, trucks and buses, pharmaceuticals and some chemicals, and are important producers of other industrial goods. Pervasive government regulation touches virtually every aspect of Brazilian economic life, but is especially significant in imports, foreign investment, and incentives.

Brazil's fiscal policies have resulted in chronic public sector deficits and attendant growth in domestic and foreign debt. The financing of accumulated budget deficits is a central cause of high inflation: 933 percent in 1988. Government securities are sold to private and public lenders, much of it literally in an "overnight" open market. The government must strive to make real interest returns remunerative to avoid nervous investors fleeing into hyper-inflationary investments in real assets. Foreign exchange inflows from the large trade surplus complicate the management of monetary aggregates.

Reducing these deficits is a government priority and part of an International Monetary Fund (IMF)-approved stabilization program, but such a move faces domestic political opposition. Finance Minister Nobrega announced in September 1988 that Brazil would succeed in holding the operational public deficit to slightly under four percent of gross domestic product (GDP) for 1988, but actual performance was closer to a five percent deficit. A tighter target of roughly two percent of GDP is outlined in the government's budget bill for 1989, but this has been revised to a target of zero percent under Brazil's "Summer Plan" announced January 15, 1989. Measures to hold

down the deficit have included cancellation of some consumption subsidies, a temporary pay freeze on the federal work force, controversial moves to curb borrowing by state and local governments, and most recently, a promise of dismissal of up to 60,000 workers. Equally controversial are pending moves to shift federal government functions to state and local governments consistent with Brazil's new constitution, which increase federal revenue-sharing transfers to local governments. Although the government has identified its own public sector wage bill as a main contributor to deficits, unions strongly oppose employment trimming measures.

The "New Industrial Policy" (NIP) announced in May 1988 aims to modernize Brazilian industry by increasing its efficiency and its autonomous technological development, and reducing progressively the dependence on governmental stimulation of industry. The NIP emphasizes that tariffs, not import licensing, should control imports. Although decrees have been signed to reform the tariff system, simplify the export of 3000 products, and restructure benefits to industry, no opening up of imports nor increase in industry efficiency has yet occurred, and many industrial leaders discount the new policy.

The concern about competitiveness and new domestic and foreign investment contrasts with the nationalistic thrust of the new Brazilian Constitution. Detailed implementing regulations for the constitution have not yet been enacted, but some provisions, such as a 12 percent cap on real interest rates, may complicate economic management. New worker benefits will raise labor costs. Foreign investment opportunities were restricted in mining and health services. New petroleum risk contracts are banned. Market reserves for national firms are permitted, but not mandatory. Future legislation will establish government "preferences" for Brazilian-owned firms.

Although rapid inflation and economic and political uncertainties indicate no growth, employment levels are holding steady (due to the booming underground economy) and buoyant foreign demand for Brazilian exports produced a record trade surplus of $19 billion in 1988.

2. Exchange Rate Policies

Brazil consciously pegs the cruzado's value to the U.S. dollar, maintaining its trade competitiveness by daily mini-devaluations on the cruzado based on inflation as measured by the official cost-of-living index (IPC). During 1988, the nominal devaluation of the cruzado amounted to 950 percent, an increase slightly higher than the domestic rate of inflation which registered an increase of 933 percent for the same period. The government maintains taxes on currency conversion -- creating in essence, a multiple exchange rate -- for the payment of certain services. In addition, the government restricts the supply of foreign exchange for importers and limits the purchase of foreign exchange available for foreign travel. The government has stated its

intention to reduce exchange restrictions in 1989 and has begun to legalize a "parallel" market for tourists. The exchange rate will remain frozen at the January 16, 1989 level for the duration of the wage price freeze initiated with the "Summer Plan".

3. Structural Policies

The Government of Brazil possesses wide authority to apply price controls to nearly all products and services and price control/freezes have been used frequently as part of the government's inflation-fighting policies. Price controls have been applied particularly to state-sector products, such as steel, electricity, and basic services. Price controls do not discriminate against foreign investment, but established foreign investors in Brazil, notably but not exclusively in the auto and pharmaceutical industries, have publicly complained that inflexible price controls have occasionally forced them into unprofitable production and resulted in lower investment levels. Beginning in 1987 the government moved to liberalize some price controls. Aimed mainly at reducing distortions in the alignment of prices, moves have authorized more frequent price increases and have removed some manufacturers, such as auto makers, from controls.

The government uses competitive bidding to purchase most products. The government also subsidizes alcohol (as part of a massive gasoline substitution policy), wheat, and sugar production.

The major taxes influencing the growth of the Brazilian economy include personal and corporate income taxes, a value-added tax on industrialized products (IPI), tariffs, a state-level tax on the circulation of goods which acts as a sales tax (ICM), and a 25 percent tax on credit operations and exchange and insurance transactions. Reform of the income tax system is being considered for 1989; part of this reform could be the elimination or reduction of various tax incentives and loopholes, as well as a decrease in rates. Income tax evasion and non-compliance are endemic. Tax policies have a decided impact upon foreign trade. Brazilian firms receive generous tax breaks on corporate income, 3 percent versus 35 percent for normal income, derived from exports. Domestic value added taxes (ICM and IPI) are levied on most imports as well as domestic goods but not on exports.

Brazilian production and quality standards do not in themselves appear to constitute a barrier to foreign exports.

4. Debt Management Policies

Brazil has moved to normalize its international financial relations, following its February 1987 moratorium on payment of interest to foreign commercial banks. During the latter part of 1988, Brazil signed agreements with the IMF and the Paris Club and concluded a package with commercial banks which rescheduled about $60 billion in existing loans, restored

short-term credits and provided about $5 billion in new money. In addition, Brazil is engaged in a broad policy dialogue with the World Bank on a number of significant policy and sector loans. A number of international export credit agencies, including the U.S. Export-Import Bank, have begun to process loans to Brazil as a result of its restoration of normal financial relations.

Brazil remains a country with a heavy external debt ($120 billion). The current economic team has stated its intention to service its debts but also its desire to look for ways to continue to reduce its debt service and the stock of debt through various market based techniques. Debt-equity swaps through formal and informal mechanisms have proven successful in reducing Brazil's foreign debt by about $6.2 billion in 1988.

5. Significant Barriers to U.S. Exports

Brazil maintains comprehensive, complex, and overlapping import restrictions, making it impossible to isolate the effect of any particular barrier on specific products or the overall impact on U.S. trade. The most important barriers include the following.

Virtually all Brazilian imports require prior licensing from the Foreign Trade Department of the Bank of Brazil (CACEX). Only an importer registered with CACEX may apply for a license, which must be obtained before shipment embarkation. Although some recent changes have made the granting of licenses more automatic, the regulations governing license issuance continue to be complex and provide CACEX with wide discretionary power for delaying or denying permission to import a wide range of products.

Import licensing restrictions are also used to implement specific restrictive programs, including the "Law of Similars" and the "Prohibited Imports" list, and enforce the trade preferences set out in Brazil-Argentina and Latin American Integration agreements. Actually a collection of laws and regulations, the "Law of Similars" denies an import license for products "similar" to competing products produced, or capable of being produced, in Brazil. The import licensing decision is made after consulting with local industry Associations. Although the rules provide that the similarity test is required only if the importer wishes government benefits or incentives, in practice the test is widely applied: an estimated 90 percent of Brazilian imports of machinery and capital equipment is covered. Ostensibly for balance of payments reasons, the Brazilian Government also maintains a "Prohibited Imports" list of products normally denied import licenses. The recently revised list includes approximately 1150 items as varied as live cattle and automobiles. The Brazil-Argentina Economic Integration Agreement of 1986, with further protocols signed in 1987 and 1988, affects U.S. imports by waiving the "Law of Similars" restrictions and facilitating import licenses, thus allowing preferential access for certain Argentine exports. Recent

protocols exempt capital goods, automobiles, and processed food products from import duties and taxes.

Operation of Brazil's import licensing program, including its use to implement quantitative restrictions, has greatly restricted U.S. exports to Brazil, particularly textiles and apparel, consumer products of many kinds, steel products, products incorporating digital technology, auto parts, process control valves, certain general aviation aircraft, machine tools, roller bearings, batteries, and non-bulk agricultural products. A sustained relaxation in the restrictiveness of Brazil's import licensing policies would lead to major increases in U.S. exports.

Restrictive Brazilian investment laws, administrative non-transparency, legal and administrative restrictions on remittances and arbitrary application of regulations and laws limit U.S. services exports. Services trade possibilities are greatly affected by limitations on foreign capital participation in many services sectors. Extensive barriers exist in the following service sectors: accounting, advertising, media ownership (print, radio, and television), transport (domestic air, water, and land), audio and visual works, construction, franchising, health and medical, insurance, leasing, banking, telecommunications, data processing, and information services.

Foreign companies, particularly construction engineering firms, are prevented from providing technical services for domestic projects unless Brazilian firms are unable to perform them. Internationally financed (e.g. World Bank) projects are exempt from this requirement.

Several government regulations effectively cause all exporters to insure with Brazilian companies. All reinsurance in Brazil must be purchased from the government reinsurance monopoly, which denies U.S. reinsurers full participation in the local reinsurance market. Requirements for withholding insurance premiums and outstanding loss reserves also expose U.S. reinsurers to serious exchange losses. Brazilian regulatory policy precludes the issuance of new licenses.

Trans-border data flow limitations mean data processors are denied the ability to compete by using central processing facilities abroad. Only majority-owned information service industries in Brazil may provide services to the Government. The state telecommunications monopoly gives preference to Brazilian equipment suppliers.

The most significant trade barrier for U.S. motion pictures is the requirement that at least 25 percent of the titles offered by video cassette distributors be Brazilian and at least 25 percent of the physical inventory maintained by video outlets consist of Brazilian films. Although interpreted flexibly in recent years, this requirement operates as a direct import quota severely restricting the number of foreign film titles which can be distributed in the Brazilian home video market because the supply of other than adult-rated Brazilian titles is limited.

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In addition, a screen quota of 140 days per year for exhibition of Brazilian feature films artificially restricts the foreign film market share. A Brazilian short subject must be shown with any foreign feature film. Color feature films distributed for theatrical exhibition and all films distributed for television broadcast must be printed in one of two Brazilian laboratories. A two-year waiting period for telecast of feature films following theatrical release is required. U.S. distributors have worked actively with Brazilian law enforcement officials to eliminate pirated cassettes.

"Informatics" is broadly defined to include computers and parts, and all other devices incorporating digital technology (i.e., communications switching equipment, process controls, and optical and electronic components), as well as software, services and related investment.

In 1984 Brazil passed the National Informatics Law, which reserves production and sales of micro- and mini-computers and equipment containing these computers exclusively for Brazilian-owned firms and restricts imports through 1992. Technology-based joint ventures have been virtually precluded.

Market reserve provisions include the national similars test (product commercialization is prohibited if a comparable Brazilian product exists), the requirement to use a Brazilian distributor and have the resulting contract approved, and the possibility of non-renewal of commercialization approval after three years, if a Brazilian similar exists at that time.

A Section 301 case, based on concerns about the market reserve policy, investment restrictions, administrative reforms, and software copyright protection, has been ongoing since 1985. The U.S. Government continues to pursue this issue with Brazil.

The percentage of total U.S. investment in Brazil has been dropping while other parts of the developed and developing world have seen substantial U.S. investment increases. Estimates for 1988 are that Brazil will receive only $300 million in net foreign direct investment. Individual U.S. companies claim Brazilian economic conditions, local equity requirements, price controls, arbitrary application of Brazilian law and regulation, remittance controls, technology transfer limitations, informatics import restrictions, lack of effective intellectual property protection, and other aspects of the investment policy have deterred investments and cut profits. In some sectors, foreign firms have no option but to form joint ventures with Brazilian firms. New foreign investment in the informatics sector is limited to capital, not technological, participation. Several U.S. banks are established in Brazil, but expansion of established activities is limited.

Brazil's new Constitution bans majority foreign participation in direct mining operations, new hydrocarbons risk contracts, and foreign investment in health care

provision. The constitution prohibits foreign capital participation in land, fluvial, coastal maritime, and internal air transportation and the exploration, extraction, refining, and transportation of hydrocarbons. Foreign ownership of television, radio, and print media is prohibited. Foreigners are barred from owning land in certain zones and/cr areas on national security grounds.

Brazil's industrial policy reserves a specific sector (e.g. informatics) exclusively for local producers and authorizes financing, government procurement, or tax incentives to discriminate in favor of domestic producers. Foreigners are discriminated against in bank credit access and government procurement. Annual foreign firm remittances of profits and dividends exceeding 12 percent of registered capital are taxed at prohibitive rates. Capital may be under-registered because intangible capital assets (trademarks and know-how) cannot be registered. Transfers of royalties and technical assistance fees from foreign firms to related parties abroad are prohibited.

Brazil has long maintained local content requirements for manufactured products. Some are set informally; others established in regulation. Industries affected include the automotive, consumer electronic, and transport equipment industries, and increasingly, the capital goods sector for steelmaking, railroads, construction, and electricity generation. Eligibility for Brazilian incentive programs--preferential tax treatment, financing, and import duty incentives--is tied to performance requirements. Brazil uses the national similars test to increase local content. Local content requirements were recently eased, especially in the Northeast and Amazon regions.

Since 1980, Brazil has imposed company and, in some cases, sectoral import quotas. At the beginning of each year, firms wishing to import products valued at more than $100,000 are required to submit a planned import program to the Bank of Brazil's Foreign Trade Department (CACEX). In general, import level approval is based upon the previous year's imports plus exports. The government recently removed limits for fixed assets and raised limits for goods imported for reprocessing (up to 130 percent of the 1988 import level will be approved for 1989) and for goods imported for direct resale (up to 120 percent of the 1988 import level will be approved for 1989). Brazil also sets annual import quotas on certain industrial sectors, including informatics, and on total imports for the Manaus Free Trade Zone. The government has significant discretion to adjust the annual quotas and has not hesitated to tighten or loosen the controls to reflect economic and balance of payments conditions. Relaxing quantitative restrictions, particularly company import quotas, contributed to the 1987 increase in U.S. exports to Brazil. Company and sectoral quotas are potentially significant barriers to increased imports.

Brazil has long required supplier-financing for imports of capital goods exceeding $ 200,000 per year. The recent easing of this ceiling should encourage Brazilian imports from

suppliers who in the past extended only short-term trade credit following Brazil's debt moratorium in 1987. The negative impact of these government restrictions have been magnified in recent years by Brazil's debt problems and the non-availability, until recently, of official government export financing (e.g., U.S. EximBank).

Brazilian tariff levels are high, especially by developed country standards. In a recent move to simplify and debureaucratize Brazil's import regime, a number of import taxes and surcharges and many of the special exceptions to the payment of tariffs, taxes and surcharges were eliminated and levels were reduced. Among the major changes were the abolition of the financial operations tax (IOF), which had been charged on foreign exchange purchases to finance a wide variety of imported goods and services, and the port improvement tax. The new tariff schedule includes tariffs for over 11,000 items ranging from 0-85 percent, versus 0-105 percent under the old system. The overall impact of the new tariff levels is difficult to predict. Although maximum rates are generally down, exemptions are removed and impact on individual products depends on the specific treatment of each product.

The Federal, state and municipal governments, and related agencies and companies, buy a broad range of products and tend to follow a strong "buy national" policy. The new constitution made government discrimination in favor of "Brazilian companies with national capital" mandatory although it has not yet defined this discrimination. If U.S. firms were allowed to compete freely, however, U.S. exporters could have significant market opportunities. The extent of constitutionally-mandated discrimination against imports or non-national capital companies will be defined in ordinary legislation. Although Brazil has not articulated a formal countertrade policy, countertrade appears to be increasing, not declining, and has some potential to displace U.S. exports to third country markets. Brazil presently trades iron ore for hydroelectric turbines with Czechoslovakia. Soviet ferromanganese ore processing machinery will be reimbursed by ferromanganese exports. Offsets were an important factor in the bidding to supply helicopters to the Brazilian army. The Brazilian oil monopoly, PETROBRAS, actively promotes countertrade through its trading subsidiary INTERBRAS, especially with the Soviet Union, Eastern Bloc countries, and recently with Iran, and attempts to obtain countertrade agreements on foreign oil purchases. Brazilian exports under such agreements cover the full range of manufactured and raw materials.

6. Export Subsidies Policy

Brazil maintains a large number of export subsidy programs that benefit Brazilian exporters of manufactured and agricultural products. The Foreign Trade Department of the Bank of Brazil (CACEX) operates the Fund For Financing Exports (FINEX) program, which provides medium and long-term dollar and cruzado export financing at predetermined rates to

purchasers and exporters of Brazilian products. There are no stated limits on the total FINEX funding, and any exporter may qualify for the program. The program operates through the commercial banks by buying down the export credit rates from commercial bank interest rate levels to standard rates for various repayment terms. The FINEX rates are lowest for non-traditional exports like aircraft and heavy machinery. In comparison with the minimum Organization for Economic Cooperation and Development (OECD) arrangement rates, FINEX provides large export credit subsidies unavailable to U.S. manufacturers from commercial sources competing for those orders. Brazilian exports to the United States eligible for medium and long-term financing total at least $1 billion; actual exports financed are unknown.

Since 1972, the Commission on Fiscal Incentives for Special Export Programs (BEFIEX) has stimulated and subsidized Brazilian exports by offering import tax reductions and other fiscal benefits in return for company commitments to meeting specific export targets. In exchange for entering into an export performance commitment, a company can obtain export subsidies, tax and duty exemptions, and reductions for imports of capital goods and inputs used in producing exports. In return, the company must maintain a three-to-one ratio of export to import values. Foreign-owned firms account for the largest contracts and 60 percent of the total export value. Currently 400 firms have BEFIEX contracts with export commitments of $ 87 billion. Recent legislation provides new benefits to BEFIEX firms, eases penalties for non-performance, introduces new flexibility and transparency, stimulates industrial development of northeastern and northern firms, and expands the attractiveness and availability of the program.

Other export subsidy programs which the U.S. has cited as countervailable are the tax rebates and export credits on the industrialized products tax, preferential working capital financing for exports, and preferential short-term export financing. The U.S. investigations, however, have shown a general decline in the level of subsidization, due largely to the reduction and elimination of the industrialized products tax (IPI) and circulation of merchandise tax (ICM) export credit premium programs.

Although Brazil has not historically engaged in specific export targeting, this policy may be changing. Under consideration are the use of debt-export swaps aimed at stimulating exports of non-traditional products to new or "difficult" markets, such as developing countries. The current Finance Minister, however, opposes debt-export swaps. New programs are under consideration to increase exports of consumer electronics and household appliances to the United States.

7. Protection of U.S. Intellectual Property

Brazil is a party to the Paris and Berne conventions, the Universal Copyright Convention, and the Patent Cooperation Treaty. The country's copyright and related laws generally

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conform to world standards. The Software Law of 1987 extended explicit copyright protection to computer software. The registration of software has been slow and the procedures used not transparent. Unauthorized public performances of motion pictures, piracy of video cassettes and records, unauthorized translations of literary works, and computer software piracy continue.

Brazil does not provide either product or process patent protection for metal alloys, chemical compounds, food and chemical/pharmaceutical substances, or biotechnological inventions. Method of use claims in patent applications are also generally not allowed and, if issued, are difficult to enforce. Brazil requires a patent or trademark owner to work the patented invention or trademark in Brazil. A third party may request a compulsory license if a patent owner has failed to work the patent within three years of patent issuance or if exploitation has been discontinued for more than one year. Brazil lacks comprehensive legal protection for trade secrets.

Since 1969, Brazil has denied process and product patent protection to pharmaceutical products. This lack of protection enables Brazilian producers to import and/or copy raw materials, as well as finished products, without the burden of recovering R&D costs. In some instances, foreign companies are not authorized to import products similar to pirated products produced in Brazil. Based on a Pharmaceutical Manufacturers' Association-initiated Section 301 action, in October 1988 the United States imposed trade sanctions of $39 million/year (based on the average of the year's 1985 to 1987) against Brazil for lack of pharmaceutical patent protection.

The motion picture industry believes that frequent unlicensed exhibitions of their product occurs in both small towns and urban condominiums. Further, they believe that videocassette piracy of their member company product has been estimated to be 90 percent of the market. They also express concern with the parallel imports of unauthorized videocassettes which they claim constitutes some 5 percent of the unauthorized stock. There are reports of recent, more vigorous enforcement to better control piracy.

Brazil's "national similars" policy, which precludes the sale of foreign computer software if a national program exists, encourages the illegal importation of foreign software.

Biotechnology products or processes are not covered by Brazil's patent law.

Restrictions on the ability of U.S. firms to negotiate licensing agreement terms discourage U.S. foreign investment and exports to Brazil. Brazil's market reserve policy denies import of all U.S. mini- and micro-computers, while its "national similars" policy has hindered entry of computer software programs.

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8. Worker Rights

a. The Right of Association

Brazil's labor code has long provided for representation of all Brazilian workers by unions geographically defined and recognized by the state. The law imposed a system of "unicidade" (prohibiting the existence of multiple unions of the same professional category in the same geographic area), which also stipulated that no union's geographical base could be smaller than a "municipality." Brazil's newly adopted Constitution retains both of these concepts, but it frees workers to organize new unions out of old ones without prior authorization from government authorities. The new Constitution also eliminates powers previously granted to the Minister of Labor to "intervene" (i.e., depose) a union's independently elected representatives and substitute others of his own choosing. The new Constitution grants the "unrestricted" right to strike to all employees, including public servants, although it requires that strikes not interrupt "essential services" (to be defined by law). The Constitution prohibits interference and intervention in labor unions by the government, but provides that abuse of the right to strike will be punished under the law. It also incorporates a provision from the Labor Code which prohibits the dismissal of employees who are candidates for union leadership positions from the date of the registration of candidacy until 1 year after the termination of their mandates, if elected, except in the case of serious misdeeds, as defined by law.

Brazilian law does not restrict the ability of Brazilian labor groups to affiliate with international labor groups. The two major labor federations have adopted similar positions regarding international affiliation: their charters mandate cooperation with all international labor organizations and affiliation with none.

Agricultural worker unions in some areas have been the targets of harrassment and even killings by hired gunmen. National leaders of CONTAG charge that state and federal authorities do not adequately investigate attacks undertaken against labor leaders in rural areas.

b. The Right to Organize and Bargain Collectively

The right to organize is guaranteed by the Constitution, and trade unions are legally mandated to represent workers. The right to organize and strike extends to the entire Brazilian territory, including the Manaus Free Trade Zone and Export Processing Zones. Although Brazilian laws do not make any provision for a central labor organization, three such groups have emerged. They do not have legal standing to represent any category of workers and have been created in Brazil as nonprofit civil associations.

Brazil's Government has encouraged labor and management to resolve differences through collective bargaining which, as

a practice, has become more commonplace. Nevertheless, a system of special labor courts continues to exercise normative powers with regard to the settlement of labor disputes, thereby discouraging direct negotiation. Existing law charges these same courts (as well as personnel linked to the Federal Labor Ministry) with mediation responsibility in preliminary stages of dispute settlement. Arbitration by neutral, professional parties, does not take place.

c. Prohibition of Forced or Compulsory Labor

There have been repeated charges that forced labor continues to be utilized in Brazil, despite Federal government assertions that it is taking steps to halt the practice and prosecute the perpetrators. In 1988, as in previous years, the Pastoral Land Commission (CPT) of the Brazilian Catholic Church denounced specific labor contractors in certain northeastern and Amazon states for maintaining "slave" work forces. The CPT charged that these contractors deducted transportation and other inflated expenses from the workers' meagre salaries, and employed armed guards to prevent the "indebted" workers from leaving the property. According to press reports, such cases of "slave labor" typically involve the exploitation of vulnerable workers, especially minors or migrants. The CPT charges that such "slave" work forces are most common deep in the Amazon, where jungle areas are being cleared to prepare land for agricultural use. The CPT accuses state and Federal authorities of failing to promptly investigate reports, public or private, of locations where compulsory labor is practiced. In 1987 in Para state, according to the CPT, Federal government representatives waited several months and finally conducted an "inspection" during the rainy season, after all the "slave" laborers had been removed.

State and Federal authorities assert that they fully investigate all such reports but their ability to detect and prevent such abuses is limited by the remoteness of the areas in which the abuse occurs, as well as by the workers' justified fear of employer retribution. In recent years, the Federal Government has prosecuted several "slave" labor contractors in the Amazon region; however, no prosecutions occurred in 1988. Under the Labor Code, the Federal Government is responsible for investigating and prosecuting instances where denunciations of forced or "slave" labor have been made.

d. Minimum Age for Employment of Children

Fourteen is the minimum working age under the new Constitution, except for apprentices, and numerous legal restrictions have been approved to protect working minors under age 18. Under Brazilian law, permission of parents or guardians is legally required for minors to work, and provision must be made for them to attend school through the primary grades. All minors are barred from night work and from work that constitutes a physical strain. Minors are also prohibited from employment in unhealthy, dangerous, or morally harmful conditions. In practice, however, these laws do not

prevent the employment of millions of children and adolescents who can be seen working on the streets in every city in Brazil. According to Federal government statistics, 34 percent of all children between the ages of 10 and 14 are considered economically active, and 65 percent of Brazilians between the ages of 15 and 17 are employed. Many, and perhaps most, of these working minors are thought to be working in violation of the law, but accurate statistics are not available.

e. Acceptable Conditions of Work

Organized labor demonstrated growing political strength by working for, and achieving, significant reforms in the new Constitution. A new workweek limit was set at 44 (down from 48) hours; the length of the shift in uninterrupted (24-hour) operations was defined as 6 hours daily; vacation pay was set to be equivalent to at least 1 1/3 times that of normal monthly income; paid maternity leave was extended from 90 to 120 days; the concept of paternity leave was introduced and provisionally set at 5 days, pending the approval of implementing legislation. The new Constitution also includes significant new labor protections for agricultural workers and domestic employees. Agricultural workers now enjoy the same constitutional protections as urban workers, for the first time in recent Brazilian history.

The new Constitution guarantees to all workers a minimum wage "able to satisfy the vital basic necessities of the worker and his family." The Constitution also requires that salaries be readjusted periodically to preserve purchasing power. Real worker income, however, has fallen short of this mark. Official data available for 1986 indicate that some 42 percent of those economically active, including minors, earned no more than the equivalent of one minimum monthly salary. Periodic 1988 readjustments notwithstanding, that figure remained under $70 (at official rates of exchange) at year's end. According to calculations made by a trade union-financed Sao Paulo statistical research foundation, 1988 minimum wage rates ranged between 15 and 20 percent of the amounts actually required to meet the constitutional criteria.

With regard to health and safety regulations, Brazil appears to have a high rate of industrial accidents, but accurate statistics on job-related health hazards are not available. Unofficial estimates, however, link some 80 percent of social security system medical payments to problems resulting from workplace conditions. On balance, the new Constitution provides an array of protections for workers. Responsibility for enforcement of these provisions lies with government and judicial authorities. In the past, worker rights have not always been vigorously enforced.

f. Rights in Sectors With U.S. Investment

Two generalizations characterize worker rights in firms in Brazil where U.S. (or other foreign) capital is invested:

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-- salaries paid tend to be the best in each category, as well as fringe benefits, medical assistance and hygiene, and workweek hours. Labor-management practices tend to be professional, focusing on conflict resolution through collective bargaining with recognized employee union representatives;

-- firms conduct their operations with respect for Brazilian law. Union officials, however, have criticized firms (principally those functioning in the "chemicals and related products" sector) for using products or procedures that are prohibited in the United States. Officials charge that these prohibited products and procedures expose workers to dangerous substances in the workplace and workers and others in the community to dangerous substances released into the environment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		273
Total Manufacturing		7,730
Food & Kindred Products	653	
Chemicals & Allied Products	1,543	
Metals, Primary & Fabricated	628	
Machinery, except Electrical	1,620	
Electric & Electronic Equipment	117	
Transportation Equipment	1,228	
Other Manufacturing	1,942	
Wholesale Trade		397
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		8,400

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Billions of Pesos Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, and Employment			
Real GDP (1977 prices)	376.6	397.7	423.0
Real GDP Growth Rate	5.7	5.7	6.5
GDP by Sector			
Agriculture	4.2	4.5	5.1
Fisheries	5.0	-8.0	-2.0
Mining	1.5	N/A	N/A
Manufacturing	5.3	5.5	8.4
Construction	4.2	10.6	5.8
Utilities	4.5	3.8	8.6
Retail	5.6	7.5	8.5
Transport	7.1	10.1	8.9
Services	4.0	5.8	5.0
Real per capita Income (1977 prices)	30,600	31,700	33,200
Labor Force (000s)	4,270	4,355	4,440
Unemployment Rate (pct)	8.6	7.9	7.5
Money and Prices			
Money Supply (M1)	189.3	203.6	290.0
Commercial Int. Rates (90 days)	7.6	7.5	8.5
Savings Rate (pct GDP)			
National Savings	8.0	10.6	12.1
External Savings	6.5	5.2	4.8
Investment Rate (pct GDP)	15.0	16.5	17.5
Consumer Price Index	17.4	21.5	10.0
Wholesale Price Index	18.2	17.1	7.0
Exchange Rate (Dec 1988)			
Official	204	235	247
Parallel	211	244	290
Balance of Payments and Trade (millions of Chilean pesos)			
Exports fob	4,199	5,224	6,750
Exports to U.S.	915	1,140	1,500
Imports cif	3,436	4,396	5,000
Imports from U.S.	642	773	1,000
Aid from Other Countries	33.4	41.0	N/A
External Public Debt	19,388	19,099	17,000
Annual Debt Service Payments	2,403	1,130	1,900
Gold and ForEx Reserves	1,778	1,871	1,600
Balance of Payments	-228	45	645

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1. General Policy Framework

Chile's export-driven economy is based upon an open trade regime. The country currently enjoys a boom borne by maintaining open markets and a competitive exchange rate. Although the objective of Chile's trade policies is to expand exports faster than imports, the country has opted not to erect trade barriers to balance its foreign accounts. Rather, Chile has employed a variety of approaches intended to help it grow out of its problem. Externally, Chile has handled its debt service problems through multi-year debt reschedulings with private creditors in conjunction with International Monetary Fund (IMF) and World Bank programs. Innovative debt conversion mechanisms have lowered the overall debt burden while revitalizing the private sector. Still Chile faces a massive external debt of $17.5 billion which requires a continued infusion of external funds. Although Chile has resorted to borrowing from international institutions to stop-gap its remaining current account deficit, these inflows have supported the restructuring of foreign trade policies and projects. Private banks signed an agreement with Chile in August 1988 lowering interest rates on existing debt. Finally, Chile has attracted foreign direct investment by shoring up investor confidence with strict fiscal policies and careful monetary management.

Chile's economy is now moving at a seven percent growth rate. This rate of growth has been achieved with a relatively low inflation and increasing wages in 1988. The main engines of growth -- the agricultural, forestry, fisheries and manufacturing sectors -- have also propelled the non tradeable sectors such as construction and utilities. These policies have in turn generated employment, dropping joblessness to its lowest point since the 1982 debt crash. Chile's open markets probably will help most sectors to avoid severe bottlenecks over the next several years. Additionally, the financial system now supports private and government investment with long term financing.

Chile's public finances are balanced. The government has run very small deficits (0.5 percent of the gross domestic product (GDP) not including the Copper Stabilization Fund) over the last two years, which have been in part financed through the domestic financial system, i.e. short and medium term bonds. The government's main revenue sources derive from a flat 16 percent value added tax, an overall 15 percent import tariff, excise taxes, personal and business income taxes, and income from state enterprises. Revenues in 1988 increased significantly due to higher than expected receipts from copper exports and tariff payments on a nearly 30 percent increase in imports. Instead of raising fiscal expenditures, the government chose instead to lower import tariffs from a uniform level of 20 percent to its current level of 15 percent and to reduce the value-added tax from 20 to 16 percent.

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Another integral part of Chile's goals to reduce the size of the state has been the privatization of some of the largest state enterprises in the country. A few state enterprises are left and some of these the government has targeted for auctioning. However, one of Chile's largest state enterprises, the National Copper Corporation (CODELCO) will not be sold.

Government expenditures have fallen consistently since 1984 and are roughly in step with revenues. However, one of its innovative privatization initiatives -- privatization of the social security system -- has caused some budgetary difficulties stemming from a large liability against the current government budget. The main components of public sector expenditures are now social security payments to recipients, debt service, transfers to the central government and wages and salaries.

Monetary policy centers on maintaining high international reserves, stable money supply growth and low inflation. Chile's monetary authorities have established policies that put domestic interest rates near par with international rates. One of the most significant aspects of monetary control in Chile is the management of foreign exchange due to the openness of the economy. Monetary authorities are constantly selling and purchasing foreign currencies to fuel Chile's international trade. Fine tuning is carried out through daily open market operations by the central bank and the Treasury. Chile's monetary authorities cannot print money indiscriminately. Money creation is directly related to the availability of international reserves at the central bank.

In sum, Chile has largely made the transition from an import substitution to an open trade-oriented economy. Industries are efficient and produce goods competitive in terms of both price and quality for the international market. In the last two years, internal debt levels have fallen and, as a result, consumption has recovered. The government budget is in balance, and revenues should grow faster than overall GDP. Because of existing investments, export volumes should grow by 40 percent by 1992. Imports should grow in line with the increase in exports.

2. Exchange Rate Policies

The central bank maintains a crawling peg exchange rate system which devalues the exchange rate based on the difference between domestic and international inflation. This difference normally pushes upwards the nominal value of the currency on a monthly basis. On a trade weighted basis the peso has reached its most competitive point since the mid-seventies. The government focus on maintaining a competitive real exchange rate has had a major effect in limiting imports, promoting exports, and encouraging the development of an efficient industrial sector. The legal parallel rate, reflecting a variety of supply and demand factors, especially political uncertainty in 1988, has run as much as 20 percent higher than the official rate. Foreign

exchange purchases and liquidations, while virtually automatic, are controlled by the central bank. There is also a 120 day waiting period for payment of imports by the central bank.

3. Structural Policies

One important aspect of Chile's adjustment policy is promotion of structural change. Chile has used money from the World Bank to improve its economic infrastructure (roads, electric generation, etc.) which offer direct support for exporters by lowering in-country transportation costs and by providing reliable low-cost energy supplies. In addition, the Government of Chile has introduced a series of measures to aid exports, such as expediting return of value-added taxes, in-bond warehouses, 10 percent drawback on small non-traditional exports, etc.

In general, the government does not interfere in Chile's markets and does not have specific pricing policies. Although the government has a "Buy Chile" policy, in practice state enterprises purchase at the lowest possible price, regardless of the sourcing of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Import decisions are almost always related to price competitiveness and product availability.

The most significant tax corresponds to the value added tax, which affects all sales transactions carried out within Chilean borders. There is a 15 percent *ad valorem* duty on all imports. In general, personal taxes are low and paid by the population. Business taxes are similar to those levied in the United States.

Government regulation is limited by Latin American standards. The main areas of regulation are the financial sector, utilities and securities markets. There are no overall government regulations that affect the market for U.S. exports to Chile. The direction of investment is influenced by the government mainly in the construction industry. Large infrastructure projects as well as housing programs financed by the government affect the direction and size of investment.

4. Debt Management Policies

Although Chile has been able to reduce its external debt service burden relative to its exports and its economy, the principal problem facing the Chilean economy remains its high external debt burden. Despite retiring $5 billion in debt over the last four years in its successful swap program, new multilateral bank borrowings and extensions of trade credits have blunted the overall drop, leaving Chile's debt at $17.5 billion. A series of Chilean initiatives and some good luck have relieved the pressures of foreign exchange strains on the country's economic growth for the first time since 1982. Chile has been a model for other debtor countries by working out multi-year debt reschedulings with private creditors

in conjunction with an IMF Extended Fund Facility and three completed World Bank Structural Adjustment programs. In April, Chile signed an arrangement with private banks to lower interest rates on existing debt -- projected debt service as a percentage of exports of goods and services is now less than 30 percent -- as well as to allow Chile to emit new debt in the future in order to gradually reenter the voluntary lending market. The 1987 debt rescheduling agreement will permit Chile to skip one debt service payment this year (retiming), resulting in an interest savings of approximately $450 million. Chile has also rescheduled some of its public debt over the course of several Paris Club meetings since 1982.

We project that the cumulative effect of higher copper prices and the retiming agreement will result in an increase in official reserves of at least $800 million in 1988. Under the second Structural Adjustment Loan from the World Bank, Chile set up a Copper Stabilization Fund that is triggered when the price of copper exceeds by five cents a benchmark price agreed to at the beginning of each year (83.6 cents in 1988). The fund is intended to buffer both government revenues and the balance of payments against sudden changes in copper prices. These efforts have helped Chile to achieve a higher GDP in 1987 than before the crash of 1982. Another positive development is that Chile may in the future gain easier access to balance of payments financing including some public and multilateral loans. On October 26, the United States resumed voting in favor of loans from the multilateral development banks in light of improvements in human and civil rights in Chile.

Although Chile has coped well with its debt, several problems loom on the horizon. For example, a change in nominal international interest rates could cause balance of payments problems in 1990 and beyond. (A one percentage point increase in LIBOR adds about $150 million annually to the Chilean debt service bil.). Chile also faces the prospect of resuming debt amortization in 1991. Although this is a potentially troublesome event, with Chile's continued debt retirement program, the burden caused by resumed amortization could be significantly lessened. Chile's open economy depends heavily on commodity exports and is vulnerable to external shocks. Copper has been notorious for wide swings in prices through the business cycle. (A one cent change in the average annual price of Chile's copper exports alters export receipts by approximately $30 million and contributes about $23 million to the Treasury.) Similarly, prices for other important exports such as pulp and fish meal are highly cyclical. A confluence of rising interest rates and falling export prices could cause a resurgence of Chile's previous debt problems.

5. Significant Barriers to U.S. Exports

Chile generally has few barriers to U.S. exports. Additionally foreign firms operating in Chile enjoy the same protection and operate under the same conditions as local

firms do. However, treatment of some areas vary from this norm.

The only legal requirement for import licenses is known as an "informe de importacion" issued by the central bank, which can normally be obtained and processed through the local commercial banking system. These permits are generally routine in nature and rarely, if ever, are they used as an import barrier. Payment for visible trade transactions is not permitted unless the "informe de importacion" has been issued. The central bank, through an unwritten agreement, confers with the Ministry of Agriculture's planning section when requests for corn or wheat imports exceed the import estimates made by the planning section early in the year. The planning section can hold up approvals of the "informe de importacion" and thereby delay or limit imports until the importer can provide satisfactory reasons why he needs to import the commodity rather than using that which is available on the domestic market, or explain why his demand is greater than the planning agency's estimate. (See customs procedures below for more on wheat import barriers.)

Trade related investment measures are applied to the automobile industry. A U.S. manufacturer, plus a European manufacturer, depend on additional import protection (provided in exchange for export requirements) to stay in business.

Chile's custom duty rate is presently a uniform 15 percent _ad valorem_ rate (CIF). Automobiles and trucks are major exceptions. Import surcharges also apply (from 6 to 13 percent) on products which are thought to receive a subsidy from the exporting country. The importer as well as all local sellers must pay a value added tax (VAT) of 16 percent, figured on the CIF value plus the 15 percent duty. The total cost is thus raised by 33.4 percent over CIF cost. Additional import taxes are imposed on the CIF value on certain consumer items, such as cars, tires, and inner tubes ranging from 5-15 percent. Examples of these rates are as follows:

Product	Rate (percent)
Articles of gold, platinum and ivory	50
Jewels of precious or synthetic stones	50
High quality rugs and tapestries	50
Gasoline, for automotive vehicles	27
Cigars	46
Cigarettes	52.9

Since 1983, Chile has maintained an "import price band system" for wheat, vegetable oils and sugar. The system employs a surtax that is levied on top of the across-the-board 15 percent duty. This system is designed to protect domestic production from subsidized exports, but it also limits U.S. wheat exports. As a result of import prices imposed in 1985, imports of U.S. wheat fell to $19.7 million in 1986, down from $159 million in 1983. This surtax brings the import price of wheat up to a minimum price level (floor band). The present floor band is now $185 per metric ton but is scheduled to decline to $180 per metric ton on December 16, 1988. The

combined effect of the surtax and the 15 percent duty varies according to international prices. For example, at the international price level prevailing in June 1987 ($117 per metric ton), the *ad valorem* tariff is 53 percent. This dropped to 50 percent (at the June 1987 wheat price) in December 1987. Currently, these tariff levels compare with Chile's GATT-bound rate of 35 percent for wheat. Actual international prices are above the floor level making the surtax irrelevant. U.S. and international wheat prices are now roughly $150-160/MT. Durum is closer to $180/MT.

In 1984, the government began to implement a "Buy Chile" policy. The policy calls for all state-owned companies to favor locally produced goods when conditions of sale (price, delivery times, etc.) are equal to or better than those of equivalent imports. The aim is to assist local manufacturers and to reduce unemployment. However, a large number of product categories are not manufactured in Chile and purchasing decisions by state-owned companies will continue to be made among competing imports. Requests for public and private bids are published in the local newspapers.

Chile requires importers to wait at least 120 days before receiving payment from the central bank. Authorization is granted routinely and foreign exchange availability is not considered to be an import impediment. Nevertheless, this financing requirement can add as much as five or six percent to the import cost. Chile's IMF Extended Financing Facilities have called for removal of this requirement. Currently, the Facility calls for a two-year phased removal, but as of yet the government has not initiated action on the matter.

6. Export Subsidies Policies

In general, the Government of Chile does not subsidize exports. The key element in Chile's export promotion drive has been the maintenance of a competitive real exchange rate and low and uniform tariffs. Since 1985, the government has carried out several new export promotion measures including tax and tariff benefits to exporters. Among these are a drawback scheme for some small non-traditional exports, quicker returns on the value added tax to be returned to exporters, elimination of a stamp tax on credit operations and expansion of bank credit limits to exporters. Also, the government has instituted measures to allow locally manufactured and consumed goods to enjoy the same deferred payments on import duties as do reexported goods of the imported components. The 10 percent drawback scheme has directly benefited small exporters.

7. Protection of US Intellectual Property

Chile is a party to the Berne and Universal Copyright Conventions, but has not signed any of the major patent accords. Chile's 1931 Industrial Patent Law (DL 958) provides

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a general framework for intellectual property protection through process and product patents, but specifically excludes product patents for pharmaceuticals, foodstuffs, beverages and certain chemical preparations. Although Chile has expressed unofficially a willingness to support discussions and initiatives on intellectual property rights in the current trade negotiations, it clearly views product patent protection for pharmaceutical products as a sensitive trade issue, and has resisted U.S. industry and government efforts to eliminate drug piracy by local laboratories.

Since 1984, the problem of intellectual property right infringement for pharmaceutical products has been greatly aggravated due to aggressive marketing efforts of Laboratorios Chile and other local laboratories which use pirated drugs and a 1984 patent law modification which awards discriminatory drug product registration advantages to local laboratories. The lack of product patent protection, has enabled local laboratories to expand their market share of pharmaceutical products by selling copied drugs obtained from third country markets at prices substantially below those of U.S. research based firms. Moreover, new drugs introduced to the Chilean market are required to present comprehensive laboratory testing and registration. Copied drugs or compounds of those which have been approved are exempt from these requirements.

The U.S. pharmaceutical companies claim that the combination of discriminatory registration plus the lack of product patent protection will drive them out of the Chilean market. Currently U.S. companies have about $12 million in investment in Chile and the total industry has about $160 million in annual sales. The state-owned Laboratorios Chile has increased its market share from 12 percent in 1981 to 25 percent in 1987. The local pharmaceutical companies which use pirated drugs have also dramatically increased their sales and aggressively oppose Chilean pharmaceutical patent protection (the local industry is split on this issue with local foreign companies favoring patents). Those that oppose patent protection argue that patents, if instituted, will drive up the cost of medicine and create monopolies of foreign manufacturers. The U.S. pharmaceutical industry in Chile and the U.S. Embassy have been lobbying hard for effective patent protection since 1985. These efforts have helped to bring the issue to the forefront.

In November 1986, the U.S. Government initiated informal discussions on the pharmaceutical patent issue. In 1987, several negotiating sessions were held but the patent problem remained. On February 22, 1988, the Pharmaceutical Manufacturers Association (PMA) filed a 301 petition against Chile due to the lack of adequate pharmaceutical protection. The following month (March), a bilateral pharmaceutical meeting was held to discuss the Chilean government's intention to legislate a pharmaceutical patent law.

The Chilean Government, recognizing the need to protect intellectual property rights within the context of an open

market system and of maintaining a favorable bilateral trade and investment climate with the U.S. companies, has agreed to legislate pharmaceutical patent protection in the next legislative session. Moreover, the Chilean Government is taking steps to privatize Laboratorios Chile which lessens unfair competition as the company is forced to seek profit. On April 7, 1988 the PMA withdrew the 301 petition. Although there has been considerable progress, a Chilean patent law has not been issued and its content is still being negotiated. Plans are to finish discussions and have legislative proposals for approval by early 1989 which will give product as well as process protection.

The government recently passed a law protecting software writers from piracy and unfair trade as a complement to the existing laws. The effect has been satisfactory. Chileans have ceased selling unlawful computer software.

Generally, pharmaceuticals have been the sore point for intellectual property rights. We do not have estimates of damages to US pharmaceutical companies. However, the points of contention should be settled to the satisfaction of all soon. Video and audio tapes have been protected by Chilean law within the last two years. Police seizures of pirated product have begun and should reduce the level of video piracy which was estimated by U.S. industry sources in 1987 to be 60 to 70 percent of the market. No major problem currently exists in the food and drink industry regarding lack of patent protection (here process protection is available, although product patent protection is not).

8. Worker Rights

a. The Right of Association

Most aspects of labor rights are codified in 12 laws passed in 1987. The law regarding political parties discriminates against trade union (and professional association) leaders, prohibiting them from being officers of political parties. Legal challenges to this provision were rejected in 1987. Officials of those union organizations which lack legal standing continue to be active in political parties.

Legally recognized unions do not need permission to hold union meetings or conferences. Under the law, unions cannot elect as an officer a person who is under indictment. The labor code also prohibits the development of national union confederations. Labor unions can and do maintain relations with international labor bodies in their fields. The Government selects Chilean worker delegates participating in the conference of the International Labor Organization (ILO), and in 1988, as in the past, the Government sought to avoid challenges to the credentials of these delegates by consulting with representative trade unions in Chile. However, in selecting delegates to represent the Chilean workers in the ILO, the Government ignores the major de facto umbrella labor organizations, such as the National Workers' Command (CNT),

which the government does not recognize. The government's refusal to select delegates for the ILO from these de facto umbrella organizations has been the major issue in the challenges to credentials in the ILO. These challenges have not had sufficient support in the ILO to be successful.

Under the labor code there are severe restrictions on the right to strike. Strikes are prohibited in designated strategic enterprises, primarily public utilities, the largest government copper mine, and the petroleum industry. In 1988 the Government confirmed the 1987 designation of 25 enterprises as strategic. There is no indication that blacklisting of trade union leaders and members who participated in illegal strike actions in past years has ended; however, there was no instance of massive dismissal of workers for striking in 1988.

Harassment of trade union leaders continued. On January 26, leaders of the National Workers' Command, which was subsequently subsumed into the Unified Workers' Central (CUT), were sentenced to 541 days' imprisonment for calling a general strike on October 7, 1987, in the aftermath of which several people died. In handing down the sentence, the judge recalled previous arrests of the union leaders, Manuel Bustos and Arturo Martinez, for activities "characterized by their violence, sowing of hatred, stench of resentment, series of vulgarities and dangerous demonstrations." An appeals court overturned the conviction. Subsequently, the Minister of Interior appealed to the Supreme Court to restore the original sentence; on August 17 the high court imposed a sentence of 541 days of internal exile, a sentence rarely handed down by Chilean courts. Bustos and Martinez are currently the only persons subject to this type of punishment. They are confined to small towns in the interior of Chile.

Organized labor continued to press for a full investigation of the 1982 murder of labor leader Tucapel Jimenez. Efforts to have the government appoint another judge to investigate this murder were not successful, and the case remains officially closed. While the government dropped indictments against a political leader and a trade union officer for having slandered the government in this case, interest remains high within Chilean and international trade union circles that this case be reopened.

For a number of years, complaints have been filed in the ILO against the government, alleging repressive measures against demonstrations; arrest and ill-treatment of union leaders; violent suppression of May Day demonstrations; and dismissal of strike leaders. In 1988 additional allegations were filed, to which the government provided an extensive response. On December 24, 1987, after failing to make promised changes in its labor code to enhance workers' rights, Chile was formally suspended from the list of countries eligible to participate in the U.S. Generalized System of Preferences (GSP) program, and it remained off the list in 1988.

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b. The Right to Organize and Bargain Collectively

Workers in Chile have the right to form and join unions. While the rules governing union organizing in firms employing between 25 and 50 workers were eased in 1988, there are generally severe restrictions on collective bargaining. Collective bargaining is strictly regulated, and the entire collective bargaining procedure can be nullified if one legally constituted deadline is missed by either the union or management. Further, any decision by a union to delay the bargaining process in anticipation of a more propitious future bargaining atmosphere automatically extends the current contract for a minimum 2-year period.

There are no export processing zones or other special districts where different laws apply.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is implicitly prohibited in Chile's Constitution and labor code, and there have been no complaints on this issue since the mid-1970's.

d. Minimum Age for Employment of Children

Child labor is regulated by law. Young people between the ages of 14 and 15 may be employed only with the permission of their parents or guardians and if they have completed their schooling, and then only in restricted types of labor. Those between the ages of 15 and 18 can be employed in a larger variety of labor and at expanded hours, but only with their parents' or guardians' permission. Economic factors have forced many children to seek part-time and full-time employment in areas of the economy which are generally difficult to regulate.

e. Acceptable Conditions of Work

Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The law permits the hiring of apprentices, but pay may not be less than the minimum wage. Laws covering wages and hours of work are difficult to enforce, and there are complaints that occupational health and safety laws are not adequately enforced. Workers have the right to denounce employees who pay less than the minimum wage, and employers can be forced to pay back wages, but an employee who brings such a complaint risks losing his job for having done so.

The normal workweek is 48 hours long. The minimum wage is approximately $50 per month.

CHILE

f. Rights in Sectors With U.S. Investment

U.S.-owned companies or companies having substantial U.S. investment operate in a manner similar to Chilean-owned companies and are subject to the same labor code. There is no appreciable difference among the industrial sectors except those stemming from the nature of the work, e.g., unskilled agricultural workers are paid less than semi-skilled mine workers, and health and safety regulations assume more importance in mines and manufacturing of chemicals than they do in agriculture. In the Chilean goods producing industries, U.S. investment is primarily in the petroleum, food and related products, chemicals and related products, and wholesale trade sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum	59	
Total Manufacturing		-221
Food & Kindred Products	38	
Chemicals & Allied Products	37	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade		21
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		-141

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

COLOMBIA

Key Economic Indicators

	1986	1987	1988 (proj)
Income, Production, Employment (billions of 1975 Pesos)			
Real GDP	617.5	650.6	681.8
GDP Growth Rate	5.1	5.4	4.8
GDP by Sector:			
Agriculture	132.7	140.4	145.0
Mining	20.6	23.0	26.1
Manufacturing	132.9	140.7	147.5
Construction	25.7	26.2	27.0
Commerce	74.0	77.4	82.4
Government Services	50.1	52.1	55.2
Other Sectors	181.6	190.6	199.0
Real per capita GDP	20731	21457	22079
Labor Force (millions)	11.5.	11.7	11.8
Unemployment Rate	12.3	10.2	9.9
Money and Prices (Percentages)			
Money Supply Growth (M1)	22.8	32.9	30.0
Commercial Interest Rates	40-45	38-42	40-45
Savings Rate	19.3	19.0	17.8
Investment Rate	18.0	19.31	19.6
CPI Increase	20.9	24.0	28.0
WPI Increase	24.4	25.2	27.0
Exchange Rate (yr-end)			
Official	219.0	263.7	340.0
Parallel	220.0	262.0	340.0
Balance of Payments and Trade (millions of US$)			
Total Exports	5,332	5,291	5,420
Export to U.S.	1,450	1,878	1,400
Total Imports	3,409	3,874	4,500
Imports from U.S.	1,343	1,494	1,650
Aid from U.S.	26.1	36.7	24.5
Aid from Others	N/A	N/A	N/A
External Public Debt	11,982	12,530	12,485
Debt Service Payments	1,905	2,428	2,946
Internatl Reserves (net)	3,478	3,450	3,600
Balance of Payments			
Current Account	464	-117	-860
Trade Balance	1,923	1,417	920
Imports	-3,409	-3,874	-4,500
Net Services & Trns	-1,459	-1,534)	-1,765
Capital Account	1,002	88	1,200

COLOMBIA

1. General Policy Framework

Colombian economic policy for the most part is free-market and private-sector oriented, and has been characterized in recent years by efforts to further reduce governmental regulation. Impelled by deteriorating economic performance during the early 1980's, the government introduced in 1985/86 a structural adjustment program (informally monitored by the International Monetary Fund (IMF)) which featured wide-ranging fiscal, monetary, and trade policy reforms. Significant public sector participation remains in public utilities and the financial sector. Two public sector companies also exist for petroleum and coal exploitation, but operate as regulatory bodies and/or in partnerships with domestic and foreign private companies rather than as monopolies. A structure of import and foreign exchange controls remains but is liberally administered, as evidenced by the fact that the parallel foreign exchange market offers no premium for the dollar.

Fiscal policy is conservative. A tight rein on spending enabled the Finance Ministry to reduce the consolidated public sector balance from a deficit of 6.8 percent of gross domestic product (GDP) in 1984 to a slight surplus in 1986. While a drop in coffee export and petroleum revenues subsequently has caused a deficit to re-emerge, the government has enforced strict discipline to keep it within prudent limits -- i.e., 1.8 percent of GDP in 1987, and probably around 2.7 percent this year -- despite intense competing pressures for greater spending for social programs, productive investment, and the military. In spite of Colombia's serious security problems, its expenditure for national security as a percentage of GDP -- averaging around 1.9 percent -- is one of the lowest in the hemisphere. Tax revenues have increased sharply as a result of an overhaul of the tax system in 1986. The government flexibly uses a combination of domestic and external borrowing to finance the deficit, depending on monetary management requirements of the moment. The World Bank and Interamerican Development Bank are substantial lenders in support of the government's development programs.

Structural inflation -- running in the range of 20 to 25 percent -- currently is the most difficult problem for economic policy-makers. Given already tight fiscal management, the main burden for getting inflation under control has fallen on monetary policy. The chief tools of the Central Bank in controlling monetary growth are open-market operations and reserve requirements. The task is complicated by the delicate health of the commercial banking system and concern that overly tight policy not tip the economy into recession, as well as by extreme swings in exogenous factors, such as coffee export earnings and large once-a-year inflationary wage increases for the public sector. While a secular decline in the inflation rate has so far eluded the authorities, they have shown themselves willing to sacrifice economic growth rate in order to come to grips with the problem. Public sector deficits have generally not been financed by money creation. Treasury operations in the recent past have in fact been contractionary.

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2. Exchange Rate Policy

The Central Bank administers a crawling-peg daily devaluation of the peso based on a trade-weighted formula designed to adjust for the relative inflation rates between Colombia and its major trading partners. The system has been successful in maintaining the real exchange rate of the peso roughly constant for the past two years at what is generally acknowledged to be an appropriate level. While an overt multiple exchange rate system does not exist, some selective export subsidies, taxes on remittances, and an exchange tax on coffee constitute indirect multiple exchange practices.

The Central Bank controls all foreign exchange (although exchange certificates and foreign exchange dominated bonds issued by the Bank circulate in the secondary market). Foreign exchange is provided to importers, and for services payments and foreign travel, within the context of an annual comprehensive foreign exchange budget.

3. Structural Policies

The pricing system is essentially free-market. The major exceptions are price controls and/or subsidies for a handful of sensitive goods and services such as pharmaceuticals, public transportation and public utilities provided by the public sector. Colombian policies regarding the retail prices of certain pharmaceutical products and the permitted import cost of related raw material imports have to some degree reduced U.S. imports and discouraged U.S. investment in this sector. In the agricultural sector, a government procurement agency provides floor prices for a small group of key food crops, while attempting to moderate market price swings for those staples through selective imports. The procurement price for coffee, which has a major macroeconomic impact, also is negotiated periodically between the coffee federation and the government. In general, even controlled prices are regularly adjusted to account for inflation.

Major sources of revenue consist of personal and corporate income taxes, a value-added tax, and taxes on international trade. The taxes on income and on goods and services each account for about one-third of total revenues, and those on foreign trade for about one-quarter. A major tax reform was introduced in late 1986 aimed at increasing equity and efficiency of the tax system. It included lowered income tax rates, broadening of the tax base, elimination of several exemptions, elimination of double taxation of dividends, and phased elimination of taxation on the inflation component of financial income. A one-time tax amnesty for previously unreported income was also decreed. Aside from a differentiated import duty scale strongly favoring capital goods and intermediate inputs over consumer imports, the most notable special tax incentives are an exemption of duties on imports for use in export industries (the Vallejo Plan), and

the subsidy for certain exports in the form of a certificate representing a percentage of the value of an export sale (typically five to eight percent) which can be used to pay taxes. The number of products to which these "certs" apply, and the applicable rates have been sharply reduced in the past few years (reflecting, among other things, a more realistic exchange rate), and in general they are no longer available on exports to the United States.

Maintainence of a foreign exchange budget and an import licensing system gives the government extensive control over the import regime, although the system has been substantially liberalized since 1985. The import licensing regime constitutes the major Colombian impediment to greater imports from the U.S. Since 1985, the list of prohibited items has been reduced from 17 percent of all tariff listings to 1 percent, and that of items requiring prior licensing from 83 percent to 61 percent, while the propostion of freely importable items has risen from 0.5 percent to 38 percent. The bulk of freely importable items consists of raw materials, intermediate products, and consumer goods not produced domestically. In August 1987 Colombia instituted a global import licensing system covering raw materials, productive inputs, and capital goods for construction and expansion. The foreign exchange budget allocation has been increasing sharply, rising from US$ 3.3 billion in 1985 to US$ 4.8 billion in 1988. In addition, the government makes no effort in practice to restrict a massive black market in smuggled consumer imports, estimated to be in the range of a billion dollars annually, a very high proportion of which consists of consumer products from the United States.

4. Debt Management Policies

Total Colombian external debt at the end of 1987 was $15.6 billion, 43.2 percent of GDP, of which $12.3 billion was public sector debt. Of the total $14 billion was medium and long term. The ratio of debt service to current account earnings was 36 percent. While the country is not experiencing a debt crisis as such, poorly planned borrowing in the late 1970's resulted in a bunching of amortization payments falling due between 1987 and 1991. The Colombian strategy to deal with this "debt hump" has been to roll over commercial bank amortizations through a series of new syndicated loans designed to keep outstanding commercial indebtedness constant. Two such syndications of one billion dollars each have been completed.

Colombia and its commercial creditors recently reached agreement on a $1.7 billion refinancing package for 1989-90. This arrangement will provide Colombia with the resources to carry out its economic program while continuing to service its external debt. To avoid a net capital outflow from Colombia while the banks organize the loan, the banks agreed with a Colombia request to defer principal payments on public-sector debt coming due in the first quarter of 1989. These payments will be paid in full on March 31, 1989. Colombia will continue to make interest payments as scheduled.

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5. Significant Barriers to U.S. Exports

Colombia's most significant trade barrier is its prior import licensing requirement. The stated purpose of this requirement is to preserve foreign exchange. Of the 5,042 classifications on the Colombian tariff schedule, 3,083 (61 percent) are subject to prior licensing and 1,903 (38 percent) are on the free import list. In approving import licenses during 1987, Colombia gave priority to imports of primary inputs and capital goods.

In October 1988 the Colombian government made considerable progress in reducing its greatest barrier to U.S. film, video and television program exports by reforming its system for film royalty remittances and provides for films of up to $40,000, videos up to $5,000 and television programs up to $4,000 per 60 minutes of transmission. The government is currently working with the local and foreign film industry to resolve remaining problems with the new system.

Since 1976, based on the principles of the Andean Pact Foreign Investment Code, Colombia, with only a few exceptions, has prohibited new foreign banking branches and acquisitions of local interest in financial institutions. Correspondingly, Colombia has reduced existing non-Andean foreign banking branches to 49 percent equity. The Colombian Congress has been considering a law that would reduce these barriers, allowing in certain instances foreign investment in the financial and banking sector up to 100 percent.

Colombian laws impede franchising by requiring disclosure of trade secrets and other confidential information, and requiring that the franchising agreement be approved by the exchange authority and planning department in order to secure remittances. Levels of royalty remittances depend on the level of know-how transferred to the franchise in the contract.

Colombian laws deny market access to foreign marine insurers and restrict market access to foreign re-insurers. Colombia requires that a minimum of 50 percent of cargo be transported on Colombian flag ships.

Colombian law does not accept U.S. label certification procedures as a substitute for in-country testing of wine imports. All foreign wine exporters must give the health ministry testing samples before receiving an import permit. These testing requirements delay import permit issuance.

Colombia was a leader of the movement within the Andean Pact to liberalize foreign investment rules, and the first pact member to implement liberalized regulations. Colombia liberalized rules for repatriation of profits and capital, authorized the payment of royalties to the patent holder and for new technology, raised capital remittances, clarified and simplified the remittances regime, abolished the requirement for transformation into mixed companies and authorized the sale of equity from nationals to foreigners, with priority given to Colombian nationals. Colombian streamlined the cumbersome bureaucracy faced by foreign investors, including

establishing a maximum 45 day waiting period for planning department approval of foreign investment applications.

Some barriers remain, however. All new investors in the manufacturing sector must sign export agreements with the government trade institute (INCOMEX). Fines equaling 30 percent of the agreed volume can be levied, although few companies have missed their quotas and INCOMEX has liberalized quotas for at least one major U.S. investor.

Assemblers of automotive vehicles as well as electronics manufacturers are required to export products based on a percentage of the value of imported parts.

In 1987, Colombia began requiring government-to-goverment-contracting for some major public works projects. Because the U.S. Government cannot participate in commercial contracts with foreign countries, U.S. businesses have been prevented from participating as primary contractors.

Colombian Decree Law 222 poses other barriers in government procurement, including: requiring that a foreign contractor associate or subcontract with a Colombian firm for no less that 40 percent of the value of the contract; requiring that consultancy contracts be carried out in association with local firms; giving preferential status for a Colombian bidder on similar proposals; increasing the value of the foreign proposal by 20 percent when evaluating it and comparing it with other proposals; and requiring foreign bidders to list all costs, including insurance, freight, consular fees, port charges, tariffs, taxes, and other expenses while local bidders are not required to list such costs. The Colombian Congress is currently considering reform of Decree Law 222.

Despite these barriers, the United States enjoys a large share of the Colombian market for public works construction. Services and products related to public works are a leading U.S. export.

6. Export Subsidies Policies

Colombia maintains several export subsidies that benefit exporters of manufactured and processed agricultural products whose products are competitive abroad. Export incentives include: a "cert" tax rebate certificate for exporters, the exemption from import duties on capital equipment for exporters, and short-and long-term export financing at preferential rates, (although the government is adjusting these export credit lines to near commercial rates).

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7. Protection of U.S. Intellectual Property

Colombia is a member of the World Intellectual Property Organization, and the Berne Convention, but is not a member of the Paris Convention for the Protection of Industrial Property.

Colombian intellectual property rights laws and policies are based on Andean Pact Decision 85, which provides inadequate protection to intellectual property. In the General Agreement on Tariffs and Trade (GATT) Uruguay Round, Colombia has opposed the United States and other developed countries efforts to expand the negotiation mandate to include elaboration of substantive standards of intellectual property.

Colombia denies patents for pharmaceutical products, chemicals, agricultural and food products, for certain biological procedures and for any invention that affects the country's development. The patent term is only five years, with a five-year renewal available on proof that the patent has been worked in Colombia within three years from its issuance. Although compulsory licences have rarely been granted, Colombian law allows a third party to obtain a compulsory license to work the patent if the original patent holder has not begun to work it within that period, has suspended work for more than one year, has failed to meet the terms of the patent regarding quantity and quality, or has failed to grant licences on reasonable terms. Compulsory licenses can be granted at any time for patents affecting public health or national development. Colombia does not consider restrictions on imports of basic inputs needed to work the patented invention as justification for failure to meet the working requirements, even though such limits are beyond the control of the patent owner. Importing the patented product is not considered adequate working of the patent, even when it is not feasible to work the patented invention directly in Colombia. Restrictions on licenses include royalty restrictions and limits on the patent holder's exclusive rights regarding importation of the patented product.

Colombia's trademark protection requires registration and use of a trademark in Colombia. Trademark registration is valid for only five years, with renewal for a subsequent five year period contingent upon proof of trademark uses in an Andean Pact nation. If the trademark is not used for five years in Colombia, the registration is subject to cancellation. Colombia does not consider import restrictions justification for failure to meet the use requirement. Colombian law restricts the rights of the trademark owner to prohibit imports of goods bearing the same trademark.

The otherwise modern Colombian copyright law does not explicitly protect computer programs. Lack of adequate enforcement of copyright remains a problem, despite increased Colombian efforts. The U.S. film industry estimates video piracy at virtually 100%, with pirated videocassettes usually smuggled from other Latin American nations as well as from the United States. We have reports of increased efforts by customs officials to stop the entry of the pirated tapes. The motion picture industry hopes piracy levels can be further

reduced if the new royalty remittance system makes it economically feasible to supply the market with legally-imported videos.

The U.S. Embassy estimates that in the near term, U.S. exports could rise 10 percent, or $140 million if Colombia adequately protected intellectual property rights. In the long term, U.S. exports could rise as much as $500 million.

8. Worker Rights

a. The Right of Association

The right of workers to organize labor unions and strike is recognized specifically in the Constitution, although public service unions may not strike. Law 26 of 1976 affirms the autonomy of labor organizations to produce their own statutes and rules, to elect trade union officials, and to administer their own activities. Law 26 also prohibits the dissolution or suppression of trade unions by administrative fiat and allows the almost automatic granting of official status to labor organizations with the requisite number of members.

While the right to strike is guaranteed, the steps required before a legal strike may be called include direct negotiations, followed by conciliation, and only then may the problem advance to the stage of either a strike or arbitration by the Labor Ministry. Arbitration is compulsory in the public service sector and for official employees who legally do not have the right to strike. In the private sector the Minister of Labor may intervene in a dispute at the stage of conciliation and when it affects the national economy.

Almost half of the country's 1.2 million unionized workers belong to the Unitary Workers Central (CUT), formed in 1986. Although the CUT is not officially a member of the Soviet-controlled World Federation of Trade Unions (WFTU), it is heavily influenced by its pro-Moscow Communist component and has retained strong links to the international Communist labor movement. The remaining union members belong to three long-established confederations, two of which are affiliated with the International Confederation of Free Trade Unions (ICFTU) and the third with the Christian Democratic World Confederation of Labor (WCL).

The International Labor Organization (ILO) Committee on Freedom of Association in its meeting in November extensively reviewed a number of previous cases and reached interim conclusions on five current complaints against Colombia relating to allegations concerning murder, disappearances, arrests and assaults, anti-union discrimination, and the government's processing of requests for legal recognition of trade unions. The Committee took note of the ILO's August 31 to September 7, 1988, mission to Colombia, thanked the government for its full cooperation, and expressed its deep concern at the dramatic situation of violence which impedes the full exercise of trade union activities. In addition, the

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Committee expressed shock at the very high number of murders and disappearances, noting its serious concern that over 200 trade union leaders and members, mostly linked to the CUT, were among the victims. It urged the government to adopt vigorous measures to dismantle paramilitary groups which the report identified as the authors, along with hired assassins, of a majority of the murders of trade unionists; and requested the government to strengthen the human and financial resources of the judiciary. The representative of the government of Colombia termed the situation in his country as urgent, stated that the government was doing everything possible to counter the violence, and expressed appreciation to the Committee for its recommendations.

b. The Right to Organize and Bargain Collectively

The right of workers to organize labor unions and to engage in collective bargaining enjoys constitutional protection. At the present time, unions have been successful in organizing only the largest firms and the public services, which include about 12 percent of Colombia's economically active population.

In the private sector, workers have the right to bargain collectively; however, because of high unemployment, they have limited bargaining power. Use of strikebreakers is prohibited by law, and generous severance benefits tend to discourage management from firing union militants. However, this provision, like other provisions of labor law, are effectively ignored by small and medium-size enterprises.

Colombian labor law is applied uniformly throughout the country, including in its small export processing zones.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is legally prohibited, and the prohibition is respected in practice.

d. Minimum Age for Employment of Children

The law prohibits the employment of children in most jobs before the age of 14, particularly where such employment might interfere with schooling. This provision is respected in larger enterprises and major cities. However, the extensive informal economy is effectively outside government control. Approximately 2.5 million children under 15 work in the informal sector for low pay under poor conditions with little protection from the labor code.

e. Acceptable Conditions of Work

The government annually sets a national minimum wage which serves as an important benchmark for wage bargaining. The minimum wage as of December 1988 was about $100.00 per month. However, despite an inflation rate running close to 24 percent, purchasing power only grew 2.3 percent in 1988.

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One report noted that 60 percent of the work force is paid the minimum wage or less.

The labor code regulates the hours of labor and other work conditions. While the 8-hour day is standard in larger companies, the workweek for most Colombians generally exceeds 40 hours. A standard week of five 8-hour days remains an important long-term goal of Colombian trade unions. Workers' occupational safety and health are extensively regulated, including use of protective clothing and ventilation, first aid and fire fighting equipment at the job site, sanitary facilities and potable water, and compensation for injuries. These regulations apply to the larger agricultural enterprises as well as industry and mining. However, exemptions for small companies, the frequent use of workers as subcontractors rather than employees, and general enforcement difficulties leave large numbers of workers outside the protection of the law. The government is endeavoring to improve regulatory enforcement and improved work conditions are a priority goal of trade unions. Violations appear to be more frequent among the newer, smaller industries. Between 1982 and 1985, Labor Ministry inspection visits to 12,452 companies established that only 8.4 percent of them observed all the labor-related legal regulations, while 91.2 percent of the companies violated an average of four labor regulations each. More than half of all the violators were concentrated in the commerce, restaurant, and hotel industries, while almost one fourth were in the manufacturing sector. Labor regulations most frequently violated by management were mandatory affiliation of workers to the Social Security Institute, observance of minimum salary levels, timely payment of salaries, and maintenance of hygienic and occupational safety conditions.

f. Rights in Sectors With U.S. Investment

Companies with local or foreign investment must abide by Colombian legislation that protects the right of association and the right to organize and bargain collectively, prohibits the use of forced or compulsory labor, and sets a minimum age (14) for the employment of children. No company in which U.S. capital is invested has been accused of violating any of these basic premises of Colombian labor law.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		1,013
Total Manufacturing	585	
Food & Kindred Products	153	
Chemicals & Allied Products	173	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	4	
Electric & Electronic Equipment		7
Transportation Equipment	(D)	
Other Manufacturing	(D)	
Wholesale Trade	65	

TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE
1,663

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

COSTA RICA

Key Economic Indicators

Millions of 1966 Colones, Unless Otherwise Stated

	1986	1987	1988 (proj)
Income, Production, Employment			
Real GDP	10,317.5	10,810.0	11,142.7
Real GDP Growth (pct)	5.4	4.8	3.1
Agriculture	1,959.9	2,020.7	2.073.2
Industry	2,297.1	2,423.4	2,508.2
Electr. and water	307.8	326.3	349.1
Construction	451.1	452.5	471.5
Commerce	1,812.9	1,923.5	1,979.3
Transp, Comm	751.8	809.7	835.6
Financial Est	607.6	665.3	698.6
General gov't	969.0	983.5	993.4
Others	1,160.3	1,205.1	1,233.8
Real Income (per capita) (1980 equals 100)	89.4	90.3	90.3
Labor Force (000s)	910.9	965.3	1,023.0
Open unemployment (pct)	6.2	5.6	5.9
Money and Prices			
Money Supply (M1) (millions of colones)	41,943.0	44,293.0	46,500.0
Commercial Int. Rates (pct)	26.7	28.8	31.5
Savings Rate	N/A	N/A	N/A
Investment Rate (pct)(1)	19.9	20.7	20.5
CPI (1975=100)	733.8	857.4	1,071.8
CPI (Dec to Dec pct chg)	(15.4)	(16.4)	(25)
Exchange Rates (Colon/US$)			
Official (yr avg)	56.00	62.78	73.00
Parallel (yr avg)	57.68	64.66	75.19
Balance of Payments and Trade (US$ Mil)			
Export of Goods, fob	1,121.0	1,155.0	1,230.0
Export of Goods to US, cif	726.4	751.3	N/A
Import of Goods, cif	1,163.0	1,385.0	1,350.0
Import of Goods from US, fas	475.4	571.6	N/A
Aid from U.S.	163.3	186.0	105.0
Aid from Others	N/A	N/A	N/A
Foreign Public Debt	3,432.0	3,612.0	3,900.0
Annual Debt Service (paid)	668.0	281.0	N/A
Gold Reserves	26.1	23.7	27.2
ForEx Reserves	24.0	N/A	N/A
Balance of Payments (basic balance)	-346.0	-613.0	-394.0

Sources: Central Bank of Costa Rica; Direccion General Estadistica y Censo; IMF, ECLAC and USDOC

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Note: USDOC figures are used for Costa Rican/U.S. trade levels (lines 23 and 25). These figures do not net out the flow of U.S. goods exported for processing in Costa Rica under drawback arrangements and then re-exported to the U.S. This tends to overstate the U.S. share in total Costa Rican trade.

(1) Ratio of real gross capital formation to real GDP.

1. General Policy Framework

Costa Rica continues to be heavily dependent on a few agricultural exports: coffee, bananas and beef. However, a major effort has been under way in recent years to diversify exports, particularly in the agricultural sector. Agriculture accounts for almost 20 percent of the gross domestic product (GDP), and about half is exported. Agricultural exports generate about 70 percent of total export earnings. Industry, as a consequence of Costa Rica's accession to the Central American Common Market (CACM) in 1963, has also become an important contributor to GDP. Although the CACM has contracted seriously, the growth of non-traditional and draw-back exports to countries outside the region has compensated for the loss in Central American trade. Food processing is the main industry, followed by petroleum distillation from imported crude, textiles, chemical products, and metals and metal working.

In 1988, GDP is projected to grow approximately 3.1 percent, with consumption growing at 2.1 percent and gross investment growing at 20.5 percent. Growth in agriculture is expected to be 2.8 percent. Even though there are continued problems for beef, sugar and basic grains, these negative performances are balanced by an expected three percent growth in banana production (possibly raising Costa Rica to first place in world exports) and continued success in non-traditional agricultural products. Manufacturing linked to exports should experience continued strength, and construction activity is expected to expand again in 1988 by 6.2 percent due to housing, water works, sewage and road projects.

Since 1982, Costa Rica has followed a policy of fiscal restraint. The overall objectives are to contain central government expenditures, increase revenue, improve the balance of payments, and endeavor to service the foreign debt. During 1987 central government revenue increased by 11.6 percent in current colones, indirect taxes increased 25.4 percent, and direct taxes 10.7 percent, while non-tax revenues declined by 25.6 percent. On the expenditure side, total spending decreased by 3.5 percent, current spending increased by 1.4 percent and capital spending decreased by a dramatic 20.3 percent. Despite the curtailment of spending, there was a budget deficit of 10,234 million colones, equivalent to 2.2 percent of GDP. This represents a major improvement since that of the early 1980's. In late 1987 a new tax law was passed which is expected to substantially increase revenues in 1988 and beyond. In April 1988, income tax reform was passed.

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During 1987, the Central Bank of Costa Rica continued to liberalize credit operations. By January 1987 the practice of allocating credit by categories subject to overall credit ceilings established by the Central Bank was eliminated. State commercial bank managers were free to allocate credit according to demand, perceived risks and guarantees offered by the potential borrower. Direct credit allocations, as an instrument of monetary control, were replaced by indirect monetary instruments such as the sale of bonds, changes in reserve requirements and discount rates. Prior colon deposits for dollar purchases from the state-owned banks were reduced from 100 percent, to 50 percent, and finally to 10 percent. As a compensating measure, reserve requirements on demand and term deposits between 30 and 180 days were raised from 32 to 35 percent, and from 20 to 23 percent, respectively. By May 1987, banking system credit to the private sector was up 22 percent over the previous year, and imports were up 24 percent compared to the same period last year. Much of the increased credit was going into commercial activities. To reduce credit expansion in the third quarter of 1987, the Central Bank increased importer deposits back to 50 percent, and non-financial public sector entities were made to withdraw a substantial portion of their deposits in state-owned banks and to make direct purchases of fiscal and stabilization bonds issued by the Ministry of Finance and by the Central Bank (rather than deal in the secondary markets).

2. Exchange Rate Policies

The Central Bank employs a system of periodic mini-devaluations designed to adjust the exchange rate in light of domestic and world inflation. The colon was devalued 16.7 percent in 1987, reaching 68.75 colones per one U.S. dollar at year end. In 1988 the colon has been devalued 13.5 percent through November 4, reaching 78.0 colones per dollar.

Costa Rica has a unified exchange rate. By law foreign exchange is freely available from the Central Bank for the purchase of imports and for the repatriation of profits and royalties. However, delays can occur between the time the foreign exchange is requested (and the colon counterpart is deposited), and actual disbursement by the Central Bank. This has led some importers to use the secondary foreign exchange market to obtain funds. This market is illegal but widely tolerated and operates at a relatively low premium over the official exchange rate. In general, exporters are required to remit foreign exchange earnings to the Central Bank for conversion to local currency. This practice and the desire of exporters to hold dollar balances has resulted in the underinvoicing of exports.

3. Structural Policies

Costa Rica fixes producer, wholesale and retail prices for a number of agricultural products including dairy products, eggs, meat, rice, corn, wheat, flour, vegetable oils, and beans.

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Tax incentives are included in two recent laws governing investment in Costa Rica: the Export Processing Zones Law of 1981 and the Financial Stabilization Act of 1984.

The Export Processing Law established publicly and privately operated free zone industrial parks throughout Costa Rica. The benefits obtainable under the provisions of the free zone legislation include the following:

-- Total exemption from import duties on raw materials, processed or semi-processed products, parts or components;

-- Total exemption from all export taxes associated with the export or re-export of products. The same exemption is granted for the re-export of equipment and machinery used in the productive process;

-- Total exemption from sales and consumer taxes;

-- Total exemption from taxes levied on remittances abroad;

-- Total exemption from all taxes on profits for a period of six years from the beginning of operations, and 50 percent exemption for the following four years.

The Financial Stabilization Act creates the export contract, which is an agreement between the Costa Rican Government and a private sector producer to expand production of non-traditional export products for sale outside the CACM in exchange for certain government benefits. The Act also consolidates the legislation governing drawback operations. The benefits include:

-- Total income tax deductions on profits from non-traditional exports to third (non-CACM) countries;
-- Reduced port charges;
-- Simplification of procedures;
-- Bank financing at preferential rates;
-- Tax reductions;
-- Accelerated depreciation;
-- A 50 percent tax credit on the purchase of stocks of firms that produce entirely for export;
-- Duty-free import of inputs for production of non-traditional products to be exported to third countries; and
-- Duty-free temporary entry for inputs used in assembly operations, samples and other inputs.

A national investment council, comprised of representatives from the Ministry of Foreign Trade (MINEX), the Central Bank, Ministry of Finance, Chamber of Industries, Chamber of Agriculture, and the Center for Export Promotion (CENPRO), approves export contracts and coordinates with other government agencies the benefits to be awarded under each contract.

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4. Debt Management Policies

Costa Rica's total debt is now a little over $4 billion, with some $1.5 billion owed to commercial banks, $1.3 billion to multilateral creditors, approximately $950 million to bilateral creditors, and the remainder in bonds, CDs and supplier credits. While these debt levels are relatively low compared to other Latin American countries, Costa Rica's small size produces per capita debt levels and debt service ratios which are among the most onerous in the world. Costa Rica last completed major reschedulings with the Paris Club and commercial banks in 1985. Total commercial bank arrears at end December 1987 stood at $571.5 million, while 1988 principal maturities total $220.1 million and 1988 interest arrears are accumulating rapidly. Costa Rica pays its commercial banks $5 million per month towards its roughly $11 million monthly interest obligations. However, these payments have been stopped intermittently by Costa Rica.

Attempts by Costa Rica to reschedule its commercial debt have been stalled since early 1987. Problems in the talks have been attributable largely, but not entirely, to the difficulty in creating a package which will meet Costa Rica's refinancing needs while not creating precedents for other, larger debtors that the banks cannot accept. Costa Rica met with its official creditors at the Paris Club in late September 1988, but did not conclude an agreement on rescheduling its bilateral debt. Costa Rican officials plan to return to the Paris Club after a new IMF program is approved. At that time, they hope to have made progress with their commercial bank negotiations.

In October 1987, with U.S. support, the IMF approved a 17-month standby on an exceptional basis because a commercial bank package had not yet been finalized. Costa Rican performance under the stand-by has been good, but the Government of Costa Rica has chosen not to make drawings under this agreement since the terms for repaying IMF financing are relatively stiff given Costa Rica's heavy debt burden. Costa Rica has also worked closely with the World Bank, receiving an $80 million Structural Adjustment Loan in 1985. A second Structural Adjustment Loan (SAL II) was approved in December 1988. The SAL II, representing $100 million in World Bank funds plus an equal amount of Japanese Government co-financing, was conditioned on the adoption of legislation to reform the Costa Rican financial system. After months of debate, the bank reform law was adopted in October 1988. The SAL II also calls for reduced tariff barriers, which the Costa Rican Government has been implementing.

5. Significant Barriers to U.S. Exports

The bulk of U.S. economic assistance to Costa Rica is in the form of balance of payments support, financing the importation of essential goods from the United States. Nevertheless, the overall market for U.S. exports is constrained by the need to stabilize the balance of trade, and

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by limited access to external financing in light of Costa Rica's heavy indebtedness.

As part of its accession to the General Agreement on Tariffs and Trade (GATT), Costa Rica will be required to move to a more transparent, unified and lower tariff and tax system. As of now, Costa Rica operates under the legacy of the highly protective tariff barriers set up under the CACM as a means to encourage import-substituting light industry.

Since imports from other CACM countries are not subject to Costa Rica's overall external tariff structure, those imports enjoy a significant advantage over U.S. products. High tariff and tax barriers restrict the import of a number of agricultural products from the U.S., especially wine, cigarettes and some fruits.

Customs duties range from 1 to 100 percent ad valorem. However, U.S. exports are more significantly affected by the heavy tax structure and Central Bank surcharges levied on Costa Rican imports. These include:

A three percent tax on customs value is assessed on all imports, except imports of medicines and related inputs, school supplies and related inputs, fuel originating in Central America and Panama, industrial inputs, and spare parts and capital goods for industrial and agricultural enterprises with activities having a positive net effect on the balance of payments. It is assessed on the CIF (cost, insurance, freight) value of the imported good.

A selective consumption tax from 15 percent to 75 percent is levied on certain imports, as specified by the government. This tax is assessed on the sum of the cif value of the import and the ad valorem duty actually paid.

A value added tax of ten percent ad valorem is levied on most products and services. In the case of imports, the tax is assessed on the sum of the cif value of the import, the ad valorem duty, the selective consumption tax and the customs value tax. Certain essential items are exempt.

In addition to the taxes noted above, the Costa Rican Government may impose Central Bank surcharges on imported products. These surcharges do not require legislative approval and can be changed with relative ease. However, the law giving surcharge authority to the Central Bank stipulates that they are to be levied only to conserve foreign exchange resources. Present surcharges are at rates of 2, 6, 7 and 12 percent. In addition, there are minor border charges including a stamp tax, gasoline import tax, and consular fees.

As an exception to the tax structure described above, vehicles imported into Costa Rica are subject to import charges based on four types of levies: (a) an ad valorem tax based on cif value of 25 percent for pickups and 100 percent on automobiles; (b) a central bank surcharge (levied on the customs value as established by Costa Rican customs) of 17 percent for vehicles with a customs value of under $6,000 and

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152 percent for those over $6,000; (c) a consumer tax on a sliding scale of 0 to 75 percent based on dollar value and engine size, and (d) a sales tax (levied on the sum of customs value, plus the taxes listed in a-c above) of 10 percent. The net result of these taxes is that large cars have been taxed out of the market. Generally, imports consist of only small cars with values under $6,000 and engines smaller than 1600 cc.

The following products must have a specific license to be imported: pharmaceuticals, firearms, ammunition and explosives, and industrial or beverage alcohol or products used in its manufacture. In addition, import permits are required for a number of agricultural products, including edible vegetable oils, beef, pork and poultry meats, milk products, corn, rice, soybeans, protein meals, beans, peas and lentils. Import permits are granted or refused by Consejo Nacional de Producion (CNP) in consultation with the relevant producer organizations, with the aim of protecting local production.

Offshore banks may locate in Costa Rica, but operations are restricted to long term (over 180 days) savings, bond issuance and international services. Such banks cannot offer checking accounts. Insurance of all types is provided exclusively by a state-owned monopoly, the National Insurance Agency, which specifies all charges and agent fees.

The Costa Rican Ministry of Foreign Trade (MINEX) has designed a new standards requirement expected to be in effect by the summer of 1989. It will require Spanish language labels on all products as well as descriptions on color and artificial flavorings. (The current CODEX does not require the latter information.) Additionally, both the size of the labels and the size of the lettering will be prescribed. Alcoholic beverages will be required to carry labels noting the percent of alcohol content and describing the fruits and/or synthetic ingredients.

The Ministry of Health in Costa Rica requires that all imported or locally manufactured medications, pharmaceuticals and cosmetics be registered every five years with the Department of Drugs, Narcotics and Psychotropics Control. All manufacturers and importers of such products must present a request for registration accompanied by a sample of the product. This sample will be evaluated for quality control purposes to include not only the contents of the product but also its presentation, labeling and other items. Medicines and cosmetics also need prior authorization/registration from the Ministry, but this requirement for medicines may be waived in an emergency.

U.S. corporations and persons may legally own equity in Costa Rican companies, including real estate, plant and equipment. However, several activities are reserved to the state, including public utilities, insurance, demand deposits (checking and short-term savings accounts), the production and distribution of electricity, hydrocarbons and radioactive minerals extraction, refining, importation and distribution, and the operation of ports and airports. Investment in

newspapers and radio and television stations, customs brokerage firms, and a few other enterprises is limited to nationals.

Most of the difficulties faced by foreign investors stem from a cumbersome bureaucracy which slows approval of documents for all types of transactions, but especially those concerned with customs and the banking system, including the Central Bank. For example, even though no unusual restrictions are imposed on the repatriation of earnings, royalties or capital, delays in receiving dollars for these transactions or for imports can be quite lengthy. These delays can add considerably to an investor's operating expenses.

The Civil and Commercial Codes provide for arbitration of commercial disputes. However, the procedures as established in law are cumbersome and rarely used. In practice, cases are usually settled in court. Costa Rican law does not recognize any jurisdiction other than Costa Rican courts.

Article 45 of the Costa Rican Constitution stipulates that no property can be expropriated without previous, prompt and fair payment. Costa Rican law does not discriminate between nationals and foreigners in this regard. However, when dealing with land disputes, conflicts have taken a long time to resolve. Constitutional guarantees notwithstanding, the majority of investment disputes involving U.S. citizens center on expropriation of land.

Costa Rica, in accepting Caribbean Basin Initiative (CBI) benefits, pledged to recognize and enforce arbitral awards in favor of U.S citizens and corporations, and specifically to continue to negotiate to reach a settlement on one individual case involving a U.S. citizen. Notwithstanding those pledges, the Government of Costa Rica failed to make meaningful progress in 1988 toward the resolution of nine long-standing investment disputes involving U.S. citizens. A government commission established in early 1988 failed to produce any reasonable settlement offers during the year. The U.S. Congressional fiscal year 1989 Foreign Operations Appropriations Bill provided for the appointment of a fact finder in the Parker contract dispute case. The U.S. Executive Branch Inter-Agency Group on Expropriation is considering further actions to press the Government of Costa Rica to provide fair treatment to the U.S. investors and settle the outstanding claims.

Costa Rican procurement may be through private tenders, through direct purchase from national and/or foreign suppliers, and through public tenders. While bids are awarded on a competitive basis, some tenders have contained unreasonable requirements prejudicial against otherwise qualified bidders, including U.S. companies (i.e., that a company have previous Latin American experience in order to qualify). The Costa Rican Government has shown a willingness to review bids when these somewhat arbitrary requirements were brought to their attention, but at the expense of considerable delays to the bidding companies. Dissemination of information

on upcoming tender offers is not always widespread since the Costa Rican Government only requires that tenders be published in the Official Gazette. Some government agencies inform member countries of the Inter-American Development Bank on upcoming international tenders valued at more than $200,000. In practice the Costa Rican Institute of Electricity (ICE) routinely does so, but the Ministry of Public Works and Transportation merely complies with the minimum requirement by publishing such information in the Official Gazette.

The major administrative barrier is the occurrence of processing delays due to inefficiencies in the Customs Office. Documents required for import are the certificate of origin in Spanish, invoice in Spanish, bill of lading, and import license -- where required. Occasionally printed material (i.e., product brochures and other promotional information) may be subject to an import tax.

Although not a Costa Rican policy, the inability of other Central American countries to pay for all the products exported to them by Costa Rica has established an unofficial barter trade among them. Under this system, debts of companies importing from Costa Rica are paid for through exports of other products to Costa Rica. The entity in Costa Rica which receives the products, simply pays colones to the exporter in Costa Rica which holds the debt. This circumvents the problems on both sides in obtaining foreign exchange. Third country exporters, like the United States, are obviously disadvantaged under this system inasmuch as it effectively cuts them out of the competition.

6. Export Subsidies Policies

The Central Bank, upon recommendation from the National Investment Council, awards tax credit certificates (CATs) and Export Increment Certificates (CIEXs), two export incentives which were established under the 1972 export promotion law. The certificates are awarded to exporters of non-traditional products (i.e., exports other than coffee, sugar, beef and cocoa) on sales outside the CACM provided the product has a minimum of 35 percent value added. These certificates are equal to 15 to 25 percent of the fob value of the export. That percentage can be increased to 30 percent at the discretion of the National Investment Council if loss of market is threatened. The certificate cannot be redeemed for 12 months, but can be sold (usually at a discount) or credited for tax payments. CATs and CIEXs have been determined to be countervailable subsidies in recent investigations by the U.S. Commerce Department; consequently, the Costa Rican Government is considering replacing them with alternative incentives more consistent with international trading rules to replace them.

The government also provides subsidies on a wide range of agricultural products. Most of the products receiving subsidies are destined for the domestic market. However, beef cattle and beans are exported. Beef exports receive the benefit of subsidized credits to producers. Bean exports

receive not only subsidized credit, but also receive support through the government pricing system managed by the National Production Council (CNP). The CNP sets prices at both the producer and consumer level. By selling abroad at prices below those paid to producers, CNP subsidizes bean exports.

The Export Processing Zone Law of 1981 and the Financial Stabilization Act of 1984 allows for complete exoneration of income taxes and other benefits which for 12 years provide an alternative to the CATs.

Export-oriented investments in Costa Rica are normally structured under one of three different regimes, each of which carries a variety of export incentives:

(a) Export Contract Regime -- benefits are granted for 12 years to companies exporting non-traditional products to non-CACM markets, and include: CATs; 100 percent income tax exemption on non-traditional export earnings to non-CACM markets; 100 percent import duty exemption on raw material and other inputs that are part of the non-traditional products exported to non-CACM markets; import duty exemption on machinery and equipment (other than vehicles); and a 50 percent tax deduction (with several restrictions) for the amount paid to purchase nominative shares in companies which export 100 percent of their production.

(b) Export Processing Zones (free zones) -- geographically determined preferential areas of investment, set up as industrial investment and duty-free zones, are designed to facilitate access to export incentives. Benefits are granted for 10 years, to include: total exemption from all customs duties, related taxes, consular fees and documents on imports of raw materials, manufactured or semi-manufactured products, components, packing materials, equipment, and similar items; total exemption from all duties and export taxes related to exports and re-exports of products and machinery; total exemption from taxes on capital and fixed assets; total exemption from sales and consumer taxes, and 100 percent exemption from all income taxes, during the first six years of operations; subsequently decreases to 50 percent during the next four years of operations; free possession of foreign currency obtained from exports to third markets; one hundred percent exemption from 15 percent withholding tax on dividends during the first six years of operation, decreasing to 50 percent during the next four years (provided income from dividends is also tax exempt in the country of the beneficiary).

(c) Temporary Admission Regime (Drawback or Maquila): Drawback is defined as the importation of piece goods and components for assembly in Costa Rica and the subsequent mandatory re-exportation of the finished goods. The local value added is limited to labor and overhead costs (utilities primarily) and some administrative costs. Normally the piece goods and machinery are brought in duty free and the only taxes that apply are payroll taxes. Benefits, granted for five years, include: machinery and equipment as well as piece goods and components, which may be imported free of duties;

and one hundred percent income tax exemption. Only payroll, dividend and foreign remittances taxes apply. A company engaged in drawback operations normally does business under the Temporary Admission Regime.

7. Protection of U.S. Intellectual Property

Costa Rica is a signatory of the Berne and Universal Copyright conventions on intellectual property, and a member of the World Intellectual Property Organization (WIPO).

Costa Rican law provides for up to 20 years patent protection (renewable), except in the case of medicines and agricultural inputs, where the duration is only one year. Trademarks are protected by the Trademark Registry, which keeps a permanent file of foreign trademarks and allows foreign registration. Processing fees for trademarks are not excessive, and no problems exist in gaining or maintaining registration. However, counterfeited goods are widely sold in public markets as well as in reputable retail outlets.

The piracy of videos, movies, tapes, records and computer software is relatively common, despite the ability to enforce existing legislation in the local courts. Reputable local lawyers view the most significant factor affecting intellectual property infringement in the country as lack of action from the affected parties to seek remedies under the existing legislation. In one recent instance, a U.S. apparel manufacturer was successful in prosecuting a local textile company for tradename infringement. The most important intellectual property violations are software duplication, satellite signal retransmissions and cable television broadcasting. At least five cable T.V. companies operate in Costa Rica. Royalty payments to some U.S. cable networks are being made regularly. In other cases, payments are not being made, in part due to legal constraints upon the networks themselves.

8. Worker Rights

a. The Right of Association

The right of organized labor to associate, as defined by the International Labor Organization, is fully honored. Unions are independent of government control and are free to maintain relations with recognized international bodies such as the International Confederation of Free Trade Unions (ICFTU).

There is an active Solidarismo movement in the country. The AFL-CIO, the ICFTU and other trade union organizations contend that solidarismo is an employer inspired and dominated alternative to independent trade unions. Leaders of the Solidarismo movement claim that it is a legitimate form of employee organization, and that Solidarismo organizations and their officials are prohibited by law from engaging in antitrade union activities.

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When labor disputes arise within the San Jose metropolitan area, the presiding judge of the Labor Tribunal attempts to find a settlement that is satisfactory to both labor and management. Labor inspectors handle disputes that occur outside the capital. If conciliation fails, the case is referred to a labor court which must provide legal sanction for a planned strike or lockout. Unions have complained that this process is complicated, time-consuming, and often fruitless. Public sector strikes are illegal.

Strikes and labor unrest were at low levels in 1988, although in June agricultural workers and farmers blocked several highways to protest their precarious financial situation and specifically to demand government subsidies and easier credit. The protesters dispersed peacefully, after several days of demonstrating, following a personal appeal by First Lady Margarita Penon de Arias. The government has engaged in protracted negotiations with the farmers' union to resolve these problems.

b. The Right to Organize and Bargain Collectively

Procedures for collective bargaining and arbitration of labor disputes are prescribed in law and followed in practice. Union organization is not discouraged or impeded in particular areas, such as export processing zones. The country's labor code states that when one-third of the workers in an operation are union members, the employer must conclude a collective agreement, if requested. The code also permits employees to set up permanent grievance committees to handle both individual and collective disputes.

In spite of guarantees in the labor code, many labor leaders claim that the statute--which dates from 1943--is outdated and unjust. They cite in particular a clause which permits employers to fire workers for "any other grave fault" not specified elsewhere in the code as a mechanism used by management to fire would-be labor organizers. A new draft labor code, initiated by the government, is currently being studied by unions and other interested groups.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits, and there are no known instances of forced or compulsory labor.

d. Minimum Age for Employment of Children

The Constitution provides for special employment protection for women and minors and establishes the minimum working age at 12 years, with special regulations in force for workers under 15. The government child welfare agency, in cooperation with the Labor Ministry, is responsible for the enforcement of these provisions.

e. Acceptable Conditions of Work

The Constitution defines the normal hours of the workday, remuneration of overtime, days of rest, and annual vacation

rights. It specifies compensation for discharge without due cause and the right to a minimum wage.

A National Wage Board, composed of three members each from government, management, and labor, sets minimum wages and salaries for all sectors. While violations sometimes occur, these regulations are generally respected. The minimum wage ranges from $91 to $300 per month, depending on occupational field.

Normal work hours are set at 8 hours for daytime and 6 hours for nighttime work, with weekly totals of 48 and 36 hours respectively. Ten-hour days are permitted for work not considered unhealthful or dangerous, but weekly totals may not exceed 48 hours. Nonagricultural workers receive an overtime premium of 50 percent of regular wages for work performed in excess of the daily work shift. Agricultural workers are not paid overtime if they voluntarily work beyond their normal hours.

A 1967 law governs health and safety at the workplace. This law requires that industrial, agricultural, and commercial firms with 10 or more workers must establish a joint safety committee. The law allows the government to inspect workplaces and to fine employers for violations. However, the government's ability to ensure that minimum conditions of safety and sanitation are maintained is limited by too few labor inspectors, especially outside of San Jose.

f. Rights in Sectors with U.S. Investment

There are U.S. investments in the following sectors: food and related products, chemicals and related products, electric and electronic equipment, transportation equipment, other manufacturing and wholesale trade. Workers rights are ensured uniformly within these sectors, as described above.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2
Total Manufacturing		119
Food & Kindred Products	36	
Chemicals & Allied Products	48	
Metals, Primary & Fabricated	4	
Machinery, except Electrical	0	
Electric & Electronic Equipment	18	
Transportation Equipment	0	
Other Manufacturing	13	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		120

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

DOMINICAN REPUBLIC

Key Economic Indicators

	1986	1987	1988(est)
Income, Production and Employment			
Real GDP (constant 1987 (RD pesos mil)	18,692	19,206	19,475
Real GDP growth rate	2.8	8.1	1.4
GDP by Sector			
Agriculture & livestock	19.5	18.6	18.3
Mining	4.6	5.3	4.8
Manufacturing	14.3	14.9	14.5
Construction	7.3	9.1	9.3
Electricity	0.5	0.5	0.4
Commerce	15.1	14.[illegible]	15.0
Transport & Commo	5.3	5.4	5.5
Financial Services	6.2	6.4	6.7
Housing	8.2	7.7	7.9
Public Administration	8.9	7.8	8.2
Other	10.1	9.5	9.7
Real per cap Income (pesos)	2,920	2,910	2,906
Labor Force (million)	2.6	2.7	2.8
Unemployment Rate	28.7	26.3	26.6
Money and Prices			
Money Supply (M1)	1,923	2,575	3,584
Com'l Interest Rates (prime)	22.0	24.0	30.0
Gross National Savings Rate	19.[illegible]	21.4	22.0
Gross Domestic Investment Rate	20.5	26.9	26.4
CPI (pct change)	6.5	25.0	52.[illegible]
Wholesale PI	N/A	N/A	N/A
Exchange Rate			
Official (average)	2.88	3.55	6.3
Parallel (average)	2.88	3.98	6.60
Excluding Official Transactions			
Balance of Payments and Trade (US$ mil)			
Total Exports fob	722	723	800
Total Exports to U.S.	574	580	565
Total Imports CIF	1,266	1,550	1,560
Total Imports from U.S.	500	640	665
Aid from U.S.	104	108	55
Aid from Other Countries	345	124	205
External Public Debt	3,772	3,898	3,951
Annual Debt Service (paid)	563	585	574
Gold & ForEx Reserves	430	235	140
Balance of Payments	-158	-593	-304

1. General Policy Framework

The Dominican Republic strives for an open, free-market economy. Other than 22 companies owned by the state (properties nationalized from the estate of former dictator

Trujillo), all companies are privately owned. The Government of the Dominican Republic welcomes foreign investment and trade. Trade is essential, as it is estimated that around 40 percent of the content of all items manufactured in the Dominican Republic is imported. Traditionally dependent on sugar exports for its hard currency, the Dominican Republic has had to diversify its export base following the deep cuts in the U.S. sugar quota. Principal foreign exchange earners today are tourism, industrial free zones, gold and ferronickel.

The government's income derives principally from customs receipts followed by income taxes and the value added tax. Over the last two years the central government has run a slight deficit, whereas the consolidated public sector (including the parastatals) has run a substantial deficit. This deficit has been financed by loans from the central bank and unbacked monetary emissions. Dominican Republic tax receipts have increased substantially over the last two years as a result of improved collection methods. The additional income has financed an ambitious public works program but has left the autonomous parastatals to flounder and have their deficits financed by the central bank through credit and monetary emissions. The Dominican Republic has effective incentives to promote private tourism investment as well as free zone development. Such incentives are generally lacking in the agricultural sector except for some non-traditional export crops.

The central bank has attempted to control the money supply but has had limited influence on the government's spending policies. Because of excess credit to parastatals and the government and for a while a preferential exchange rate for the public sector, monetary aggregates have increased substantially. Between August 1986, when the current government was inaugurated, and June 1988 (21 months), M1 has grown by 91 percent. During 1988 the central bank imposed stringent new banking reserve requirements and floated a high interest, tax-free bond. These two measures have restricted liquidity, particularly in the private sector.

The government public works program initiated in August 1986 increased employment and heated up the economy. Consolidated public sector deficits financed with the printing press and central bank credits increased the monetary aggregates. With an economy highly dependent on imports, demand for foreign exchange leaped. With the high demand for foreign exchange, the Dominican peso depreciated 55 percent between August 1986 and November 1988. To control the depreciation of the peso, various forms of exchange controls have been tried. The current exchange controls, in effect since August 1, 1988 have so far been effective. Increasing pressures from mounting bills for petroleum and other essential imports bills may cause these exchange controls, as their predecessors, to collapse, leading to an active black market/parallel market. The soaring exchange rate and increased demand have pushed inflation to an estimated 60 percent for 1988, following an estimated 30 percent inflation rate in 1987. The Dominican Republic traditionally has had

low inflation and is hard pressed to adjust to the current trend.

2. Exchange Rate Policy

Since August 1, 1988 the Dominican Republic has had a fixed exchange rate established by the monetary board of the central bank. The monetary board may review the exchange rate using a methodology which takes into account external competitiveness, impact on internal costs and relative inflation rates. A foreign exchange auction system has been authorized and may go into effect if monetary authorities deem it convenient. The current rate of exchange is fixed at buy: 6.33 pesos per dollar and sell: 6.35 pesos per dollar. All foreign exchange coming into the country must be exchanged at the commercial banks. Exporters receive a rate of 6.33 pesos per dollar and all others receive a rate of 6.28 pesos per dollar. The commercial banks must then turn in their foreign exchange to the central bank at a rate of 6.33 pesos per dollar. Foreign exchange can be legally purchased only from the central bank. All requests to buy foreign exchange (acompanied by the requisite pesos) must be channeled through commercial banks to the central bank. If the foreign exchange is available and the application forms are in order, the central bank allocates the foreign exchange within 72 hours of receipt of the application. If the application is incorrect or lacks documentation, it is returned for correction. Commercial banks may sell to industrials up to $10,000 per year for personal travel and foreign expenses without prior central bank approval. A preferential exchange rate of 5.15 pesos per dollar is in effect for the purchase of petroleum and its derivative products. A 5.30 peso per dollar exchange rate is applied to compute peso prices for airline tickets. Differing exchange rates are used to compute ad valorem import taxes; starting at RD$3.36 per dollar for "essential imports", RD$5 for most other imports and RD$8, and RD$10 for different automobiles according to price and engine displacement.

3. Structural Policies

There are 22 parastatal corporations that were properties of the Trujillo family, nationalized by the Goverment of the Dominican Republic in the early 1960's. A few have private sector competition (cement, sugar); others have monopolies (glass, salt, electricity).

Certain essential products and services (basic food products, gasoline, cement, bus fares, etc.) have price controls established by the government. Other prices are established by the marketplace. Low controlled prices on certain food items make local production unprofitable. This affects U.S. exports of inputs such as feed grains, fertilizers, packaging materials, etc.

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The income tax is progressive with the lowest bracket starting at the equivalent of $380 a year when the minimum wage is $950 a year. There is a corporate income tax and a value added tax. There are export taxes on many products which act as disincentives to exports. Import duties are high and are followed by a long list of import taxes. Industries incorporated under the industrial incentive laws benefit from certain duty and tax exemptions. Industrial free zones operate completely import and export tax and duty free. Tourism investment receives tax and certain import incentives. Foreign investments of sufficient size may negotiate special exemptions from duties and taxes on a case-by-case basis.

4. Debt Management Policies

Current Dominican medium and long term debt stands at $3.5 billion. Total debt outstanding including arrearages and short-term reserve liabilities is nearly $4 billion or 89 percent of GNP. $1.641 billion (46 percent) is owed to Paris Club creditors, $1.046 billion (30 percent) to other bilateral creditors, $812 million (23 percent) to commercial banks, and $46 million (1 percent) are supplier credits and other. The Dominican Republic is paying its obligations to international financial institutions, some of its debt with the United States, and the interest on its commercial debt. It runs substantial arrears on its Paris Club and certain other bilateral debt, now adding up to nearly half a billion dollars. In November 1988 the Dominican Republic received preliminary approval from its commercial bank creditors for a debt-for-equity swap program. The government hopes to have approval from the 90-odd creditor banks to implement the program in early 1989. The Dominican debt service ratio as a percent of goods and services exports for 1988 is approximately 28 percent, after rescheduling. The Dominican Republic needs to restructure its debt (with the Paris Club and a new multi-year rescheduling agreement - MYRA - with the foreign commercial banks) but, for political reasons, is not yet prepared to accept an International Monetary Fund (IMF) agreement, a requirement for Paris Club and commercial bank rescheduling.

5. Significant Barriers to U.S. Exports

Probably the most significant barrier to U.S. exports at this time is the foreign exchange system. Importers must request foreign exchange from the central bank with documents showing the value of the imports. Accompanying the request must be the peso equivalent of the foreign currency requested. Delays through possible "incorrect" documentation means lost value of the pesos waiting to be converted. Also a significant barrier to U.S. imports is a ban on imports for one year of 18 categories of items, generally manufactured goods. The list ranges from kitchen utensils through electrical appliances to automobiles. The ban is supposed to end in April 1989.

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Other barriers to trade are:

A law intended to protect Dominican agents and distributors from being terminated without "just cause" which provides for excessive indemnity after termination;

A six percent *ad valorem* value added tax on all imports;

A four percent *ad valorem* "redemption" tax on all imports;

A 20 percent *ad valorem* internal consumption tax on all imports;

A fixed peso tax per liter, kilogram, or square meter of over 200 specific items and/or *ad valorem* taxes varying between five and 150 percent with all other imports charged a 35 percent *ad valorem* tax;

A 20 percent *ad valorem* tax on all imported industrial and agricultural machinery and equipment;

A 20 percent *ad valorem* tax on all imports considered luxuries;

A 20 percent *ad valorem* tax on all imports which are exempt from paying income taxes as a result of protection under the industrial incentives law.

Barriers to investment include denial of national treatment by not allowing foreign equity in most public services, limiting foreign equity to 70 percent in the publicity, radio broadcasting, television, newspapers, magazines, publishing and mass communications, and to 50 percent in insurance and banking. Foreign personnel may not be more than 30 percent of employees. Companies registered under the foreign investment law are limited to remitting profits or dividends abroad to 25 percent of registered capital per year. Any foreign person or corporation must obtain permission from the presidency to invest in real property. Exceptions include for the first purchase of not more than 2,000 square meters, of purchases by a resident for more than 5 years or married to a Dominican, purchases by foreign financial institutions legally located in the country and investments by companies with at least 51 percent Dominican ownership.

Foreign owned insurance companies are denied national treatment because they are taxed on the presumption that net profits are at least 25 percent of premiums earned in the country. Foreign air carriers are levied a tax on each arriving and departing passenger of U.S.$5 per occupied seat; on the national airline the tax is 5 Dominican peso . Customs procedures are extremely burdensome. A variety of documents are required with special consular approvals and verification from the central bank that the foreign exchange used to buy the import was legally obtained from the central bank. Delays can be long as customs inspectors negotiate valuations for customs and tax purposes and then identify the various taxes which apply.

6. Export Subsidies Policies

There are no export subsidies. In fact, most exports are taxed thus reducing their competitiveness in foreign markets.

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7. Protection of U.S. Intellectual Property

The Dominican Republic country is a party to the Paris and Universal Copyright conventions.

There are laws in effect protecting patents, copyrights and trademarks. Currently there are no laws which promote domestic industry at the expense of foreign intellectual property rights. The Dominican Republic supports intellectual property rights in international fora, although it is an area of very limited Dominican interest. There have been a limited number of complaints of trademark infringement (in the textile sector) and satellite signal piracy by cable television companies. The damage to U.S. trade is negligible as a result of counterfeiting or from exports of such goods to third countries.

8. Worker Rights

a. The Right of Association

The Constitution provides for the freedom to organize labor unions, and also the rights to strike and to lockout in private industry. However, unions operate under the handicap of a dated labor code (1951) that gives unions few rights vis-a-vis management and gives no effective protection for organizers or union officials. The labor code specifies in detail the steps required to constitute a legal union, federation, or confederation, and labor has objected that the government can use the failure to comply with every detail to withhold official recognition. The code defines the right to strike but also denies the right to strike to workers in public services and prohibits general strikes. Although the code denies strike privileges to public service workers, these unions have not been deterred from strikes--including work stoppages in 1988 by doctors, nurses, teachers, agronomists, and sanitation employees. The International Labor Organization's (ILO) independent Committee of Experts in 1988 noted several deficiencies in the Dominican labor code, including the prohibition of sympathy strikes and political strikes.

Organized labor in the Dominican Republic represents about 15 percent of the work force and is divided among eight competing and highly politicized confederations. The confederations exercise only a limited degree of control over their affiliates. Unions represent the entire political/ideological spectrum, and several are associated with regional and international labor organizations. The American Institute for Free Labor Development (AIFLD) estimated that, based on the membership of Dominican organized labor, 32 percent were affliliated with the International Confederation of Free Trade Unions (ICFTU), 16 percent with the World Confederation of Labor (WCL), and 25 percent with the Communist dominated World Federation of Trade Unions (WFTU). An additional 22 percent are affiliated with the Communist regional trade union organization (CPUSTAL). The politically affiliated organizations frequently pursue partisan political objectives as much as workers' economic interests, but are

independent of government control. The ailing economy and high unemployment and underemployment have hampered the growth of organized labor.

b. The Right to Organize and Bargain Collectively

The labor code clearly stipulates that workers cannot be dismissed because of their trade union membership or activities. Still, there are complaints that these protections are ignored and that labor leaders are being discriminated against. Criticism is often directed at article 69 of the code which essentially permits an employer to dismiss a worker without cause.

Although the labor movement is growing and collective bargaining is increasing, both are greatly limited by the competition and fragmentation of labor and labor's scarce financial and manpower resources in hard economic times. One of the fastest growing economic sectors is the industrial free trade zones which began in the late 1960's and now employ over 80,000, representing the third largest source of employment after the government and the sugar industry. The free trade zone labor force, over 70 percent female, is generally nonunionized. However, in the second half of 1988, labor representatives charged that workers identified in applications for union recognition were dismissed from free trade zone companies shortly after the presentation of documents to the Secretary of Labor.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is prohibited by law. There was no contract between the governments of Haiti and the Dominican Republic to bring in Haitian cane cutters for the 1988 harvest. As in the past, however, human rights groups and other organizations charged that Haitian laborers in the sugar cane fields, especially those in the country illegally, were subject to abusive living and working conditions and in some cases were forced to work against their will. The allegations against the government--which controls a major part of the sugar industry through a parastatal corporation--were that Haitians were rounded up by government forces and required to choose between deportation or signing a sugar cane cutter contract. Some domestic human rights groups expressed concern that such actions may have impinged on the legal and human rights of Dominicans of Haitian descent as well as Haitians residing legally in the Dominican Republic. The issue has been under review for a number of years by ILO supervisory bodies, which continue to express their concern.

d. Minimum Age for Employment of Children

The Dominican labor code prohibits employment of youths under 14 years of age, and restricts the nighttime employment of youths aged 14 to 18. The labor code also provides that employees under 18 work no more than 8 hours a day, and specifies that those 18 years and younger may not be employed in dangerous or unhealthy jobs. In practice, many of the restrictions in the labor code are ignored. Young people,

including minors less than 14 years of age, engage in a wide variety of work which technically violates the labor regulations.

e. Acceptable Conditions of Work

The labor code establishes that all workers are entitled to 24 hours of rest after 6 days of work; in practice, a typical workweek is Monday through Friday plus half a day on Saturday. Safety and health conditions at the workplace do not always meet legal standards. The existing social security system does not apply to all workers and is underfunded, with the result that benefits are low, payments often delayed, and the medical care that is provided is limited and available only in the major cities.

In 1988 the government, in response to terms worked out in church sponsored talks among the government, labor, and business sectors aimed at maintaining real wages in the face of high inflation, raised the basic minimum monthly salary from $55 to $80. Some smaller businesses and agricultural workers were exempt from the new pay scale, and in some instances local levels of government were not required to pay the mandatory minimum wages to their own public employees.

f. Rights in Sectors with U.S. Investment

U.S. investment in the Dominican Republic is found in all goods-producing sectors, but mostly in the manufacturing sector. Labor law and regulations are uniformly applied across all the sectors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		67
Food & Kindred Products	(*)	
Chemicals & Allied Products	19	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

	1986	1987	1988
Income, Production, Employment			
Real GDP (Billions 1975 Sucres)	169.3	160.5	173.7
Real GDP Growth Rate	3.2	-5.2	8.2
GDP by Sector (pct)			
Agriculture & Livestock	15.1	16.1	N/A
Banana, Coffee, Cocoa	2.0	1.7	N/A
Fishing & Hunting	1.9	1.6	N/A
Petroleum & Mining	10.2	7.4	N/A
Crude	10.1	8.2	N/A
Refining	-.6	-1.5	N/A
Manufacturing	19.8	18.7	N/A
Food Products	10.4	9.8	N/A
Textiles	3.4	3.2	N/A
Utilities	.5	.4	N/A
Construction	4.4	4.9	N/A
Commerce & Hotels	17.8	21.0	N/A
Trans. & Comm.	9.4	9.7	N/A
Finance & Housing	7.5	6.7	N/A
Household Services	4.1	4.1	N/A
Imputed Banking Services	-2.1	- 1.8	N/A
Government Services	8.3	7.9	N/A
Domestic Services	.4	.4	N/A
Real per capita GDP (US$)	1,163	960	N/A
Size of Labor Force (Millions)	4.00	N/A	N/A
Unemployment Rate (pct)	10	11	11
Money and Prices			
Money Supply (M1)(Mil. Sucres)	204,164	273,062	338,306
Comm. Interest Rate (est)(pct)	37	40	45
Savings Rate (yr-end)	22.40	21.39	23.23
Investment Rate	N/A	N/A	N/A
Consumer Price Index (May78-Apr79=100)	538.8	713.8	N/A
Wholesale Price Index (yr-end)	688.8	877.3	N/A
Exchange Rates (1)			
Official (Sucres/US$)	95	95	307
Parallel (Sucres/US$)	148	218	480
Balance of Payments and Trade			
Total Exports fob (Bil. US$)	2.186	2.017	2.580
Total to U.S. (Bil. US$)	1.467	.832	N/A
Total Imports cif (Bil. US$)	1.631	2.048	1.775
Total from U.S. (Bil. US$)	.585	.450	N/A
Aid from U.S. (Millions US$)	57.5	56.9	44.0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	N/A	N/A	N/A

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Annual Debt Service (paid)(Million US$)	1,000	578	1,776
Gold, Forex Reserves (Mil. US$)	144	64	90
Balance of Payments (Mil. US$)			
Current Account	-541	-1,188	-555
Trade Balance	555	-33	805

Notes:
(1) Approximate average rate.
1988 data as of 9/88, unless otherwise stated

1. General Policy Framework

The economic situation in Ecuador has worsened since the 1982 debt crisis. From 1981 to 1987 (in constant Sucres), per capita gross domestic product (GDP) dropped 13.5 percent, household consumption dropped 8.8 percent, per capita imports dropped 27.2 percent, and per capita capital formation (investment) dropped 42.2 percent. The effects of these decreases have also lowered U.S. exports to Ecuador. For example, from 1982 to 1983, U.S. exports to Ecuador dropped 39.7 percent. This figure started to rise slightly after 1983; however, in 1987, U.S. exports to Ecuador fell again to 51.4 percent below the 1982 level.

Since the Borja Administration took office on August 10, 1988, its policies have proven to be pragmatic and practical. This is particularly noteworthy given the economic crises which it inherited -- inflation, a balance of payments collapse, and broad policy mismanagement. On August 30, the administration unveiled its "Economic Emergency Plan." The plan consisted of six major parts -- each of which is discussed below, except for the one covering the new exchange rate system, which is discussed in detail in the next section.

Concerning monetary and credit policy, the plan calls for a gradual, but constant, decrease in the rate of money creation until it reaches a level of 46 percent annually. According to the plan, this would allow a GDP growth rate of 7.7 percent, would stop the outflows of foreign exchange reserves, and would decrease inflation to 50 percent annually. The plan then calls for further reductions in inflation to 30 to 40 percent annually. The plan's credit policy calls for a fixed margin of 19 percentage points between the rate banks pay depositors and the rate they charge short-term loans. Interest rates on longer-term loans are also limited in order to reduce the variability of interest rates and reduce the amount of interest speculation.

The plan's fiscal segment calls for "austerity and prioritization of public spending," attacking a 1988 budget deficit headed for 15 to 16 percent of GDP. Furthermore, it seeks a gradual and periodic adjustment of the prices of the public sector goods and services in Ecuador. Also included in the plan are luxury taxes and unspecified efforts for the redistribution of wealth to the poor of Ecuador.

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Given the new exchange rate system, minimum prices for bananas, coffee, and cacao are to be fixed so as to pass on the benefits of rate movements to the producers, and to create an incentive for the export of these products.

Concerning employment and salaries, the plan calls for regular wage increases, calculated as a function of inflation. Furthermore, it proposes a public works program in order to increase employment.

Finally, the plan urges a return to proper activities of the central bank, and for a closer watch on the financial condition of the bank. Through this supervision, the government hopes to bring back the "respectibility that it (the central bank) always had as a fundamental pillar of the financial system."

2. Exchange Rate Policies

The Government of Ecuador introduced a two-stage plan of currency devaluation and control. The first step consisted of a maxi-devaluation of the official rate from Sucres 250 per dollar to Sucres 390 per dollar. In the second step, this rate, called the "official intervention rate" (OIR), is to continue to be devalued by Sucres 2.5 per week. Exporters are required to sell dollars at five percent below the OIR to the central bank, and importers can buy dollars at five percent above the OIR through banks and through Chambers of Production, which obtain them from the central bank on a *pro rata* basis twice a week. The OIR is also used for all official transactions such as oil exports, debt servicing, foreign investment, and government imports. A free market still exists; it covers tourism and some other transactions.

So far, this system has succeeded in rebuilding confidence, and in providing adequate dollars for importers. Of the dollars sold to the central bank (except for petrodollars), 90 percent are sold to importers and 10 percent are maintained for reserves.

3. Structural Policies

During the Febres Cordero administration, the rules governing direct foreign investment were liberalized considerably, including opening sectors to foreign investment that had been closed. The new government continues to welcome foreign investment and maintains a variety of generous incentives. Foreign investment is especially encouraged in the petroleum, mining, agro-industrial, and export-oriented sectors. One specific policy that has been eliminated is the requirement that foreign-owned companies gradually transform themselves into nationally-owned companies. This positive reform was taken prior to a parallel reform of Andean Pact restrictions on foreign investment. The previous government also increased the permitted level of repatriated profits. Ecuador also permits neutral-territory solution of some disputes after domestic remedies have been exhausted.

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The government has modified some pricing policies and is planning substantial changes in the tax system. On prices, controls on a few politically sensitive commodities (sugar and rice) have temporarily continued, but the longstanding bread ceiling has been dropped, along with the government subsidy on wheat imports. Despite inflation concerns, the government clearly recognized that extensive price controls distort the economy and has resisted domestic pressures to "do something" about prices. The government has also been pragmatic about taxes, increasing the traditionally lax enforcement and planning broad reforms to improve collection of sales taxes, import duties, and others. Neither the price nor the tax changes will adversely affect U.S. interests.

4. Debt Management Policies

Ecuador's medium and long-term debt, $6.5 billion of which is owed to commercial banks, grew by 13.2 percent in 1987 to $9.393 billion, and is expected to grow by over 8 percent in 1988 to $10.249 billion. International Monetary Fund (IMF) and other central bank debt is expected to decrease by 10 percent in 1988 to $785.1 million. As in 1986 and 1987, the Government of Ecuador is borrowing mainly to offset the decline in petroleum revenues and to avoid reducing domestic consumption. Ecuador ceased making interest payments on commercial bank debt in January 1987. A tentative agreement to provide "new money" to pay 1987 arrearages was reached in October 1987 but never became final, and Ecuador has only paid two months' interest since then. Therefore, interest arrearages to private banks of roughly $403 million for 1987, and a similar amount for 1988, remain outstanding.

A Paris Club agreement to reschedule debt service to official bilateral creditors was reached on January 20, 1988. About $275 million was rescheduled, including 100 percent of principal and interest (due on loans made prior to the 1987 cutoff) that was in arrears on December 31, 1987, and falling due during 1988 and the first two months of 1989. Ecuador also fell behind on its payments due to multinational financial institutions, but has recently caught up thanks to a $25 million bridge loan from Venezuela. In September, Ecuador finished paying for the 12 million barrels of oil (approximately $200 million worth) loaned to Ecuador by Venezuela after the March 1987 earthquake. The country also repaid in 1988 $220 million under an oil-financing facility arranged with commercial banks.

5. Significant Barriers to U.S. Exports

Presently, there is a restriction on many capital goods imports because of the current economic situation in Ecuador. Total imports (not just those from the United States) affected by this requirement are estimated by several sources to be around $500 million.

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Several specific duties and taxes exist for imports. There is a 30 percent surcharge on the cif (cost, insurance, and freight) value of luxury items. Monetary stabilization fees of five, eight, or fifteen percent are levied on most imports. Furthermore, a sales tax of 10 percent is added to most imports.

Specific import prohibitions exist for wood, paper products, certain textiles and apparel, watches, all vehicles (considered temporary), sanitary and toilet articles, and leather items. Also, while there are no specific quotas, it is almost impossible to obtain import permits for such food products as seafood and coffee. Grain imports, which substantial, are subject to special licenses. All Ecuadorian imports require an import license.

Generally speaking, there are no significant customs, standards, testing, labeling, or certification barriers to U.S. exports.

Several limitations to U.S. investment exist in the service and finance sectors. For example, no foreign investment is allowed in communications, water, or the media; furthermore, significant limits also exist for foreign banking, retail import business, and construction. Many industries in which the government has a monopoly or which are considered already to be "adequately" covered by local investors are off-limits to foreign firms.

Some business transactions and functions must be done locally. For instance, freight and insurance on imports must be carried either by domestic companies or foreign companies which are duly established in Ecuador. Foreign construction, engineering, and accounting firms must operate via joint ventures when local partners are available.

6. Export Subsidies Policies

Several types of subsidies which may effect U.S. business are used in Ecuador. One is short-term export credit. Under this program, exporters are given low-cost, short-term loans, against a guarantee of future shipment, from the Fund for the Promotion of Exports (FOPEX). Long-term loans to exporters have been given under a program called fondos financieros.

7. Protection of U.S. Intellectual Property

Ecuador is a member of the World Intellectual Property Organization and a signatory of the Universal Copyright Convention but is not a member of either the Berne or Paris conventions.

The same laws that protect Ecuadorian intellectual property apply equally to those of other countries. In the past, when petitioned because of an alleged intellectual property infringement, the government has ruled in favor of the foreign owner of the rights. Recently, the Motion

Picture Export Association of America and a local cable television station joined forces to threaten area video-tape rental stores with law suits for using pirated video cassettes.Almost all such stores have ceased operations, showing that the government's enforcement of the laws was credible, should the case have gone to court.

One area of concern is that of pharmaceutical products. Under Decision 85 of the Andean Pact, pharmaceutical products cannot be patented. Decision 85 does protect, however, the manufacturing process of such products. Currently, there is a great deal of debate over the future of Decision 85. There are basically two schools of thought -- some nationalists who seek increased limits (e.g., affecting process patents), and a solid group which seeks to increase patent protection in this field. The outcome is still uncertain.

One unfortunate aspect of the intellectual property rights registration process in Ecuador is that the country lacks the resources to check whether a copyright, patent, or trademark already exists. Therefore, the policing is completely left up to those who wish to protect their own rights. When someone attempts to register a trademark, copyright, or patent, only 30 days is allowed in which to petition the government not to grant the rights. If the local grant is later found to conflict with an earlier foreign grant, the local grant may be reversed; however, the entire process after the rights are granted can take years. The Ecuadorian Office of Industrial Property has contacted the U.S. Embassy on occasion regarding trademark registrations when the Office has reason to doubt legal ownership of a mark.

8. Worker Rights

a. The Right of Association

Labor organizations represent about 15 percent of the country's economically active population. The labor movement, organized into four major confederations and many independent unions, reflects widely different political orientations and has links to international labor organizations. The labor movement is independent of the government. The right to strike is provided for by law in Article 31 of the Ecuadorian Constitution and in the Labor Code, except to government white-collar employees. The Labor Code provides that labor-management conflicts be submitted to "Conciliation Tribunals" which in practice are chaired by the Ministry of Labor. However, these negotiations are in fact voluntary, and either side has the right to refuse to participate. While negotiations are under way, strikes and lockouts are permitted.

b. The Right to Organize and Bargain Collectively

All private sector employees and government blue-collar workers enjoy the right to organize unions. The right to collective bargaining is guaranteed by law for private sector employees and government blue-collar workers and is used

extensively in practice to resolve potential or actual labor conflicts. Collective bargaining rights are not, however, granted to government white-collar workers.

Ecuador's labor code provides for a considerable government role in encouraging voluntary labor-management negotiations, especially through the action of Conciliation Tribunals in the Ministry of Labor.

There are no export processing zones in Ecuador. Labor laws are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

By law, forced or compulsory labor is prohibited. In practice, Indians occasionally work for agricultural employers for near starvation wages and have no practical means to demand their rights. International Labor Organization (ILO) supervisory bodies concluded in 1988 that government decrees imposing prison labor sentences for offences committed by seamen in one case and for seditious acts in another were not in conformity with the ILO convention on abolition of forced labor.

d. Minimum Age for Employment of Children

Employment of individuals under the age of 18, the age of majority in Ecuador, requires parental permission. This regulation is generally observed in larger enterprises; however, many children in rural areas are active in the work force. Enforcement mechanisms prohibiting unauthorized employment of children exist but in practice do not effectively cover the rural poor or many activities in the informal sector of the economy.

e. Acceptable Conditions of Work

The labor code prescribes a standard 40-hour workweek with paid annual vacations. Ecuador enforces a minimum wage law. In practice many people earn a fraction of the minimum wage. Many families must supplement the principal breadwinner's minimum wage with income from other sources. The labor code mandates safe and healthy working conditions and holds employers responsible for maintaining such conditions. The Social Security Institute is responsible for monitoring complaints concerning working conditions and has legal power to enforce compliance. Enforcement is generally adequate.

f. Rights in Sectors With U.S. Investment

Specific information on worker rights in goods producing sectors in which U.S. companies have a substantial investment is not extensively available; however, information regarding worker rights in general is easily obtained and is believed to apply to U.S. firms' operations as well.

ECUADOR

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		237
Total Manufacturing		157
Food & Kindred Products	32	
Chemicals & Allied Products	17	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	20	
Transportation Equipment	13	
Other Manufacturing	(D)	
Wholesale Trade		33
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		427

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

EL SALVADOR

Key Economic Indicators

	1986	1987	1988
Income, Production, Employment			
GDP (Millions 1962 Colones)	3,012.5	3,096.9	3,143.4
Real GDP Growth (pct Change)	0.6	2.8	1.5
GDP by Sector (millions 1962 colones)			
Agriculture	719.7	736.1	730.0
Manufacturing	528.3	544.1	555.0
Commerce	491.0	501.3	510.0
Public Admin.	430.1	447.4	460.0
GDP per capita (constant 1987 dollars)	880.2	889.1	886.9
Labor Force (millions)	1.38	1.40	1.42
Unemployment (1)	N/A	N/A	N/A
Money and Prices			
M1 (mil, current colones)	2,796.5	2,812.3	3,200.0
Cmcl Int Rates (pct)	17-21	17-21	17-21
Savings Rate (pct of GDP)	10.9	8.1	7.9
Invest. Rate (pct of GDP)	13.3	12.5	12.4
Cons. Price Index (pct chng)	31.9	24.9	20.0
Wholesale Price Index (pct change)	28.4	21.3	17.0
Exchange Rate			
Official (Col/US$)	5.0	5.0	5.0
Parallel (2)	N/A	5.2	5.2
Balance of Payments and Trade (Millions of dollars unless otherwise noted)			
Exports fob	754.9	590.9	650.0
Total to U.S. cif	386.3	288.6	275.0
Imports cif	934.9	994.1	1,060.0
Total from U.S. fas	426.6	362.6	430.0
U.S. Direct Economic Assistance (FY) (3)	319.1	494.6	305.7
Grants from other Countries, IFI's	33.5	32.1	35.0
External Public Sector Debt (Bil $) (4)	1.81	1.76	1.70
Debt Service	374	339	300
Net International Reserves (year-end)	251.1	301.8	250.0
Current Acct. Balance (5)	139.0	137.1	20.0

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Notes:

(1) The last country-wide average employment survey, undertaken in 1985, estimated the open unemployment rate at 16.9 percent of the work force. This rate is likely overstated given the survey's methodological problems and the fact that no social "safety net" exists here. Real open unemployment -- individuals who are actively seeking but unable to find any employment at the prevailing wage rate -- is estimated at only 10 percent of the work force. The effects of external and domestic economic shocks over the past several years have in fact been cushioned in the labor market by emigration and absorption of a significant portion of the labor force by a growing informal sector (roughly 40 percent of the urban work force), characterized by low productivity and minimal wages. Consequently, while an unexpectedly small portion of the work force is openly unemployed, underemployment (i.e., part-time employment and employment at less than the minimum wage) likely characterizes the status of 35 percent of the labor force.

(2) For non-traditional exporters, see text.
(3) Grants and loans.
(4) Includes banking system obligations.
(5) Includes compensatory transfers.

1. General Policy Framework

After a 23 percent decline in the real gross domestic product (GDP) between 1978 and 1982, El Salvador's agrarian-oriented, war-battered economy has experienced five years of modest positive growth. Despite the costs of the conflict, El Salvador's real GDP expanded by 2.8 percent in 1987, surpassing 1986's disappointing 0.6 percent performance. Inflation decelerated and the balance of payments recorded a slight rise in net international reserves despite a widening merchandise trade gap. The government's fiscal deficit, while considerable, was lower than expected. Overall economic improvement was largely the result of high foreign assistance levels and implementation of the government's 1987 economic package which among other steps, called for public utility rate increases, strict limits on monetary supply and credit expansion and the creation of a small parallel currency market for exporters of non-traditional goods.

During 1988 several important structural reforms were undertaken:

The government expanded the scope of its special dollar account system for non-traditional exporters.

The number of customs categories subject to outright import prohibition has been reduced from 200 to 28. In addition, prior import deposit requirements on luxury items are being phased out.

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The administration has publicly reiterated its intention to complete the process for full accession to the General Agreement on Tariffs and Trade (GATT).

Finally, the government has embarked upon the expansion of its San Bartolo Free Trade Zone and is encouraging the formation of private zones, financed by a new 26.5 million dollar AID program.

Economic growth in El Salvador over the next six months is subject to the impact of a series of imponderables -- the political climate's effect on investment decisions, the weather, and the extent of guerrilla sabotage. In general terms for 1988, however, we do expect modest positive real growth (1.5 percent), a slightly reduced rate of inflation (20 percent), and compliance with a program of monetary and credit restraint.

Any analysis of the Salvadoran economy must be placed in the context of the economic costs of the war being waged against externally-assisted Marxist guerrillas. Economic losses due to guerrilla sabotage have totalled more than $1.6 million since 1979. The fiscal costs associated with maintaining a large military also seriously constrains the government's ability to provide an adequate level of social services.

Foreign assistance plays a vital role in the Salvadoran economy by closing a chronic balance of payments gap and financing the bulk of the public sector infrastructure-project capital budget. In 1987 net official transfers totalled more than $350 million. The largest donor is the United States, followed by the Inter-American Development Bank. During fiscal year 1987, direct U.S. economic assistance (grants and loans) to El Salvador amounted to $495 million; for 1988, $306 million. Our assistance funds activities such as earthquake reconstruction, public services restoration, assistance to displaced persons, private sector reactivation, consolidation of the agrarian reform process, the importation of PL-480 food commodities, and traditional health and education projects. In addition, the U.S. EximBank maintains a $100 million trade credit insurance program and short and medium term import credit facilities totalling $30 million. U.S. Department of Agriculture's Commodity Credit Corporation (CCC) provides $25 million in medium term credit guarantees for the importation of agricultural products and livestock.

The United States continues to be El Salvador's single most important trading partner. In 1987, U.S. exports to the country, fueled by high levels of economic assistance, totalled $363 million. The most important U.S. shipments included grain, animal and vegetable oils, fertilizer, chemicals, pharmaceuticals, electrical machinery and paper products. In turn, during 1987, El Salvador exported to the United States $289 million worth of goods, especially coffee, shrimp, electrical capacitors, textiles, clothing and sugar. The country is also beginning to exploit its position as an exporter of non-traditional products such as speciality fruits

and vegetables, yarn, towels, footwear, handicraft items and furniture.

2. Exchange Rate Policies

Since January 1986, the government has maintained a unified, fixed exchange rate of five colones to the dollar. In June 1987, however, the government did authorize the opening of special foreign exchange accounts for non-traditional exporters. These exporters were free to utilize excess dollars earned by their sales abroad to finance their own imported inputs or to sell dollars to manufacturing sector importers at a privately negotiated rate, thereby creating a small exchange rate premium. In January 1988 this system was expanded to allow participation by importers of all goods and services and foreign branches of Salvadoran banks. The rate on the country's grey exchange market (illegal, limited, but openly tolerated) remained relatively stable throughout 1987 and 1988, fluctuating between 5.2 and 5.6 colones to the dollar. The stability of the currency is due largely to tight monetary policy, high foreign assistance levels and the influx of remittances from Salvadorans living abroad (estimated at $300 to $400 million). These inflows have enabled the central bank to provide hard currency to importers over the past two years on a timely basis. However, when compared in effective real terms with the currencies of major trading partners, the colon remains significantly overvalued.

3. Structural Policies

Price controls, while eased slightly over the past two years, are currently in force for such items as basic foodstuffs (e.g., wheat flour and cooking oil), petroleum products, utility rates, medicine, and private school tuitions. The government also sets prices for the coffee and sugar crops through state-run monopolies, and influences the price of a series of additional goods and services. The utility companies are state enterprises which only infrequently receive authorization for rate increases. (Both electricity and water rates were hiked in late 1987.) Fifty percent of the domestic market for pesticides and fertilizers are imported by state credit institutions. These inputs are made available to local consumers at fixed prices, thereby exerting pressure on the sales price charged by private sector importers. IRA, the State Agricultural Marketing Agency, not only licenses the importation of major food commodities but also purchases roughly 15-20 percent of the annual local corn, bean and rice crops, and sells the produce at a subsidized price at its outlets. While the domestic price of most imported items is market-determined, high tariffs and consumption taxes have fostered stiff competition from contraband trade.

Government current revenues depend most heavily upon the collection of export taxes (especially coffee), import levies and a stamp (sales) tax. Income, net worth, and property

transfer taxes also represent important sources of Government of El Salvador income. The maximum marginal income tax rate for individuals is 60 percent on annual earnings over $50,000. The highest rate for resident corporations is 35 percent (for earnings above $200,000). Non-resident corporations pay a flat rate of 22 percent on taxable income, and branch offices or agencies of non-resident corporations a flat rate of 39 percent. However, Salvadoran law provides a variety of fiscal incentives for both local and foreign firms across the entire spectrum of local economic activity including export industries, agribusiness, livestock, poultry, fishing and tourism. A common feature of these laws is exemption from both income and net worth tax obligations. Tax exemptions may be in force for a period of five, ten or more years.

4. Debt Management Policies

As of year-end 1987, El Salvador's total external debt stood at $1.88 billion, down some $54 million from 1986's level. Seventy percent of this debt is held by the public sector, 24 percent by the nationalized banking system, and only 6 percent by the private sector. Total medium and long term public sector external debt service (amortization plus interest) during 1987 amounted to $339 million, equivalent to 36 percent of the export of goods and non-factor services, a ratio which has remained virtually unchanged over the past three years. The country's debt repayment record has been good; most of the public sector's external debt commitments remain with multilateral and bilateral official lenders on soft terms. Projections suggest that the country's debt service burden will ease considerably over the medium-term.

5. Significant Barriers to U.S. Exports

Salvadoran import controls are designed to bolster the country's balance of payments position, guarantee the quality of imported products, and, to a lesser extent, protect local industry. Licenses are required for the importation of 44 customs categories including live animals, fish, powdered milk, basic grains, fertilizers and edible oil. Sanitary certificates are mandated for the importaiton of unprocessed food commodities and live animals; the Ministry of Health controls the importation of pharmaceuticals. All imports must be accompanied by a central bank permit which in effect guarantees the availability of foreign currency for the transaction. During 1988 the government reduced the number of customs categories subject to outright import prohibition from 200 to 28. Merchandise still under import ban include:: sugar, ethyl alcohol, pet food, tobacco products, some printed goods, hats, precious gems and metals, automobiles worth more than $6,000 and firearms.

The practical effect of these diminishing import restrictions on U.S. exports has been minimal -- the United States continues to be El Salvador's number one supplier with a 38 percent market share. In addition, the 1987

establishment of the export and import document processing center within the Ministry of Foreign Trade has significantly lightened the regulatory paperwork burden for importers.

Salvadoran barriers to services trade are generally minor. Foreign airlines, air couriers, insurance companies, and accounting firms all operate within the country. Foreign films are currently exhibited, although the central bank limits the amount of hard currency it makes available for this purpose. Following the 1980 nationalization of the banking industry, controls were placed on the operation of foreign banks. Sight deposits in foreign banks are limited to 30 percent of total deposits, and 50 percent of the total domestic loan portfolio must be funded by external resources.

We are unaware of any standards or labelling regulations which post problems for U.S. firms.

El Salvador welcomes foreign investment; companies from Europe and Asia, in addition to the U.S. and Canada, have made significant investments in recent years. According to local data, U.S. investment in El Salvador -- concentrated largely in the petroleum product, paper and electronics sectors -- is valued at $95 million, out of total foreign investment of $196 million. An important recent change in the investment picture occurred with the recent passage (April 1988) of the new investment development and guarantee law, El Salvador's first such legislation. Regulations to implement the law are currently being drafted and are under discussion with the private sector. This law:

-- recognizes the role of foreign investment in economic development;

-- defines foreign investment;

-- allows foreign investment in all but small-scale enterprises;

-- guarantees full repatriation of profits for most ventures while increasing the limit on repatriation for services industries to 50 percent of registered investment. (This limit was formerly 10 percent.);

-- authorizes the Ministry of Foreign Trade to register and regulate foreign investment; and,

-- establishes a dispute resolution mechanism.

Foreign investment in El Salvador is not required by law to operate through joint venture. However, in practical terms, Salvadoran participation in the investment may make profit-making incentives easier to obtain. Similarly, local management and control are not required by law, but in El Salvador's small and highly concentrated economic environment, local participation is probably essential. The incentives and tax credits outlined below are equally available to domestic and foreign investors.

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Government procurement practices post no significant barriers to U.S. exports. Official purchases of food commodities are generally transacted under the PL-480 and CCC programs. Procurement for major infrastructure projects is almost exclusively funded by the U.S. Agency for International Development (AID) or other international donor/lending agencies and hence is subject to competitive international bidding procedures. In recent months, U.S. firms have made significant headway in marketing telecommunications equipment to the state telephone utility. Countertrade transactions represent only a small fraction of Salvadoran commerce.

6. Export Subsidies Policy

El Salvador's 1986 export promotion law established generous benefits for firms which export at least 25 percent of their production of non-traditional goods (i.e., merchandise other than coffee, cotton, sugar, ocean shrimp and beef) outside the Central American Common Market. The legislation provides for total exemption (generally for a ten year period) from import duties on machinery, raw materials and fuel. In addition, export firms may be granted an exemption from the payment of income and net worth taxes. All these benefits are provided on a sliding scale basis i.e., in proportion to that percent of production which is exported. Firms which export less than 25 percent of production are eligible to receive tax discount certificates at an amount equivalent to the import taxes paid on imported imputs.

The law also provides investors included in maquila (drawback/assembly) operations with a range of benefits. These firms receive the same duty and tax exemptions as those enterprises which export 100 percent of production.

The small parallel exchange market described above currently gives non-traditional exporters a foreign exchange premium of two to four percent over the official dollar/colon rate of exchange.

Finally, the central bank has in place several reduced-interest credit lines designed to stimulate non-traditional exports, ranging from working capital loans for new industrial export projects to export document guarantees.

7. Protection of U.S. Intellectual Property

El Salvador is a member of the World Intellectual Property Organization and a signatory of the Universal Copyright Convention and the Rome and Geneva Phonograms Conventions.

El Salvador's patent and trademark laws date from the first part of the century. Patent and trademark infringement is unusual here; legal remedy is readily obtainable in local civil courts.

Protection of copyrights, however, is somewhat more problematic. Audio cassette pirating, while generally confined to Latin American recordings, is widespread. Unauthorized reproduction of video cassettes is less common, due to the fact that the market for such products here is very small. It is also likely that San Salvador's two television "cable" firms (actually UHF re-broadcasts) utilize at least some U.S. source material without the originator's consent.

8. Worker Rights

a. The Right of Association

Article 47 of the Constitution prohibits the government from using nationality, sex, race, creed, or political philosophy to prevent workers or employers from organizing themselves into unions or associations. This Constitutional provision was intended to provide the legal framework for secondary legislation, including a revised labor code. Legislative action has been stymied, however, because of a lack of consensus between government, the private sector, and labor. Five separate proposals for revising the code have been drafted since 1985, and none of these have been formally submitted to the Legislative Assembly. Thus, there remains in place a confusing and sometimes conflicting set of laws governing labor relations. Despite the inconsistencies in law, existing statutes do provide protections which are enforceable under the Constitution.

Legally, only private sector workers have the right to form unions and to strike. Employees of the nine autonomous government entities may form unions but are barred from striking. Finally, the labor code bars agricultural workers and employees of government ministries and departments from forming unions or striking. These employees are instead represented by associations whose function is similar to that of unions.

There are approximately 150 trade unions, employees associations, and peasant organizations currently active, with a combined membership of just over 400,000--roughly 20 percent of the work force. As noted by the International Labor Organizations's (ILO) Committee on Freedom of Association during its Direct Contacts Mission to El Salvador in January 1986, these organizations span the political spectrum and play an active role in El Salvador. The Ministry of Labor counts 100 actual trade unions, representing approximately 100,000 workers; the balance of the organized work force belongs to farmworker or government employee associations. These organizations freely elect their officers in accordance with their individual constitutions and bylaws. Leaders of worker organizations appear regularly on television, publicize their views in the country's major newspapers, and conduct seminars on various issues without government interference.

Since 1980, there has been only one instance where recognition of a union or association was withdrawn "for cause." This was in the case of the Union of Workers for the

Rio Lempa Hydroelectric Project (STECEL) which, acting in concert with the FMLN, cut off electricity to most parts of El Salvador, causing several deaths and significant economic damage.

Twice since 1986 the Salvadoran Supreme Court has reaffirmed constitutional safeguards protecting trade unions, worker associations, peasant organizations and their leaders from arbitrary and capricious behavior by management and/or the government. In March 1986, the court ruled unconstitutional a July 1985 decision by the Labor Ministry which had stripped 11 leaders of the Sewer and Waterworks Union (SETA) of their positions because they disobeyed a labor judge's order to end a strike. The Court held that union leaders cannot be deprived of their leadership status because such status derives from union elections. In August 1987, the Supreme Court similarly overturned an order of the Ministry of Interior which had divested leaders of the ANIS, a peasant association, of their positions. The Court voided the Ministry's order, reinstated the leaders, and ruled that the Minister of Interior was liable for civil damages for having exceeded his authority.

The right to strike for the private sector is provided for by law and is freely exercised in practice. There were 33 private sector strikes during the period June 1, 1987 to May 31, 1988, affecting 4,000 workers. The Ministry of Labor intervened, as set forth in legislation, and the strikes were resolved. The absence of specific laws granting workers in autonomous government institutions as well as public employees the right to strike has not deterred strike activity. For example, more than 8,000 public employees affiliated with the Salvadoran Worker's Central (CTS) walked off their jobs at the Ministries of Public Works and Agriculture in May 1988, demanding a pay increase and other benefits. The CTS members remained off their jobs until the government agreed to reopen negotiations on their demands.

The ILO's Committee of Freedom of Association has reviewed allegations of the murder, detention, and intimidation of some trade unionists and other antiunion actions over the past few years. The ILO regards the climate of violence and insecurity engendered by the existence of a guerrilla insurgency as an obstacle to the exercise of trade union rights. In 1988 the committee reached interim conclusions regarding some of these cases, and asked the government to take appropriate steps.

FMLN-linked labor organizations seek to use ostensibly peaceful dissent to provoke government actions, then level charges of workers' rights violations when the government maintains order. The FMLN seeks to disrupt and subvert democratic labor groups that refuse to collaborate, and it uses occasional traffic stoppages to shut down the economy and force workers to stay away from their places of employment. These actions constitute a perversion of legitimate trade union activity which harms both organized and unorganized labor.

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Labor unions are not restricted from affiliations with international labor organizations, and Salvadoran unions freely affiliate with such groups. The Secretary General of the General Confederation of Workers (CGT), the major affiliate of the democratic labor umbrella organization UNOC, represented Salvadoran Democratic Labor at the ILO's 1987 and 1988 conferences.

b. The Right to Organize and Bargain Collectively

The right of collective bargaining is granted in Article 39 of the Constitution and Article 269 of the labor code. Under the labor code, only private sector workers can exercise this right, but the Constitution is interpreted broadly to provide all workers the right to bargain collectively.

Private sector unions use the mechanism of collective bargaining extensively. Approximately 53 collective-bargaining agreements covering private sector employees were certified by the Ministry of Labor between June 1, 1987, and May 31, 1988. According to ministry statistics, these 53 contracts covered approximately 44,250 workers. Nearly 60 percent of the collective bargaining agreements certified since June 1984 were contracts for unions affiliated to antigovernment labor organizations. A similar collective bargaining practice is also followed, albeit in a more informal manner, between public employees and the government.

The Director-General's office (DGT) of the Ministry of Labor is responsible for overseeing the implementation of collective bargaining agreements and acting as conciliator in labor-related disputes in the private sector and in autonomous goverment institutions. According to the Ministry's latest report, covering the period from June 1, 1987, to May 31, 1988, the DGT participated directly in 403 labor-management conflicts, including 33 strikes. Approximately 250 were resolved through direct conciliation.

Article 47 of the Constitution states that union officials at the time of their election, throughout their term, and for one year following their term shall not be fired, suspended for disciplinary reasons, removed, or debased in their work conditions except for legal cause. This provision is generally observed in practice.

The relationship between the business community and the labor movement has gradually improved over the last few years, but a large reservoir of mistrust remains. Businessmen frequently take measures to prevent unions from being formed. The DGT took steps against such offenders in 1988, and 7 new unions as well as 22 union locals were given legal recognition, some of them in enterprises where management had fought to keep them out.

El Salvador has one export processing zone. There are no differences in labor regulations in this area and those which prevail in general. However, there are no labor unions represented at present in any of the firms in this zone, and the firms discourage labor organizing.

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Key Economic Indicators

US$ Millions Unless Otherwise Stated

	1986	1987	1988 (est)
Income, Production, Employment			
GDP in Current US$	104.2	118.7	129.7
GDP by Sector			
Agriculture	18.8	21.7	N/A
Mining and Quarrying	0.4	0.4	N/A
Electricity and Water	2.7	2.7	N/A
Manufacturing	4.7	5.0	N/A
Construction	8.3	8.8	N/A
Wholesale and Retail Trade	13.2	13.1	N/A
Hotels and Restaurants	6.3	5.8	N/A
Transport and Communications	13.7	13.3	N/A
Finance and Housing	12.0	11.3	N/A
Government Services	20.8	19.1	N/A
Other Services	4.1	3.7	N/A
Less: Imputed Service Charge	4.7	4.7	N/A
Per capita GDP, US$	1126.7	1270.9	1378.4
GDP in Eastern Caribbean dollars (at 1984 prices)	247.3	262.1	275.1
Central Government operations			
Deficit (pct of GDP)	-13.2	-17.2	-10.0
Percentage Change	5.5	6.0	5.0
Population (000s)	92.7	93.4	94.1
Population Growth (pct)	0.8	0.8	0.8
Labor force (000s)	32.4	32.6	32.8
Unemployment (pct)	18-22	18-22	18-22
Money and Prices (EC Dollars)			
Money Supply (M1)	N/A	N/A	N/A
Total Currency Issued	38.0	42.8	N/A
Currency Held by Banks	-7.3	-9.7	N/A
Currency in Circulation	30.7	33.1	N/A
Interest Rates on Savings	5.0	5.0	5.0
Prime Lending Rates	11.5	11.5	10.5
Investment Interest Rate	N/A	N/A	N/A
CPI (percent change)	0.6	1.9	5.0
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate ($EC/$US)	2.7	2.7	2.7
Balance of Payments and Trade			
Exports (fob)	28.8	31.6	31.8
U.S. Exports to Grenada	20.0	28.3	N.A
Imports (cif)	83.5	88.6	92.6
U.S. Imports from Grenada	3.1	3.8	N.A
Trade balance	-54.7	-57.0	-60.8
Current Account Balance	-11.0	-29.5	-19.2
Foreign Debt (yr-end)	55.2	66.4	71.3

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced or compulsory labor except in cases of public calamity and other instances specifically determined by law.

The ILO's Committee of Experts on the Application of Conventions has for a number of years reviewing the provisions in the penal code that allow the imposition of sentences involving compulsory labor. In 1988 it provided the government with suggestions on how to improve existing legislation and practice. The FMLN continues to force civilians, including minors, to serve as porters, spotters, and couriers for the guerrilla army.

d. Minimum Age for Employment of Children

The Constitution prohibits the employment of children under the age of 14. The labor code states that exceptions can be made only in cases where it can be demonstrated that such employment is absolutely indispensable to the sustenance of the minor and his family. This is most often the case with children of peasant families who traditionally work with their families during planting and harvesting seasons.

The Constitution also prohibits the employment of persons under 18 and all women in occupations considered dangerous.

e. Acceptable Conditions of Work

The government's National Minimum Wage Council recommended an average 25 percent wage increase for commercial, industrial, service, and agroindustrial employees in May 1988. On May 21, 1988, President Duarte signed a decree raising the minimum wage. Commercial as well as industrial and service workers in San Salvador were paid $3.60 daily, while their counterparts in other areas of the country received $3.40. Agroindustrial workers employed in the cotton and sugar industries received $2.20, while those employed in the coffee industry earned $3.40. The increase in the daily minimum wage was intended to offset higher food prices, which rose sharply due to supply shortages stemming from prolonged drought. Wage rates for most categories of workers are higher than the legal minimums, especially in the private sector.

The law limits hours of work for minors between 14 and 18 years of age to a maximum of 6 per day, while for adults it is 8. Premium pay is mandated for longer hours.

The Constitution and the labor code spell out the rights of workers to a healthy and safe working environment. These statutes require employers, including the government, to take steps to ensure that employees are not placed at risk in their workplaces. Despite limited budgetary resources, the Ministry of Labor attempted to enforce the applicable regulations.

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According to ministry figures, the inspector general's office conducted approximately 29,000 inspections and reinspections between June 1, 1987, and May 31, 1988. Roughly 27,000 of these occurred in commercial, industrial, and service establishments. The total number of employees covered by these inspections and reinspections was nearly 550,000. The inspector-general's corps cited employers for almost 8,000 infractions and assessed fines totaling $45,000. Employers were also ordered to pay approximately $195,000 to employees as compensation for injuries sustained on their jobs.

f. Rights in Sectors With U.S. Investments

U.S. investment in the goods producing sectors of El Salvador is minimal. Nevertheless, Salvadorian Government enforcement of regulations pertaining to compliance with internationally recognized standards of worker rights, including collective bargaining, the right of free association and to organize, as well as the right to strike, remains consistent with International Labor Organization (ILO) criteria.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		8
Food & Kindred Products	0	
Chemicals & Allied Products	-2	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	7	
Wholesale Trade		-1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Debt Service Paid	7.5	7.5	8.4
(as percent of exports)	26.0	23.7	26.4
Net International Reserves	55.5	60.3	N.A
U.S bilateral Aid (FY)(1)	18.1	15.7	7.9
Non-U.S. external Aid	5.4	6.0	N.A

Note: a/USAID data includes regional funding directly benefiting Grenada

1. General Policy Framework

Grenada's economy, with its gross domestic product (GDP) of $130 million and average annual growth rate of over five percent during the past five years, is heavily dependent on agriculture. The sector accounts for over 20 percent of GDP, 90 percent of domestic exports, and at least a third of the labor force. Tourism, which accounts for about 7 percent of GDP, produces roughly the same amount of foreign exchange as agriculture, and is growing in importance. Nutmeg, mace, cocoa and bananas make up the bulk of Grenada's exports. In 1986 only about 4 percent of Grenada's exports were shipped to the United States. Almost all of the remainder went to Europe or other West Indian countries. While exports to the U.S. increased in 1987, as did Grenada's overall volume of exports, the bilateral trade balance continued to grow in favor of the U.S., which sold Grenada more than 25 times the fob value of Grenada's exports to our country.

Since Grenada's return to democracy in 1984 following the U.S. military intervention, government economic policies have placed a heavy emphasis on private sector led growth. The policies include a reduction in the level of government interference in the market, encouragement of private investment by Grenadians and foreigners through generous tax concessions for new investors, and a net reduction in the variety and level of taxes, including a complete elimination of income taxes.

As an island mini-state heavily dependent on trade, Grenada has been fairly open to imports since independence, and is increasingly so under the present free-market oriented government. Nevertheless, import licenses are required for a number of locally produced textile goods and basic food products, as well as for a few additional items such as gold and munitions. Since March 1988, Grenada has maintained a value added tax on imports which is greater than the tax on goods produced locally. It also initiated, as a temporary measure, a ten percent import surcharge on top of its normal tariff schedule for non-Caribbean Common Market (CARICOM) goods.

Grenada's overall government budget deficit has been running at about ten percent of GDP during the last several years. The deficit was not designed as a fiscal policy tool to stimulate growth, although the impressive average five percent growth rate of the past five years is probably attributable in some measure to deficit financing. The fiscal

gap is due rather to the sharp drop in current revenues from 33 percent of GDP in 1985 to 26 percent in 1987 resulting from radical tax reforms aimed at reducing barriers to private investment, and to the government's inability to reduce current expenditures as a proportion of GDP. The civil service wage bill absorbs nearly half of those expenditures. The rest is for normal overhead, education and other social programs. The deficit has been financed by external and domestic sources, in particular local commercial banks and the National Insurance Scheme, and by a build-up in arrears.

Grenada's reserve requirement on bank deposits and four percent minimum interest rate on savings deposits are set by the Eastern Caribbean Central Bank (ECCB) in St. Kitts. The ECCB issues a common currency for Grenada and seven other countries, and maintains full central banking powers, including regulation of commercial banking activity.

2. Exchange Rate Policies

The region's common currency, the Eastern Caribbean dollar, is pegged to the U.S. dollar at a rate of 2.7 to one. Foreign exchange controls are relatively innocuous. Under regulations which have been in effect for several years, banks are empowered to provide foreign exchange to applicants seeking to remit profits and dividends upon receipt of documentary evidence that taxes due on such remittances have been paid. Importers must supply the banks with either a receipt, a letter of credit or a pro forma invoice in order to obtain necessary exchange. Administrative procedures involving large scale currency transactions have caused minor delays, but no more than 48 hours. The only limits on foreign currency purchases applies to travelers, who need to show a ticket or passport, and are restricted to purchases of $EC 5,000 (US $1,860) annually for vacationers and EC $10,000 (US $3,730) for business travelers. Enforcement in fact is fairly slack. Since foreign exchange accounts are permitted, business travelers can draw from such accounts if necessary. A return to a five percent foreign exchange transaction tax, after a brief period of it having been reduced to two percent, has had no noticeable impact on the demand for U.S. products.

3. Structural Policies

Government price controls apply to a relatively small number of products, usually considered essential, and affect domestic items as much as imported goods. Officials usually try to justify the controls by pointing to the large degree of oligopoly in the retail trade sector, a system they say is hard to break given the small size of the country's population and generally low level of business acumen. Since Grenada produces few of the products governments tend to buy, there are no "buy national" regulations. Government procurement is done either through publicized invitations to tender or other less formal means of obtaining best value. The government

does not directly subsidize the cost of goods, although various agricultural inputs that have been available to help farmers amount to a form of indirect subsidies to consumers.

The Government of Grenada initiated a radical reform of its tax system in 1986 which included the elimination of income tax and elimination or reduction of a number of other taxes thought to impede economic efficiencies. A new Value Added Tax (VAT) was designed to replace many of the older taxes, but collection problems led the government in early 1988 to substantially modify the infant VAT to the point where it is more of a transaction tax than a tax on value added. In brief, the revised VAT involves a 20 percent tax at import and 5 percent tax on the total value of items at the wholesale and retail transaction stage. "Border VAT" and import duties are expected to produce about half the government's annual revenue. After the VAT and import duties, the Business Levy is the next most important revenue producer. It underwent several revisions over the past few years, and since March 1988 has involved a 33 1/3 percent tax on net profits or 2 1/2 percent on gross trading receipts, whichever is greater. Foreign companies are charged a straight 35 percent on net annual profits.

4. Debt Management Policies

Much of Grenada's current foreign debt stems from massive borrowing for its international airport and other projects started under the Marxist government which was ousted in late 1983. The debt service ratio, as a percentage of exported goods and services, went from 5 1/2 percent in 1983 to an average of about 14 1/2 percent during the following years. The stock of arrears on external debt increased from less than one percent in 1983 to about 4 1/2 percent of GDP in 1987. Most of the US$7 million in arrears on principal and interest is owed to Libya, East Germany and Algeria.

Grenada has not rescheduled any official credits under the Paris Club. Its record of debt repayment to commercial banks is good, however. It has held various discussions with the World Bank and the International Monetary Fund on a structural adjustment program, and has adopted many of the policy recommendations of those bodies, but no agreement on a program has been reached.

5. Significant Barriers to U.S. Exports

As indicated earlier, Grenada does require an import license for some items, a little over 70 in all, usually aimed at either protecting the State's own importing board or protecting local producers. Most of the former category involves basic food stuffs (rice, chicken, bacon, milk, eggs, tomatoes, carrots etc.) which are not produced in sufficient enough quantity locally to satisfy demand. Licenses required for manufactured products such as candles, paints and textiles are generally aimed at protecting industry. The effect on U.S. exports is insignificant, since most of the food products

which are licensed are purchased from the U.S. anyway. If there were a completely free market in manufactured items such as textiles, Asian and not U.S. exporters would probably benefit.

There are virtually no artificial barriers in the service area. Grenada already depends heavily on two foreign commercial banks and would welcome more. The insurance business is dominated by foreign companies. Lawyers would have to be qualified to practice under the English system of law. The only other obstacle to setting up practice in Grenada might be an immigration one. Foreign airlines are more than welcome. As to use of standards as a non-tariff trade barrier, the country is simply too small to apply such mechanisms, even if it were inclined to.

The country is actively pursuing foreign investment, although statutory obstacles remain. The most significant is the Alien Landholding Ordinance which establishes a license fee and government approval process for foreign control of land or corporations. This is waived, however, as a matter of course. If a potential investment threatened to adversely affect an existing business, the government would be free not to grant such a waiver, or withhold tax concessions. The government has rarely chosen to exercise such options, however. Although it is not the general practice, a foreign investor could bypass the Aliens license requirement by not forming a company and not buying land. In such a situation, a work permit would be sufficient, since this is the only essential document for foreigners operating in the country.

There are no export performance requirements in Grenada, nor local content requirements, restrictions on foreign personnel, restrictions on repatriation of profits or downstream services such as distribution. As indicated in the discussion of pricing policies, Grenada does not have any "buy national" legislation affecting government procurement, nor is counter trade or non-competitive bidding practiced. Customs procedures are no more burdensome than in most countries.

6. Export Subsidies Policies

There are no direct subsidies in Grenada for exports, the vast majority of which are agricultural commodities. The trend in fact has been to bring previously tax exempt agricultural cooperatives, which control the key commodity exports, on a footing with Grenada's other businesses by subjecting the cooperatives to the Business Levy. While export commodity producers do benefit from some discounts on agricultural inputs, these stem for the most part from foreign assistance programs. Imported inputs also benefit from exemptions in the "border VAT".

7. Protection of U.S. Intellectual Property

Grenada is not a party to any of the major intellectual property accords. However, given the small size and lack of

sophistication of Grenada's industry, intellectual property rights - particularly in the area of patents are hardly an issue. The government nevertheless takes intellectual property rights seriously, as evidenced by the adoption on September 30 of a new Copyright Act of 1988 which replaced the Copyright Act, 1911 of the United Kingdom. The Act provides among other things for international reciprocity in the application of copyright protection.

Grenada's handling of intellectual property rights has had no significant effect on U.S. trade. The only evident abuse of such rights is in the area of video cassette rentals, where a number of small operators rent cassettes apparently recorded from satellite television.

8. Worker Rights

a. The Right of Association

Workers are free to organize independent labor unions. Workers in the public as well as private sectors can and do strike legally if they give advance notificaton. Parliament is considering legislation which would limit the ability to strike in essential services, but that legislation includes provisions for binding arbitration by a tribunal which could include arbitrators nominated by labor. Union leaders play a significant role in the political process, and one labor leader serves in the Senate at the nomination of the governing party. In 1988 all unions were free of government control, and none was given government support.

b. The Right to Organize and Bargain Collectively

There are no areas in which union organization and collective bargaining are discouraged or impeded by the government, including export processing zones.

c. Prohibition of Forced or Compulsory Labor

The Constitution specifically prohibits forced labor, and no such incidents were reported in 1988.

d. Minimum Age for Employment of Children

The statutory minimum age for employment in all sectors is sixteen. It is observed in practice in the industrial sector, although younger persons typically work on family farms or in family-run shops.

e. Acceptable Conditions of Work

There is no effective regulation of work hours, wages, or occupationa safety standards, but normal work hours rarely exceed 40 hours per week. The government's own wage rate ad vacation allowances are comparable to those in the rest of the Eastern Caribbean and common law allows employers to be sued for negligence.

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f. Rights in Sectors with U.S. Investment

All companies in which U.S. capital is invested recognize the right of workers under Grenada's law to organize under the labor union of their choice. Of the five major U.S. owned (or partially owned) goods producing companies in Grenada, one is unionized. Should 50 percent of the employees plus one decide they want union representation, the companies would be required by law to recognize the union they choose. As indicated above, this is a right which is guaranteed by law in Grenada and which U.S. companies are bound to accept as long as they operate in Grenada.

Child labor is not a problem in Grenada. U.S. companies as a matter of practice do not employee persons under the age of 17.

U.S. companies operating in Grenada pride themselves on their high wage scales relative to the economy in general and on exceptionally clean facilities with stringent occupational safety and health standards.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of 1980 Quetzals

	1986	1987	1988(1)
Income, Production, Employment			
Real GDP (2)	7448	7689	7958
Real GDP Growth Rate (Pct)	0.1	3.2	3.5
Manufacturing	0.7	1.5	2.5
Agriculture	- 0.9	1.8	3.0
Mining	29.6	2.4	N/A
Construction	3.1	7.4	N/A
Utilities	12.2	14.1	N/A
Transportation	- 0.5	2.7	N/A
Commerce	- 2.4	2.2	N/A
Finance	2.7	3.8	N/A
Housing	2.1	1.9	N/A
Public Admin/Defense	3.5	4.6	N/A
Services	- 0.3	1.2	N/A
Real Per Capita GDP	909	911	916
Labor Force (000s)	2515	2582	2800
Unemployment Rate (pct)	14.5	14.0	13.0
Money and Prices			
Money Supply (M1)	4052	4671	5058
Commercial Interest Rates			
Savings (pct)	11	11	13
Loans (pct)	14	14	16
Savings Rate (pct GDP, Current Prices)	15.8	16.6	N/A
Investment Rate (pct GDP, Constant Prices)	7.6	8.6	9.2
Consumer Price Index (pct)	37.2	12.3	12.0
Wholesale Price Index (pct	N/A	N/A	N/A
Exchange Rate (Quetzals/US$)(3)			
Official	1.00	1.00	N/A
Regulated	2.50	2.50	2.70
Banking System Parallel	2.84	2.69	N/A
Black Market (4)	2.78	2.73	2.72
Balance of Payments and Trade (Millions of U.S. Dollars)			
Total Exports fob	1062	987	1096
Total Exports to U.S.	483	399	479
Total Imports cif	959	1447	1500
Total Imports from U.S.	414	558	560
Aid from U.S.	118	200	149
Aid from Other Countries			
External Public Debt	2517	2502	2600 (5)
Annual Debt Service (paid)	176	161	208
Gold & ForEx Reserves (6)	392	319	242
Balance of Payments			
Trade Balance	42	- 468	- 336
Current Account	- 31	- 466	- 375

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(1) Projected
(2) Embassy estimates using 1980 as base year.
(3) Official rate for Central Government debt payments only.
Regulated rate for imports/exports.
Bank parallel rate for all other transactions.
Govt of Guatemala unified the official, regulated and bank parallel
rates in June 1988 and established one "fixed-but-flexible" government-set rate.
(4) Unofficial Embassy estimate.
(5) Excludes Stabilization Bonds
(6) Gold Valued at US$ 422.222 Per Ounce

1. General Policy Framework

Roughly the size of Tennessee, this culturally and topographically diverse country is the most populous in Central America. Agriculture continues to lead the economy, contributing 25 percent of gross domestic product (GDP), 75 percent of export earnings, and providing employment for roughly 50 percent of the workforce. At about ten percent of GDP, the Guatemalan public sector is, in relative terms, one of the smallest in the world.

Until about 1980 the Guatemalan economy was quite stable and growing. From 1980 to 1985, however, the global recession, civil war, and inappropriate Guatemalan economic policies conspired to cause real GDP to fall by nearly one-fifth, inflation to soar to over 40 percent, and the international value of the national currency to plummet by nearly 75 percent. Since taking office in January 1986, the democratically-elected government has implemented an economic program that has restored real growth, brought the long-term inflation rate to near single-digit levels, stabilized the value of the Quetzal (which has actually appreciated since 1986), restored order to government finances, made the economy more responsive to market forces, and given an impetus to non-traditional exports.

Central government spending continues to grow, but government's share of GDP remains fairly stable and the budget deficit is a manageable three percent of GDP. The government has kept this deficit in check through tax increases and spending restraint. Defense expenditures account for less than nine percent of total government spending, a very modest figure considering that Guatemala continues to face entrenched Communist guerrilla activity on four fronts and that its military equipment is quite literally worn out.

Unlike its predecessor, the democratically elected government finances the deficit primarily through bond placements and external sources (concessional loans and grants from international donors), instead of routinely borrowing from the central bank (net credit from the Bank of Guatemala to the central government has actually shrunk over the past two years). It has kept monetary expansion in check through tight reserve requirements and an aggressive policy of

encouraging public agencies to place their deposits with the central bank, rather than the commercial banks.

Despite generally sound economic adjustment policies, Guatemala continued to lose international reserves in 1987 and 1988, owing mainly to weak international prices for some of its major exports (notably coffee) and to an import boom that reflected in part pent-up demand for foreign goods and rebuilding of inventories, largely of production goods. There was also evidence of capital flight, probably due in part to uncertainty over the exchange rate regime and to rising tensions between the private sector and the government over an extensive tax reform legislated in the fall of 1987. To deal with this situation, the government reformed the exchange rate regime (see next section). In recognition of Guatemala's sound, disciplined and responsible economic policy management generally, the International Monetary Fund in October 1988 entered into a stand-by agreement with Guatemala that should further strengthen the country's external accounts.

2. Exchange Rate Policies

In June 1988, the government unified the three-tiered exchange rate system then in effect and devalued the Quetzal by eight percent. It also raised by two percentage points the maximum interest rate ceilings for both deposits and loans. The government's official exchange rate policy is "fixed but flexible". There is no officially-sanctioned parallel foreign exchange market, but an informal and active parallel market does exist. Available evidence since the June 1988 unification/devaluation suggests that the parallel market exchange rate is on average so close to the official rate as to be essentially indistinguishable from the latter, once transaction and other costs are considered.

In unifying the exchange rate, the government closed the "window" through which individuals could formerly freely purchase foreign exchange from commercial banks at market-determined prices. Foreign exchange now is available only through the Bank of Guatemala, except for amounts of up to $4,000 per individual which can be obtained directly from commercial banks. Although the present system has produced some delays, there is no evidence that the central bank is denying access to foreign exchange. The bank maintains that the vast majority of foreign exchange sales to individuals are consummated within three to five days. The business community, however, continues to allege inordinate processing delays and to express concern that the central bank could effectively block access to foreign exchange if it chose to do so.

3. Structural Policies

Guatemala's democratically elected government has undertaken a structural reform program designed to change the thrust of development to emphasize integration into the international economy. This contrasts sharply with the

protectionist, import substitution strategy followed for the 25 years ending in 1986. Economic policy changes associated with the new strategy include an easing of industrial import restrictions generally and the elimination of price controls for most products. There has been a greater lag in implementing these reforms in the agricultural sector, where the Government of Guatemala continues to restrict trade and support less efficient local producers through a variety of tariff and non-tariff barriers. The new economic program is supported heavily by U.S. assistance. The combined influence of the trade liberalization and U.S. assistance constitute a strong boost for U.S exports. Guatemala has expressed its intention to accede provisionally to the GATT.

4. Debt Management Policies

Guatemala is unusual among less developed countries in the hemisphere in having a comparatively modest external debt burden. Moreover, the country has steadfastly acknowledged its external debt and has a good payments record. It does, nevertheless, have a burdensome short-term debt service problem (the bulge in scheduled payments has a three-year duration). To manage this short term burden, the government has taken two principal approaches. First, it has negotiated reschedulings of its debts to foreign commercial banks on commercial terms. Second, it has offered holders of dollar denominated bonds exchanges of high-yielding local currency debt with longer maturities.

5. Significant Barriers to U.S. Exports

United States industrial exporters and investors looking at Guatemala will find a relatively open market. Exporters of U.S. agricultural products, on the other hand, still face stiff import restrictions. All Guatemalan imports, except those imported under special industrial incentive programs and direct government imports, are subject to the relatively high common external tariff of the Central American Common Market. The newly approved common tariff retains stiff ad valorem rates on the cif value of essentially all manufactured goods, but eliminates the weight of volume duties and a previous 30 percent surcharge. A value added tax now set at seven percent on the sum of ad valorem duty and the cif value of the import remains in effect. Import licenses are required on all imported products for statistical purposes (and for the potential rationing of scarce foreign exchange).

In spite of these high tariffs, imports in every category, except agriculture, are allowed into the market undisturbed by non-tariff barriers. Guatemala's trade policy continues, in general, to support an open economy in which consumer preferences play the major role in selection and demand.

Foreign investors traditionally are welcomed in Guatemala and face few legal impediments, although bureaucratic red tape can be trying. While there are few formal, transparent

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requirements that limit the entry of or discriminate against U.S. companies in these service industries, informal approval procedures do restrict market entry. In the banking industry, only two foreign banks are present: one British (entry 60 years ago) and one U.S. (entry in the late 1950's). In recent years, several U.S. banks have attempted to gain access to the Guatemalan market. Each has seen its entry petition blocked by the local banking industry. In addition, the two foreign banks currently present in Guatemala face operating restrictions that do not apply to their local competitors and serve to restrict their ability to penetrate the Guatemalan market.

Insurance firms from the United States face a different set of procedural issues. By law, only national insurance companies may operate in Guatemala, with the U.S. insurer in the role of re-insurer. A local company affiliated with a U.S. insurer claims that, to obtain approval to enter the market, companies must guarantee that all directors will be Guatemalan citizens. Recent decisions by regulatory authorities since June have caused some firms problems in remitting foreign exchange from their reinsurance business to their affiliates.

Like insurance companies, the accounting industry is also reserved exclusively for national companies. However, national accounting firms may associate with U.S. accounting firms, and U.S. companies may participate in Guatemala in the tax and consulting side of the business.

The entry of new U.S. airlines into the Guatemalan market has also been problematic due to opposition from Aviateca, Guatemala's state-owned airline. In addition, U.S. airlines believe that they are discriminated against in their local tax treatment. Due to new general tax legislation in 1987. U.S. airlines face significant increased Guatemalan tax burdens; they allege that Aviateca is not taxed at all.

In general, all government purchases over $55,000 must be submitted for public competitive bidding and no fewer than five bidders must participate. U.S. major project suppliers have recently expressed concern over increasing violations of this transparent government procurement procedure. They charge that in recent years public purchases increasingly are being made directly under the exemption allowed for emergency purchases, or even by breaking up one project into amounts of less than $55,000 so as not to require public bidding. These same U.S. suppliers complain that in recent years bilateral development assistance from European countries has been tied to commercial purchases made on a non-competitive basis. The Italian Government, for example, recently provided financing for switching equipment to the state-owned telephone company on 40-year terms at 0.25 percent interest with ten-years grace.

The Government of Guatemala limits the importation of many agricultural products through import tariffs ranging from 5 to 40 percent, and non-tariff barriers in the form of import licensing requirements. Most serious in the latter category are import licensing requirements for grains, oilseed

products and other bulk items. Such licenses are issued by different Government of Guatemala agencies, and are frequently issued in a manner that favors one country of origin over another, or ties import approval to local purchases. Some products are occasionally banned, as are apples during the Christmas holiday season.

Current customs valuation procedures are a potentially significant trade barrier. Established importers of U.S. products complain that under-invoicing of imports and outright contraband is widespread, damaging their relationship with the U.S. exporter. Customs officials are sometimes pressured by importers to under-report import value; in other cases they arbitrarily charge duties at an artificial price above that on the commercial invoice. For example, printed promotional material for movies brought in by a distributor of U.S. films is charged a 74 percent duty on an inflated value three times the actual cost, so as to encourage use of the local printing industry. In sum, customs valuation procedures can be arbitrary and often not transparent.

6. Export Subsidies Policies

Export subsidies are generally not a problem. On the contrary, in June 1986 the government imposed export taxes on all exports. The tax rate varies from around 30 percent for traditional exports destined to non-Central American markets to four percent for Central American markets and non-traditional exports. These taxes are being phased out gradually .

In March 1984 the government promulgated an export incentive law. Under this law, properly registered export companies may import, duty free, for a period of one year, the following: raw materials, semi-finished goods, intermediate goods, capital goods, packaging materials and containers. The income resulting from the export of merchandise under this law will enjoy total income tax exemption for a period of ten years. A new export incentive law is close to approval by the Guatemalan Congress. Under this law, traditional agricultural exports will no longer receive any export incentives. Non-traditional exports to non-Central American destinations will be exempt from all export taxes and such producers will continue to be allowed duty-free importation of necessary raw materials and intermediate goods.

7. Protection of U.S. Intellectual Property

Guatemala has legislation to protect patents and trademarks and is a party to the Universal Copyright Convention, but enforcement efforts are sporadic and ineffectual. Legislation on copyrights is antiquated and non-effective. U.S. subsidiaries in the computer, pharmaceutical, film, and telecommunication industries are particularly concerned about patent and copyright infringement.

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Affiliates of U.S. pharmaceutical companies in Guatemala are most concerned about the patent infringement issue. There is no effective patent protection provided by the Guatemalan Government, as the Ministry of Health encourages the entry and use of copied products and does not coordinate its medical products registry with the Ministry of Economy's patent registry. Of a $60 million annual market for pharmaceutical products, U.S. industry sources indicate that US$ 20 million are sales of patent-infringed products. As a result, U.S. firms do not export or produce their newest and most advanced products in Guatemala.

Copyright protection apparently is not an important issue for mini- and mainframe products. Distributors of U.S. software for personal computers claim, however, that piracy is widespread for basic package software. The same holds true for U.S. producers of video cassettes. One representative of a U.S. software company estimates that up to U.S.$2 million in annual software sales is lost due to the unauthorized copying of software products.

Cable television has proliferated in recent years in Guatemala, with up to 50 different cable companies reportedly operating in Guatemala City alone. This is an unregulated industry where payment of royalties and access rights is the exception rather than the rule. The direct economic impact of this widespread piracy is not known. Indirectly, legitimate U.S. film distributors report that cable T.V. has brought down movie attendance by 40 percent, representing a revenue loss of $1 million.

It is impossible at present to estimate the exact losses to U.S. companies resulting from non-enforcement of Guatemala's intellectual property laws. Clearly, however, U.S. exporters/producers of pharmaceutical products, software, and film and T.V. programs are losing considerable revenue to pirate companies in Guatemala. This revenue loss includes not only losses from sales of pirated goods, but also from products withheld from Guatemala because of the absence of intellectual property safeguards.

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8. **Worker Rights**

a. The Right of Association

Workers have a right under the Constitution to associate. As do other organizations, unions must obtain recognition from the State to have legal status. Prior to 1984, this requirement was used to frustrate organizing activity, and only about 2 percent of the labor force was unionized. The new Constitution extends the right to strike even to public sector unions, and the number of organized workers has grown rapidly, now constituting about 8 percent of the labor force. The Labor Code establishes labor courts that form the core of a complex system designed to settle labor disputes. The Ministry of Labor has the authority to arbitrate strikes, and most parties prefer to negotiate rather than go to the backlogged Labor Courts.

Although strikes are technically illegal unless all the steps in the Labor Code are followed, employers, including state agencies, have made concessions to unions to settle strikes that were illegal on those grounds. By law, union jurisdiction must be limited to one company. Labor federations may assist individual unions, but there is no industrywide bargaining.

More unions have acquired legal status in the past 2 years than at any time in the previous 30 years. Yet there are also scores of unions awaiting legal recognition. Obtaining recognition can still be time-consuming and cumbersome, and some have alleged that political influence or ideological orientation plays a role in the process. For example, although the law states it should take unions 90 days to register with the Government, some union leaders have reported delays of up to 2 years. Nevertheless, all of the unions receive more favorable treatment than they did in the past. A number of unions are operating without legal recognition, and this denies them some protections under the Labor Code, but collective bargaining pacts which have the same legal force as contracts with recognized unions are still negotiated by these unions.

Guatemalan unions are members of international labor organizations and in 1988 the largest union chose the worker delegate to the International Labor Organization (ILO). At its November 1988 session, the ILO Governing Body accepted final conclusions and recommendations of its Committee on Freedom of Association (CFA) in a case brought against the Government of Guatemala by the Guatemalan Trade Union Confederation (CUSG). In its conclusions the CFA: acknowledged the Government's cooperation; recommended further steps, including revision of the law to facilitate registration of unions; and asked to be apprised of future developments.

There is an active Solidarismo movement in the country. While leaders of the Solidarismo movement claim that it is a legitimate form of worker organization, the AFL/CIO, and the International Confederation of Free Trade Unions (ICFTU) and other international trade union organizations contend that

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Solidarismo is an employer-inspired alternative to independent trade unions. The Ministry of Labor has thus far refused to register Solidarismo organizations as unions.

b. The Right to Organize and Bargain Collectively

The 1985 Constitution guarantees workers the right to organize, even in the public sector, and there has been a high level of organizing activity in recent times. The Labor Code, which predates the Constitution, establishes a complex system to settle labor disputes and gives the Minister of Labor power to arbitrate. Unions have been more successful in raising wages through collective bargaining at the plant level than in raising overall wages through public protests.

When a worker is a union official, the law provides that he cannot be fired, and this protection extends for 2 years after he leaves office. While union officials complain that the law is not implemented effectively, the major impediment to organizing is employer resistance, not the law.

There are no zones in Guatemala where legal protection for workers does not apply. Labor organizing is legal but still difficult in areas where there was revolutionary violence in the late 1970's, particularly in the Indian highlands.

Union members became concerned about a possible politically motivated assasination when Carlos Martinez Godoy, a low-ranking offical in a bank employees union, was murdered in October in front of his house. However, officials in the Federation of Bank Unions (FESEBS) indicated that Martinez Godoy had no connection with a dispute then under way with the Army Bank and acknowledged that the union he represented had just completed successful contract negotiations with its own management. In November a National Police agent was detained and brought before the courts as the suspected murderer. No political motive was apparent; the killing was considered to be a crime of passion.

c. Prohibition of Forced or Compulsory Labor

The Constitution provides the right of workers to freely choose their work, and the practice of compulsory labor is prohibited by law. However, there have been frequent complaints that persons are forced to participate in the civil defense patrols under threats and intimidation, especially in areas of conflict, and are compelled to perform unrelated tasks without compensation. This would be illegal under the Constitution, although the U.N. Convention on Forced Labor allows conscription into military service and community service projects. In response to questions which arise regarding the voluntary nature of civil defense patrols, the Government presented the Human Rights Ombudsman with a formal written declaration that service is strictly voluntary, and the Ombudsman has disseminated copies of the declaration to all civil defense patrols.

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U.S. Embassy officers visiting areas of conflict have found that service on the patrols is viewed as an obligation to community service and a sign of social status. Civil defense members see themselves to be protecting their community so that the military need not patrol there.

Guatemala had a tradition of forced labor by indigenous workers, the Encomienda system, which was outlawed in the 1930's. Vagrancy laws in effect until the 1950's allowed for the imprisonment of persons who did not have employment. This history still influences attitudes in some rural areas. However, the Government is seeking to eliminate abuses when they occur.

d. Minimum Age for Employment of Children

The Constitution prohibits the employment of children under the age of 14, and this restriction, generally observed in the formal economy, is enforced by the Ministry of Labor through a system of labor inspectors and labor courts. Although enforcement is not always effective in the more informal economy, child labor is generally not a widespread abuse. In the informal economy, particularly in rural areas, whole families work, with children assisting their parents.

e. Acceptable Conditions of Work

The minimum wage is $1.20 dper day in rural areas and $1.50 in urban areas. Ministry of Labor data shows that 85 percent of Guatemalan families do not have enough income to meet their basic needs and that 72 percent live in extreme poverty. Its Commission on Wages, which includes union representatives, recognizes that it must encourage the creation of employment when setting minimum wages. Minimum wages were raised in 1988 for the first time this decade. The Constitution provides for a 44-hour workweek. There are occupational safety and health regulations, but they are not always effectively enforced.

f. Rights in Sectors with U.S. Investment

Guatemala does not register foreign investment, so there are no formal records of U.S. investment by sector. However, the embassy estimates that 75 percent of the $800 million of foreign investment believed to be in Guatemala is from the United States. The embassy assumes that U.S. investment in each sector is in about the same proportion, except in transportation equipment, where Japanese investment dominates.

Very little of the U.S. investment is in industries producing goods for the U.S. market. Practically all is for local marketing of U.S. goods or for assembly of finished products for sale in Central America. There is a small, but growing, in-bond assembly ("maquiladora") industry producing for the U.S. market. It would be classified in the "other manufacturing" sector, but its current level of production relative to total U.S. imports of these products is insignificant. Trade union leaders believe that international corporations in Guatemala, and U.S. corporations in

particular, have shown more respect for worker rights than have Guatemalan investors. While there have been occasional problems with foreign investors is Guatemala, international public opinion has brought pressure on those transgressors of worker rights, something that could not be done with local investors. U.S. companies operating in Guatemala are less likely to be unionized than are their headquarters companies in the U.S., but more of them have unions than do their Guatemalan competitors.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		21
Total Manufacturing		96
Food & Kindred Products	36	
Chemicals & Allied Products	30	
Metals, Primary & Fabricated	6	
Machinery, except Electrical	0	
Electric & Electronic Equipment	1	
Transportation Equipment	0	
Other Manufacturing	23	
Wholesale Trade		6
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		123

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

All figures US$ Unless Otherwise Stated

	1986	1987	1988
Income Production, and Employment			
GDP (current prices)	2,243.0	22,247.0	2,439.0
Real GDP Growth Rate (pct)	0.6	0.5	0.3
GDP by Sector (pct)			
Agriculture	32.7	32.3	N/A
Mining	0.1	0.1	N/A
Manufacturing	15.4	15.0	N/A
Construction	6.0	6.1	N/A
Commerce	17.0	17.2	N/A
Government	4.0	4.0	N/A
Other Services	24.8	25.	N/A
Income per capita ($ current prices)	380.0	372.0	370.0
Labor Force	Approx. 3,480,000		
Unemployment and Underemployment Rate (est)	50.0	50.0	50.0
Money and Prices			
Money Supply (M1)	276.24	316.94	379.12
Commercial Interest Rates			
less than 12 months	10-13	8-13	6.65-10
more than 12 months	11-14	10-17	7-11
Savings Rate:			
Domestic	4.3	4.1	5.0
Foreign	6.6	8.4	NA
Investment Rate (pct of GDP)	10.9	12.5	10.0
Consumer Price Index (1976=100)	217.1	208.6	225.3
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Official	5 gourdes equals 1 dollar		
Parallel	5.25-5.7	5.8-6.1	5.9-6.2
Balance of Payments and Trade			
Total Exports fob	216.2	200.8	220.2
Exports to the U.S. (1)	166.47	N/A	N/A
Total Imports cif	298.4	315.0	315.2
Imports from the U.S. (1)	194.55	N/A	N/A
Foreign Assistance			
U.S. (2)	N/A	102.63	30.5
Other	N/A	58.67	84.8
External Public Debt	715.4	760.3	803.8
Annual Debt Service	33.0	42.8	37.9
Gold/ForEx Reserves (Net International Reserves of the Banking System)	-60.0	-25.3	-14.8
Overall Balance of Payment	30.2	32.5	8.5

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Notes:

(1) The Haitian Government does not keep accurate figures for the total exports to or imports from the U.S.
(2) $7 million of funds allocated for FY87 were carried over and spent in FY88.

Sources: All figures are from IMF, IBRD, USAID, U.S. Department of Commerce or Embassy statistics.

1. General Policy Framework

Measured by per capita income, Haiti is the poorest country in the Western Hemisphere and among the poorest in the world. The gross domestic product (GDP) in FY88 (October 1 - September 30) did not exceed $2.3 billion, which meant that for three consecutive years, per capita income declined. Haiti is still primarily an agrarian economy: an estimated 70 percent of the population depends on farming for its livelihood. Agricultural production, however, is only about 32 percent of GDP. Unemployment is extremely high; at least 50 percent of the workforce is unemployed or underemployed. The industrial sector - in reality very rudimentary assembly operations and processing plants - provides only about 120,000 jobs (1983 International Monetary Fund (IMF) estimate) in a population of 6 million.

From 1980 - 1986, extrabudgetary expenditures by the Duvaliers, rampant corruption at customs, and inefficiency/corruption in the tax office all contributed to a rapid increase in the budgetary deficit. During this period, the deficit was financed essentially through credit from the central bank. After the departure of the Duvaliers in 1986, there was a massive inflow of foreign assistance. The budget deficit was financed primarily by assistance funds from the IMF, the U.S. Agency for International Development (USAID), and the International Bank for Reconstruction and Development (IBRD). This assistance was suspended in November 1987 because of the violent disruption of elections. In 1988, the Haitian Government sharply reduced expenditures in view of lower assistance levels. The budget deficit was financed by borrowing from the central bank (50 percent) and the disbursed but unspent portion of USAID Economic Support Funds (ESF) (50 percent). For 1989 the government has assumed a balanced budget. However, it is likely there will be a slight budget deficit which the government plans to finance with local resources.

The Haitian Government uses primarily interest rates and reserve requirements to control the money supply. The central bank sets the interest range for savings, time deposits and loans. The central bank requires all commercial banks to hold legal reserves, either in currency or deposits, that vary for different types of deposits. By 1986, the policy of deficit financing by the central bank had resulted in excess liquidity. In July that year, the central bank increased the

reserve requirements by an average of six percent in order to relieve the pressure on its foreign exchange reserves. In July 1987, the reserve ratio was increased again by three percent (to 49 percent) on demand deposits. Most commercial banks hold reserves in excess of the legal requirement.

2. Exchange Rate Policies

Haiti has maintained an open foreign exchange system with the Haitian Gourde fixed at 5 to 1 U.S. dollar since 1919. There are no official controls imposed on foreign exchange movements other than a government requirement that the commercial banks hold 50 percent of export receipts in reserve for use by the central bank to pay for petroleum imports. In response primarily to budget and trade deficits, which created a foreign exchange scarcity, an informal foreign exchange "parallel market" for U.S. dollars sprang up in 1980.

Fiscal year 1988 was characterized by a marked lack of foreign exchange in commercial channels, an increase in the contraband trade, capital flight and a decrease in foreign assistance. In addition, as the parallel rate increased, more and more foreign exchange bypassed the commercial channels (and thus the government's reserve requirements) and was traded directly.

3. Structural Policies

The Haitian Government enacted several policy reforms in 1986-1987 as part of the IMF, World Bank, and ESF funding requirements. The most important were: 1) the elimination of the import monopoly of edible oil; 2) the elimination of import quotas and licensing requirements for all but seven products (mostly grains); 3) the replacement of specific tariffs with ad valorem tariffs; and 4) a new tariff code with an average rate of 20 percent.

Purchasing decisions are made by government agencies and free market forces. The government controls several parastatal enterprises and sets the ex-factory prices of rice, flour and wheat bran, sugar, and cement, as well as for services such as electricity, water, and telephones. The government also controls the pump price for petroleum products. In general, the parastatal enterprises are costly, inefficient and are unable to satisfy local demand for their products/services. Although the government sets the prices for the commodities listed above there is a booming trade in these products (except petroleum) via the contraband market which is not affected by the price controls.

In October 1986, the government introduced a new income tax schedule which provides for lower marginal rates and fewer rate brackets for both individuals and corporations. (The tax rates were increased in October 1988 because of the need for increased revenue to replace the suspended assistance.) Tax evasion, however, is a time honored tradition in Haiti. Thus it is difficult to establish a direct relationship between

direct taxes and economic growth. Reform of tax administration is a high priority of the government. There are several tax incentives (tax holidays) for investors in Haiti.

4. Debt Management Policies

In relative terms, present Haitian external debt is not onerous; it represents about 33 percent of GDP in FY89. Haiti has practically no commercial debt. The major portion of Haitian debt is held by the international agencies such as the IMF, the Inter-American Development Bank and the IBRD. Haitian debt to the U.S. equals $142 million, of which $8 million is arrears.

In the last two years, Haiti's debt management has been satisfactory. The Treasury has regularly transfered the scheduled payments to the central bank, which in turn, has provided the foreign exchange for the creditors. Overall, however, the debt situation has worsened during the period FY80 - 89. Total external debt has increased from $306.2 million in FY80 to $847.3 million in FY89. Debt service as a percentage of exports increased from 6.4 percent to 12.2 percent in the same period. Repayments in 1989 are only 1.5 percent of GDP.

Haiti has no serious repayment problem and has not sought rescheduling. Haiti periodically fell into arrears with the IMF during 1988, although in most instances overdue obligations were not outstanding for more than a few weeks. However, Haiti ended 1988 in arrears to the Fund. Despite the low level of debt and the modest debt service burden, Haiti does not enjoy great confidence with commercial banks, principally because of the unstable political situation and, recently, the loss of foreign assistance.

5. Significant Barriers to U.S. Exports

In December 1986, the Haitian Government abolished all previous laws establishing import restrictions. Originally, there were 111 products which were restricted in various ways. Imports into Haiti are no longer subject to restriction with exception of seven products: rice, millet, corn, beans, sugar, poultry parts, and certain types of pork (except bacon). An import license is required for these products. Each license specifies the quantity to be imported and a license must be obtained for each shipment. Import restrictions were established in 1960 for the purpose of protecting local industries. In 1986, the Haitian Government concluded that protectionist policies had not had the expected results, and with the encouragement of the IMF and USAID, reduced the number of subject products as part of the trade liberalization portion of its structural adjustment program. The actual effect on U.S. exports is minimal; many of the restricted products continue to enter Haiti from the U.S. via the contraband market.

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There are no legal barriers to investment or services with the exception of real estate property. The labor code limits to five percent the number of employees which may be foreigners (exceptions may be allowed). Government procurement practices are via competitive bidding.

Haiti has preshipment inspection requirements for 20 products. Preshipment inspection is considered a barrier only by legal Haitian importers, as again, many of the same products enter Haiti through the contraband market. The effect on U.S. exports is insignificant.

6. Export Subsidies Policies

The Haitian Government does not directly subsidize exports. Firms that produce for the export market may obtain a franchise which exonerates them from import duties on machinery and raw materials. This policy is for the purpose of encouraging foreign investment rather than subsidizing exports.

7. Protection of U.S. Intellectual Property

Haiti is a party to the Universal Copyright Convention, a signatory of the Buenos Aires Convention of 1910 and the Paris Convention of 1883.

Patents are granted for a period of 5, 10 or 20 years. Foreign trademarks are protected if they are registered with the International Bureau in Berne in accordance with the Madrid Agreement. Commercial names must be registered every 10 years.

Haitian copyright laws are in harmony with international conventions and practice. Copyright infringement and "pirating" of products or processes are not considered to be major problems in Haiti, nor have the copyright industries flagged them as such.

8. Worker Rights

a. The Right of Association

Workers and employers do not need government authorization to establish and join organizations; a minimum of 10 members for the workers' groups and 5 for employers' groups are required. A group must, however, register with the Ministry of Social Affairs within 60 days of its establishment. Workers, including civil servants and public sector employees, are free to organize unions under the Constitution. Unions are not controlled or restricted by the government but they may not engage in commercial activities or concern themselves with matters unconnected with the defense of workers' rights.

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It is impossible to judge accurately the number of workers who belong to unions because each federation claims thousands of unemployed or peasant members. It is estimated that, in total, there are fewer than 10,000 employed members who belong to local unions, which usually claim to represent all workers in individual factories, regardless of each worker's personal affiliation or loyalty to the union.

There are four major labor federations in Haiti: the Autonomous Central of Haitian Workers (CATH), the Federation of Union Workers (FOS), the Autonomous Central of Haitian Workers/Latin American Workers Central (CATH/CLAT), and the Independent General Organization of Haitian Workers. All have open contact with international labor organizations. For example, FOS is affiliated with the International Confederation of Free Trade Unions (ICFTU) and with its affiliate, the Inter-American Regional Organization of Workers; CATH/CLAT with the Christian Democratic World Confederation of Labor; and CATH with some Canadian and European unions. The federations depend largely on outside sources for their financial support. No Haitian unions are known to subsist on dues paid by their members.

During the CNG period, the government's relationship with the International Labor Organization (ILO) and other international organizations stagnated; numerous requests by the ILO for information concerning complaints were not acted upon. Manigat reopened the dialog with the ILO after he became President.

Also under the CNG, in June 1987, CATH was dissolved by administrative decree because of alleged illegal political activities. It was reinstated 1 month later after popular protests. CATH has operated without government interference since then.

The ILO is reviewing complaints against the goverment of Haiti presented by the CATH, the CLAT, the the World Federation of Trade Unions (WFTU), and the ICFTU alleging violations of freedom of association. The cases cited span the period from 1985 to 1987; the majority of the alleged violations occurred under the CNG. These include accusations of arbitrary arrests, illegal administrative dissolution of the CATH, and antiunion reprisals.

Shortly after taking office, President Avril met with the leaders of three of the major labor federations and indicated that his government seeks to begin a dialog with the major federations and to revive the tripartite negotiations (labor/management/government) on the drafting of a new labor code. Work is currently in progress on this issue. While some allegations of government and employer interference persisted into 1988, the Avril Government has pledged itself to expediting adjudication of alleged abuses. Thus far, it has followed through on this pledge, as illustrated in the Comme Il Faut cigarette factory dispute cited below.

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Chapter VI of the Labor Code recognizes the right to strike, although it restricts the duration of certain types of strikes. Strikes are not uncommon, but their legality is usually contested by the employer.

Following the inauguration of Manigat on February 7, 1988, there was a spate of strikes, primarily over wage and benefit issues, in both the private and public sectors. Labor unions took a more prominent, if somewhat unsuccessful, role in the strike negotiations, which for the most part involved the inconclusive intervention of the Ministry of Social Affairs. In several cases, there were accusations that workers who took part in union activities were fired. In June, under the Namphy Government, there was a second series of strikes involving accusations of antiunion discrimination.

In late November 1988, workers at the Comme Il Faut cigarette factory went on strike over wage and benefit issues. The company dismissed several of the workers who had organized the strike. An appeal by FOS to the new Ministry of Social Affairs resulted in a government order to reinstate the dismissed workers.

b. The Right to Organize and Bargain Collectively

Haitian labor unions remain weak for social, historical, and economic reasons. Forbidden under the Duvaliers until 1981, they were then allowed to operate only within strictly circumscribed limits. It was not until Jean-Claude Duvalier's departure that unions were allowed to organize freely.

Union contracts do not yet exist; rather, informal, unofficial mostly unwritten agreements, and in some cases, tacit acceptance, allow the presence of unions in plants. Although unions have become relatively more active in grievance negotiations, formal management recognition of unions as bargaining agents is not yet the norm. Even with no government interference, the relatively new phenomenon of trade unionism has not developed quickly in Haiti, where unemployment is estimated to affect 50 percent or more of the available work force, and where employers still question the legitimacy of unions, due, in most cases, to the imprecision of the labor law.

c. Prohibition of Forced or Compulsory Labor

The Haitian labor code prohibits forced or compulsory labor. There were no charges of forced or compulsory labor in 1988.

d. Minimum Age for Employment of Children

The minimum age for factory employment is 12 years. Fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. In both rural and urban areas, children often work at odd jobs to help supplement the family income.

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e. Acceptable Conditions of Work

The labor code, revised in 1984, governs individual employment contracts, protects apprentices and women, and establishes minimum health and safety standards, particularly for hazardous occupations. The code sets the normal workday at 8 hours, and the workweek at 48 hours, with 24 hours' rest on Sunday. The code provides for paid annual leave of at least 15 consecutive working days. Workers may take up to 15 days' annual sick leave. The current daily minimum wage prescribed by law is $3.00 in Port-Au-Prince and $2.64 in the rest of the country.

The government has not systematically enforced labor laws regarding wages and minimum safety regulations, but the industrial sector generally adheres to at least minimum standards. Many Haitians support themselves by taking such work as they can find, e.g., domestic service, or street peddling. Artisans are generally self-employed. For these marginally employed workers there is virtually no safety net between them and abject poverty. There are few educational, health, hygienic, public housing, or other social services available to the average Haitian, particularly outside of Port-Au-Prince.

f. Rights in Sectors with U.S. Investment

U.S. investment in Haiti is concentrated in export assembly which includes electric and electronic equipment, other manufacturing, and food and related products sectors. There is no significant difference in labor conditions between these sectors and others in the Haitian economy.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		8
Total Manufacturing		16
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	16	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		24

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Lempiras unless otherwise noted

	1986	1987	1988(est)
Income, Production, and Employment			
GDP (constant 1978 prices)	4426	4611	4726
Real GDP Growth Rate (pct)	2.7	4.2	2.5
Real GDP by Sector			
Agriculture	1102	1181	1211
Manufacturing	580	590	605
Commerce	484	493	505
Services	362	379	388
Transport	316	338	346
Finance	232	238	244
Government and Defense	198	215	220
Other	1152	1177	1206
Real per capita Income (Lemps)	1062	1078	1072
Labor Force (millions)	1.421	1.468	1.492
Unemployment Rate (official)	12	11	12
Money and Prices			
Money Supply (M1)	917	1080	1026
Interest Rate (pct)	16.9	16.2	17.0
Savings Rate (pct of GDP)	8.0	6.8	7.7
Investment Rate (pct of GDP)	14.6	14.6	13.4
CPI (1978=100)	191.0	196.3	208.0
Exchange Rate (yr-end)			
Official	2.00	2.00	2.00
Parallel	2.45	2.85	3.50
Balance of Payments and Trade			
Total Exports fob	2044	1987	2199
Exports to U.S.	807	892	998
Total Imports cif	2571	2646	2726
Imports from U.S.	665	701	729
U.S. Economic Aid (mill $)	137	121	145
Other Economic Aid (mill $)	210	313	320
External Public Debt	4704	4808	4910
Annual Debt Service Payments	402	423	378
Gold and ForEx Reserves	225	214	141
Balance of Payments			
Balance of Goods and Services	-527	-659	-527
Transfers	317	293	270
Capital Account	259	354	413
Errors and Omissions	- 61	95	-157
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Net Change in Intl. Reserves	12	- 83	0

HONDURAS

1. General Policy Framework

Honduras is among the poorest and least developed countries in Latin America. The economy is based primarily on agriculture, but there are extensive forest, marine, and mineral resources. While the open unemployment rate is officially estimated at 10 to 15 percent, underemployment is much higher, perhaps as high as 40 percent of the workforce. The literacy rate is only about 60 percent. The life expectancy at birth is 60.0 years; infant mortality is 76.8 per thousand. Honduras has one of the highest birth rates in Latin America at 3.1 per thousand. After the severe recession of the early 1980s, Honduras has achieved moderate but steady economic growth, partly due to sizeable U.S. economic assistance. During 1987, the economy grew 4.2 percent, bolstered by increased exports of coffee and bananas, the country's chief export products. For the first time in a decade Honduras achieved an increase in real per capita Gross Domestic Product (GDP); this was accompanied by a rate of inflation which the Honduran Government calculated at 2.5 percent. While official statistics probably understate actual inflation due to an inappropriate Consumer Price Index (CPI) market basket, Honduras has the lowest inflation rate in Latin America.

The United States is Honduras' chief trading partner, supplying about 25 percent of its imports and purchasing about 56 percent of its exports. Leading Honduran exports to the U.S. include fruits and vegetables, coffee, seafood, and beef. The U.S. accounts for about 85 percent of total direct foreign investment in Honduras, worth about $230 million. The largest U.S. investments are in fruit (particularly banana) production, oil refining/marketing, and lead/zinc mining. In addition, U.S. corporations have invested in tobacco, shrimp culture, beef, poultry, and animal feed production insurance, leasing, food processing, brewing, and furniture manufacturing in Honduras.

The Honduran economy suffers from serious structural problems and must undergo major reforms if it is to achieve long term, sustained rates of growth above the rate of population increase. These problems include large fiscal and balance of payments deficits, a bloated public sector, inefficient state enterprises, an overvalued exchange rate, and government policies which hinder expansion of exports. As a result, Honduras is having increasing difficulty in servicing its official and private debt and is becoming more and more dependent on external economic assistance, particularly from the U.S. During the period 1984 to 87, Honduras received approximately $900 million in U.S. economic and military assistance. Of this total, $635 million was direct economic aid, including $389 million in Economic Support Funds (ESF) which provide balance of payments support. In FY1989, Honduras will receive $138 million in economic assistance, including $85 million in ESF.

Our policy dialogue with Honduras has helped to keep the focus on economic reform. The Honduran Government acknowledges the need for reform and has made some progress. For example, the fiscal deficit, while still too large,

declined to 6.2 percent of GDP in 1987, down from 11.3 percent of GDP in 1984. The deficit is financed by the sale of government bonds, external borrowing, and overdrafts. Honduras recently signed a Structural Adjustment Loan (SAL) agreement with the World Bank and is negotiating a standby arrangement with the IMF. Compliance with the commitments made to these international financial institutions requires significant macroeconomic discipline.

In response to encouragement from the U.S. Government, the World Bank, and the International Monetary Fund (IMF), the Government of Honduras enacted new monetary and fiscal measures in 1988 which expand the legal parallel exchange market, set specific targets to control monetary expansion, and reduce the fiscal deficit through a mixture of expenditure cuts and new revenues. The Honduran Government is also undertaking a variety of structural adjustment measures such as reducing the effective rate of protection and privatizing state-owned enterprises. While these measures do represent modest improvements in economic policies, Honduras still has a long way to go in solving its fundamental economic problem of an anti-export bias, of which the overvalued exchange rate is a major component. Until the Honduran Government officially adopts a realistic exchange rate, the economy will continue to suffer from serious distortions that will hamper long-term growth.

2. Exchange Rate Policies

Honduras has maintained a fixed official exchange rate of 2.00 lempiras per dollar for over 70 years. As its exports have become less competitive relative to those of its neighbors, Honduras' overvalued exchange rate has impeded diversification of exports and has subsidized imports. The 1950 Banking Law gives the Central Bank an absolute monopoly over foreign exchange transactions in Honduras. In practice, however, the Central Bank permits the commercial banks to retain half of their foreign exchange inflows for allocation to their customers. The Central Bank exercises strict control over import permits, and has established a system of import category priorities to allocate the limited supply of foreign exchange.

The queue to obtain foreign exchange at the official rate through the banking system lengthened from three to four months during 1987 to six to nine months in 1988, seriously slowing down payments for imports and debt service. An illegal but tolerated parallel exchange market has developed which accounts for 25 to 50 percent of all foreign exchange transactions in the country. The parallel exchange rate reached an unprecedented 3.50 lempiras to the dollar during November 1988 and could drop still further before the end of the year.

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In response to the increasing pressure on the balance of payments, in 1988 the Honduran Government enacted a series of measures to liberalize the foreign exchange regime. The measures increase the transparency of the system and go a long way toward the establishment of a legal parallel market. The CETRA (transferable export certificates) program permits exporters of most products to retain up to 40 percent of their export earnings. Exporters may use these certificates to either finance their own import requirements or they may be sold to commercial banks at the free market exchange rate. Exporters of bananas and minerals have negotiated their own self-financing agreements which permit them to retain 60 to 75 percent of their foreign exchange earnings for their own import requirements. Exporters of coffee (the leading export) may retain only 15 percent of their foreign exchange revenues in the form of CETRAS. Lumber exports, a government monopoly, must remit all revenues to the Central Bank.

3. Structural Policies

While Honduras generally practices market conforming policies, the government maintains price controls on a variety of basic commodities in an effort to protect the poorest classes against inflation. Internal prices for imported goods are market determined since they face competition from contraband smuggled across the border. Prices for government services such as electricity, water, and sewage are generally subsidized. Additionally, there are floor prices which function as price suports for sugar and cement. These price supports provide subsidies for inefficient domestic industries in which the Honduran Government has loan guarantees, direct loans, or equity shares.

Parastatal enterprises dominate certain sectors of the Honduran economy, such as lumber production. In 1985, the government began a major privatization program with the passage of a law providing the legal basis for divestiture of public ownership in 59 largely debt-ridden companies acquired by CONADI, the state investment corporation. By November 1988, a total of seven state enterprises had been sold or leased to the private sector under this program. In addition, the government has partially divested its agricultural seed propagation company and is in the process of selling off 20 more state-owned companies.

Honduras relies primarily on export and import taxes to generate fiscal revenue, but also has income, excise, and sales taxes. The income tax for Honduran residents is assessed on a progressive scale from 3 to 40 percent. Non-residents are taxed on gross income at rates from 5 to 15 percent. In fact, however, indirect taxes yield only a small amount of government revenue due to an inefficient collection system and widespread avoidance. Honduran law provides tax holidays for new investments. The Central American agreement of fiscal incentives allows qualified companies tax credits for the reinvestment of profits in equipment and machinery that increase productive capacity. Except for non-traditional products which qualify for inventives under the

export incentives law, a tax of one percent is applied on the FOB value of all exports. Bananas, coffee, beef, seafood, lumber, and minerals (which make up more than 95 percent of total Honduran exports) are taxed at higher rates. Imports are subject to published tariff duty rates and additional surcharges.

The Honduran Constitution contains provisions limiting foreign investment to areas of the economy which do not compete with established Honduran firms. It also forbids non-Central Americans from owning land within 40 kilometers of the borders and coastlines except in areas designated urban. Other Honduran laws provide a minimum market share for Honduran-owned enterprises. In practice, however, the Honduran Government welcomes foreign investment and treats it the same as investments by nationals. The Honduran Congress is considering new laws on foreign investment which would reserve certain minimum market shares to Honduran-owned enterprises in certain industries but would permit foreign investment in tourism facilities located within 40 kilometers of the coastline. In addition, the Congress is considering a debt/equity conversion law which would improve the investment climate and counteract some of the disincentives caused by the overvalued exchange rate, since it would permit the use of discounted Honduran foreign debt for investment in new export projects.

4. Debt Management Policies

At the end of 1987, Honduras' external debt amounted to $2.4 billion, equivalent to about 65 percent of GDP. A large proportion of this debt is from international financial institutions on concessional terms. Honduras' debt service ratio has risen from 25 percent of GDP in 1984 to about 35 percent currently because of a significant increase in payments due to the depreciation of the dollar against other currencies and because of the expiration of grace periods on loans to finance the massive El Cajon Hydroelectric project. Because of Honduras' balance of payments difficulties, the government has accumulated arrears in excess of $100 million to official creditors alone. Honduras has made a major effort this year to pay the World Bank, IMF and the United States Government, but is in arrears with these and most of all its other creditors.

Honduras has not made principal payments on its debt to foreign commercial banks since 1982. After protracted negotiations, in June 1987 the Honduran Government and the bank advisory committee reached a tentative agreement on a comprehensive debt rescheduling package which would consolidate past-due principal and all remaining maturities into a new $230 million loan, with a 14-year maturity, 6 years grace, and initial interest rate 1 1/8 percent over LIBOR. The spread would be reduced to 1 percent provided Honduras remained current on its debt service payments to the banks. The agreement also provides for interest capitalization of part of the past-due interest for a period of six years

with two years of grace at an interest rate of 1 1/8 percent over LIBOR. This agreement had not been concluded as of late 1988 because of Honduras' inability to obtain sufficient foreign exchange to pay off past due interest.

5. Significant Barriers to U.S. Exports

Despite the government's generally positive attitude toward foreign investment and liberalization of trade, there are a number of severe distortions in the Honduran economy which act as barriers to expansion of trade and investment. The difficulty in obtaining foreign exchange through the banking system at the official exchange rate has been the single most important constraint for most businessmen. While the Honduras has made significant progress toward legalization and expansion of the parallel exchange market, these measures have not relieved Honduras' worsening foreign exchange shortage. In addition, price controls on many products prevent companies from passing on the higher costs resulting from parallel market currency depreciation.

Honduran standards and labelling regulations are generally compatible with those in the U.S. and pose no barrier to U.S. exports.

The importation of raw materials and all other goods and services is regulated by the Central Bank of Honduras through import licensing. Imports are categorized into five priorities: (1) medicines and other health and education-related products, (2) petroleum and related products, (3) raw materials, intermediate goods, and agricultural inputs, (4) machinery and spare parts, and (5) everything else. After the Central Bank approves the import permit, companies must then apply for foreign exchange and wait differing lengths of time depending on the product priority and the date of application.

Honduran law reserves a minimum market share for Honduran companies in certain service industries such as banking, insurance, and air and land transport. It also limits entry into most professions to Honduran citizens and gives the government a monopoly in the areas of telecommunications and public utilities. Government procurement practices pose no significant barrier to U.S. exports, since they are limited mainly to purchase of agricultural commodities. Honduran Government policy encourages foreign participation in most major public works projects, and does not discriminate against foreign suppliers of goods and services. Nevertheless, concessionary financing offered by other governments in addition to questionable business practices on the part of non-U.S. companies have caused distortions in otherwise generally open Honduran contracting practices.

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6. Export Subsidies Policies

The Honduran Government has established a series of investment incentives designed to stimulate non-traditional exports. The Export Promotion Law (1983) grants certificates of export promotion (CEFEX) to exporters of non-traditional products. CEFEX are tax-exempt, negotiable, bearer documents which may be used for payment of certain taxes, including customs duties and fees, export taxes, and sales taxes. Products which contain from 20 to 50 percent national value-added obtain CEFEX equivalent of 10 percent of the FOB value of exports. Products exported which contain more than 50 percent of national value-added qualify for CEFEX equivalent to 15 percent of the export value. In addition, this law exempts non-traditional exports from the payment of export taxes.

The Temporary Import Law (1984) permits exporters to import inputs without paying either import tariffs or consular/administrative fees. This law provides duty drawbacks to companies in two ways. The exporter may choose to be reimbursed directly for customs duties after the final product is exported, or alternatively the exporter may obtain a commercial bank guarantee, whereby the bank assumes responsibility for obtaining the drawback. The latter method is the preferred system, since companies do not have to tie up their own capital. The law also exempts profits derived from these exports from income taxes for a period of ten years, provided (a) the total production of the company in Honduras is exported, and (b) the company is a foreign investor which cannot deduct or credit taxes paid in Honduras against the taxes paid in its country of origin. The beneficiaries of the law may not simultaneously seek benefits under other Honduran laws which promote exports.

In 1976, the Honduran Government established a free trade zone in the city of Puerto Cortes. While the same law provided for free zone status for companies located in other port cities in Honduras, thus far no other free trade zones are operating. The government provides the following incentives to companies in the free zones: duty-free importation of machinery, equipment, supplies, spare parts, and raw materials, exemption from national and local sales, income, and corporate taxes, unrestricted repatriation of profits and capital, and on-site customs facilities. There are 25 firms operating in the Puerto Cortes free zone, of which 7 are U.S. companies. Most of these firms produce apparel for export to the U.S. market.

7. Protection of U.S. Intellectual Property

Honduras is not a party to the major intellectual property conventions but is a signatory of the General Interamerican Convention for Trademark and Commercial Protection (Washington, 1929), the Convention on Literary and Artistic Copyrights (Buenos Aires, 1910), the Convention for the Protection of Inventions, Patents, Designs, and Industrial Models (Buenos Aires, 1910), and WIPO.

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In order for patents and trademarks to be protected under Honduran law, they must be registered with the Ministry of Economy and Commerce. The duration of a patent ranges from 10 to 20 years depending on the importance of the invention and the desires of the applicant.

There have been complaints concerning pirating of video tapes and television broadcasting. HONDUTEL, the state-owned telecommunications company that also regulates broadcasting, has drafted new regulations to provide some government control over the cable television industry. In addition, the Congress is considering a bill to amend the Honduran copyright law to provide much greater protection.

8. Worker Rights

a. The Right of Association

Workers are free to organize themselves into labor unions, and many large enterprises have a unionized labor force. In addition, associations of employers and other interest groups are common. Retribution for trade union activity is uncommon.

The right to strike, along with a wide range of other basic labor rights, is provided for by the Constitution and honored in practice. Some strikes have been declared illegal because of failure to observe an obligatory three-part mediation procedure before striking or because of impact on the provision of vital services. In the case of workers involved in the latter category, Ministry of Labor-supervised negotiations provide some protection to workers' interests. Under Honduran practice (but not law), if a strike is legal, lost wages are often paid by management; if illegal, wages are not paid.

The two democratic labor organizations have historically avoided partisan political affiliations and focused their influence more on economic than political issues. However, individual democratic labor leaders were included on the candidate lists for the 1989 elections, and were expected to campaign while retaining their union positions. Since politicians actively seek support from the rank and file of the democratic federations, the latter have demonstrated effective political influence, especially on labor-related issues. The Unitary Federation of Honduran Workers (FUTH) is actively involved in partisan political activities and pursues an agenda closely paralleling that of other Marxist unions in the region.

Honduras' trade union movement maintains close ties with international trade union organizations. The largest union group, with 160,000 members, is the Confederation of Honduran Workers (CTH); it is an affiliate of the International Confederation of Free Trade Unions (ICFTU). The second largest, the General Worker entral (CGT), claims 135,000 members; it is affiliated w..h the World Confederation of Labor. FUTH is affiliated with the World Federation of Trade

Unions (WFTU). The three labor organizations claim to represent about 20 percent of all Honduran workers, including a substantial number of peasants and rural laborers.

Honduras has cooperated with the International Labor Organization in several pending cases. It has also responded to inquiries made by the ICFTU.

b. The Right to Organize and Bargain Collectively

The right to organize and to bargain collectively is protected by law and observed in practice. The prevalence of unionized labor in the workplace and its political influence acts as a further guarantee against antiunion discrimination or pressures.

Chapter V of the Honduran Constitution spells out in detail the rights of workers, further delineated in legislation. Those rights and guarantees are jealously guarded by the powerful union movement which is not hesitant to make use of the legal system to enforce observance.

The free trade zones are governed by the same labor regulations as the rest of private industry. Employment conditions in the export processing zones are considered superior to the national average.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Honduras; such practices are prohibited by law and by the Constitution.

d. Minimum Age for Employment of Children

The Constitution and the labor code prohibit the employment of children under the age of 16. The government has inspectors to ensure that childen are not employed by industry at night or under hazardous conditions. Violations of the labor code may occur in rural areas or in small companies. Rampant unemployment and underemployment has resulted in many children supplementing the family income by working in small family farm plots or as street vendors. The government does not enforce child labor laws in these situations.

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 by law. The daily minimum wage varies by occupation, ranging from $2.30 to $3.55 per day. A commission has been formed to assess the minimum wage, which has remained the same since 1980.

HONDURAS

The standard work day is 8 hours; a standard week is 44 hours. Although the labor code provides for a paid vacation of 10 workdays after 1 year and 20 workdays after 4 years, the regulations are frequently ignored in practice as a result of the high level of underemployment.

f. Rights in Sectors with U.S. Investment

U.S. capital is invested mainly in the food and related products (50 percent), primary and fabricated metals (mining) (5 percent), and petroleum (refining and distributing) (10 percent) sectors of the Honduran economy. Working conditions in companies owned by most foreign investors are considered the best in Honduras. Some of the larger U.S. companies provide extensive health care facilities and housing assistance for workers. Most U.S. companies in Honduras exceed local requirements in wages, working conditions, and employee benefits.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		63
Food & Kindred Products	39	
Chemicals & Allied Products	2	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	22	
Wholesale Trade		16
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

JAMAICA

Key Economic Indicators

	1986	1987	1988 (est)
Income, Production, Employment			
Real GDP, J$ Mil	1870.1	1967.5	2026.5
Real GDP Growth Rate	1.9	5.2	3.0
GDP by Sector, J$ Mil			
Agriculture, Forestry, Fishing	160.3	164.3	N.A.
Mining and Quarrying	101.6	106.6	N.A.
Manufacturing	310.2	326.4	N.A.
Electricity and Water	31.3	33.5	N.A.
Construction and Installation	99.9	113.9	N.A.
Distributive Trade	284.9	314.1	N.A.
Transport, Storage and Communication	154.1	164.9	N.A.
Financing, Insurance Services	138.9	144.3	N.A.
Real Estate, Business Services	233.5	245.6	N.A.
Producers of Govt Services	325.2	323.4	N.A.
Misc Services	111.4	119.3	N.A.
Household and Private non-Profit Institution	22.4	23.2	N.A.
Less Imputed Services Charges	103.7	112.1	N.A.
Total GDP at Constant Prices (1974)	1870.1	1967.5	2026.5
Real per capita GDP (J$)	800.6	838.0	851.5
Labor Force (000s)	1059.0	1069.7	N.A.
Unemployment Rate (avg)	23.7	21.0	N.A.
Money and Prices			
Money Supply (M1) (J$ Mil)	1667.6	1874.8	2212.3
Avg. Cmcl Int Rate (pct)	25.6	25.2	23.0
Savings Rate, (pct)	15.0	15.0	13.0
Investment Rate (1)	17.5	21.8	22.0
Consumer Price Index (avg pct change)	14.7	6.7	8.0
Wholesale Price Index	N.A.	N.A.	N.A.
Exchange Rate (J$/US$)	5.5	5.5	5.5
Balance of Payments and Trade (US$ mil)			
Total Exports fob	589.5	708.4	814.7
Total to U.S.	209.4	261.4	300.6
Total Imports cif	969.1	1234.3	1444.1
Total from US	487.5	588.0	646.8
Aid from U.S. (2)	107.5	107.0	120.0
Aid from Other Countries (2)	138.7	149.5	N.A.
External Public Debt (US$ billions)	3.58	4.01	4.05

JAMAICA

Annual Debt Service Payments (US$ millions)	616.0	725.6	767.1
Gold and ForEx Reserves	-679.6	-479.4	N.A.
Balance of Payments (US$ mil)			
Current Account	-33.5	-105.3	-207.5
Net Capital Movement	35.4	408.5	85.0

Notes: (1)(Gross fixed capital formation as pct of GDP.
(2) Provided by Planning Institute of Jamaica includes imputed value of technical assistance

1. General Policy Framework

Jamaica has some of the finest beaches in the Caribbean, and tourism is the country's largest foreign exchange earning industry. In 1987, gross foreign exchange earnings amounted to $595 million, representing 38 percent of exports of goods and services. The country has large deposits of bauxite, and two companies process the bauxite into alumina. Bauxite and alumina exports provided an average of 49.5 percent of merchandise export earnings over the last three years. The manufacturing sector contributes 16 percent of gross domestic product (GDP) and accounts for 15.5 percent of employment. Major subsectors include garments, food processing, beverages and tobacco. Jamaica is also favored with a good climate and fertile soil, which are conducive to growing a wide variety of agricultural products. However, access to and quantities of tillable land are limited by the island's mountainous terrain. The agricultural sector contributes 8-9 percent of GDP and accounts for over a third of total employment. Traditional agricultural exports include sugar, bananas, coffee and cocoa.

The Jamaican Government is continuing its program of structural adjustment to encourage a market-oriented private sector capable of stable and sustained economic growth. Major reform has occurred in the area of taxation, while government policy has also sought to narrow the public sector deficit, to stabilize the exchange rate, and to moderate inflation. The government has reduced public sector operations through the privatization of public entitites. Import licensing has been eliminated on all but a short list of items. Import duties are currently being reduced, while a flat rate of 33.3 percent has supplanted earlier corporate and personal income tax regimes. The government has reduced its equity position in the national cement company, the country's largest commercial bank, and the national telecommunications company. The government is attempting to sell a number of publicly owned hotels and has introduced a debt-equity conversion program to reduce Jamaica's foreign commercial debt. The government also hopes that debt-equity swaps can be used to facilitate divestiture of certain public entities, including the aforementioned hotels.

Caribbean Basin Initiative (CBI). The CBI introduced on January 1, 1984 allows duty-free treatment for twelve years on

all products except textiles and apparel, handbags, luggage, flatgoods, work gloves, petroleum, footwear, leather goods and canned tuna, watches and watch parts. The program for Jamaica has so far been less successful than anticipated. According to U.S. Department of Commerce, CBI eligible items from Jamaica grew from U.S.$274.4 million in 1983 to U.S.$403.2 million in 1984, but fell to U.S.$222.6 million in 1985, U.S.$202.8 million in 1986, and U.S.$229.8 million in 1987. However, Jamaica has greatly benefited under other U.S. legislation such as the CBI Textile Special Access Program. Total exports of garments from Jamaica to the U.S. grew from U.S.$13.6 million in 1983 to U.S.$179.8 million in 1987. It should be noted that the CBI has stimulated growth in non-traditional exports especially in 807 operations, vegetables and root crops, cut flowers, foliage and fruits.

Over the last two years increased tax revenues, substantial civil service retrenchment, and improved financial management have contributed to a significant reduction in the overall deficit. Central government expenditure has moderated slightly from 32.6 percent of GDP in 1986/87 to 32.4 percent of GDP in 1987/88. The central government deficit averaged $210 million over the last two years. The deficit was funded by foreign financing and locally registered stock (long-term government obligations denominated in Jamaican dollars). Loans from bilateral and multilateral agencies (World Bank, International Development Bank, USAID, CIDA, Italy, Japan, European Communities, etc), rescheduling agreements obtained from foreign commercial banks and bilateral lenders, and oil credits from Mexico and Venezuela accounted for most of the financing. The 1988/89 budget calls for total government expenditures of U.S.$1.6 billion. Recurrent and capital expenditures are budgeted at U.S.$938.9 million and U.S.$715.1 million, respectively. About 41 percent of total expenditure is allocated for debt servicing (amortization and interest payments). With regard to the functional classification of expenditure, some 49 percent of the total is budgeted for general administration, 26 percent for social and community service, 16 percent for economic services, seven percent for security, and two percent for miscellaneous expenditures.

The objective of Jamaican monetary policy in recent years has been to contain excessive expansion of money and credit in order to facilitate economic growth, to stabilize the exchange rate, and to moderate inflationary pressures. The main tools of monetary policy have been the open market operations of the Bank of Jamaica through sales of Bank C.D.'s and Jamaican Government treasury bills, adjustments to the liquid asset ratio, regulation of minimum interest rates paid on passbook savings accounts, and control of financial intermediaries' lending policies. Less significant means of monetary control include the Bank of Jamaica's rediscounting operation and a liquidity support facility. Recently, the Bank of Jamaica reduced the liquid asset requirement, providing additional liquidity to the banking system. Open market operations through the sale of Bank of Jamaica C.D.'s and treasury bills have a substantial influence on interest rates. However, increased foreign debt obligations and government expenditures

have had an expansionary effect on money supply during the last two years.

2. Exchange Rate Policies

In November 1984, the government introduced a new foreign exchange auction system, allowing the Jamaican dollar to float within a managed trading range against the U.S. dollar. The exchange rate, or clearing rate, is determined by the price of the lowest bid exhausting the available supply of foreign exchange. The Bank of Jamaica is charged with managing the auction's supply side in order to support the Jamaican dollar within the desired trading range. For the past three years, the government has been able to stabilize the Jamaican dollar at around J$ 5.50/US$ 1.00. Presently, there are some indications that this rate is under pressure. Bids for less than U.S.$50,000 are channelled through the commercial banks. The banks merge bids under U.S.$50,000 and tender one application on the customers' behalf. The commercial banks are also charged with purchasing foreign exchange from customers as agents for the Bank of Jamaica. In addition to the auction, the Bank of Jamaica is charged with prioritizing foreign exchange allocations to essential imports, e.g. crude oil, and to debt service.

In August 1988, the Jamaican Government liberalized some of the exchange control regulations in accord with its International Monetary Fund (IMF) agreement. The major foreign exchange controls follow: (A) Residents of Jamaica travelling abroad have access to an annual vacation travel allowance of U.S.$300 per person; (B) likewise, residents may access a cash gift of U.S.$100 per person, and family maintenance of U.S.$2,000 per annum; (C) residents may access a maximum of U.S.$10,000 for medical treatment abroad; (D) tourists are entitled to exchange unused Jamaican dollars for foreign exchange; (E) holders of foreign work permits are entitled to remit 30 percent of their net salary abroad annually; (F) insurance companies are allowed to remit foreign exchange to overseas creditors and firms with which they have contracted for reinsurance; and (G) remittances of recurrent transactions such as interest, loans, management and technical contracts, royalties, dividends, profits, charter hire, etc., are permitted if these transactions were previously approved and registered with the Bank of Jamaica.

3. Structural Policies

Jamaica is in general a free market economy where supply and demand determine prices. However, in order to protect low income consumers, the government imposes price controls on certain basic items. Items under price control fall under three categories. Category one includes items for which specific approval is required from the government for a price increase. These items include gasoline, sugar, dried salted fish, flour, bread, canned sardines, canned herrings, condensed milk, cornmeal, whole chicken, cooking oil, and animal feeds. For items under category two, prices can be

increased with notification to the prices commission if the commission offers no subsequent objection. Items under category two include LPG cooking gas and steel reinforcing bars. The markup for items under category three is controlled. Items under category three include pharmaceuticals, motor vehicles, motor vehicle parts and accessories, hardware items, cement, tires, and fertilizer. In this context, it should be noted that the government purchasing agency, the Jamaica Commodity Trading Corporation (JCTC), is the sole importer of many price controlled items. Thus, with respect to U.S. exports, the JCTC administers government policy regarding sourcing, offer prices, and levels of subsidization. With regard to agricultural products, there are no price controls for domestic consumption. Farmgate prices for domestic crops are generally determined by the market. In the case of traditional export crops, the Coffee Board, the Cocoa Board, the Citrus Growers Association, the Sugar Industry Authority, and the Banana Exporting Company (all government run except for citrus and bananas) annually decide on the farmgate price. This provides a farmer with a minimum price which he receives as a first payment for his crop at the beginning of the crop year. Later, profits made by the commodity boards and associations are calculated and distributed to the farmers as final payment.

Major taxes which influence the economy are the income tax (U.S.$318.9 million or 40.7 percent of total tax receipts in 1987/88), consumption taxes (U.S.$196 million or 25 percent of total tax receipts in 1987/88), stamp taxes (U.S.$127.7 million or 16.3 percent of total tax receipts in 1987/88), and customs duties (U.S.$60.4 million or 7.7 percent of total tax receipts in 1987/88). In January 1986, the Jamaican Government introduced an individual income tax reform replacing a graduated scale of rates ranging from 30 percent to 57.5 percent to a flat rate of 33 1/3 percent on all income earned over J$8,580 (U.S.$1,560). In January 1987, the corporate tax rate was also reduced from 45 percent to 33 1/3 percent in order to increase compliance, reduce inequities, and stimulate investment.

The government also embarked on a four year trade reform program in 1987 to rationalize the tariff regime. The current maximum customs and stamp duty is 60 percent. The tariff reform will lower the duties to four rates ranging between 5 and 30 percent by the end of the four-year phase-in period in March 1991.

The government offers tax incentives to qualifying foreign and local investors. Investment incentives generally take the form of corporate income tax exemptions and are administered under several laws including the Export Industry Encouragement Act, the Industrial Incentives Act, the Motion Picture Industry Incentives Act, the Hotel Incentives Act, and the Factory Construction Act. Approved manufacturers can either take advantage of a 7.5 percent rebate on the local inputs to the value of exports to non-CARICOM markets for an indefinite period, or obtain duty free status for inputs for a fixed period. Jamaica has a number of laws fostering industrial development for import substitution and for export

that may have an impact on U.S. exports. However, the impact of such laws on U.S. exports may be more theoretical than practical, since few Jamaican exports compete directly with U.S. exports. Since the percentage of U.S. exports among all Jamaican imports is very high (48 percent in 1987), Jamaican tax should directly benefit U.S. exports, to the extent that it succeeds in fostering local economic expansion and increases standards of living.

Imports, including motor vehicles. specified pharmaceuticals, and foodstuffs, are subject to state monopoly operations of the JCTC, which limits free trade in these items. Additionally, in order to protect the domestic producers, stamp duties on imports of agricultural items are kept as high as 95 percent. The Embassy is unaware of any product standards that could affect U.S. exports. The government maintains a short list of items banned for national security or moral reasons; e.g., pornography.

4. Debt Management Policies

Jamaica faces a difficult debt management situation which will limit the government's economic policy options for at least the next several years. With respect to U.S. exports, debt repayments will result in less foreign exchange for foreign purchases. Jamaica's stock of debt at the end of December 1987 amounted to U.S.$ 4013.58 million. This figure includes government direct debt (U.S.$2533.82 million), government guaranteed debt (U.S.$443.4 million), and Bank of Jamaica medium and long term liabilities (U.S.$1036.36 million). The total external debt is about 140 percent of 1987 GDP, which makes Jamaica one of the most indebted nations on a per capita basis. Further, in 1987, the debt service ratio was 48 percent. The government's debt management strategy is based on (1) rescheduling bilateral and commercial debt; (2) debt-equity swaps; (3) minimizing future public borrowing requirements; and (4) continued assistance from multilateral institutions (IMF, IBRD and IDB), as well as from bilateral donors.

The present government has a good relationship with the international financial institutions. Jamaica successfully completed a 15-month IMF standby program in May 1988, and signed a new 14 month agreement for SDR 82 million beginning in September 1988. Since 1984, the Government of Jamaica has been successful in rescheduling bilateral and commercial debt. In October 1988, Jamaica negotiated bilateral debt relief through the Paris Club of U.S.$ 150 million through November 1989. Jamaica's official creditors were unusually generous during this last Paris round, agreeing to reschedule 100 percent of principal and interest on previously non-rescheduled debt and 100 percent of principal on previously rescheduled debt over a 10 year term with five years' grace. Commercial bank creditors have rescheduled all principal payments falling due between April 1985 and March 1990. Despite the willingness of Jamaica's creditors to reschedule debt, the country's debt situation has worsened since the start of the debt crisis in 1982. The stock of

external debt grew from U.S.$2.74 billion in 1982 to U.S.$4.01 billion in 1987.

In order to ease its debt situation, the Jamaican Government launched a debt-equity swap program in July 1987 to convert U.S.$200 million of commercial bank debt (approximately half of the total) over a five year period into domestic and new foreign investment. During the program's first year, 16 projects with a total value of U.S.$115 million were approved, of which U.S.$30 million was funded by "fresh money" -- incremental direct investment. However, completion of debt-equity conversions has not kept pace with approvals. Through May 1988, only about U.S.$ 4 million in approved projects were executed.

5. Significant Barriers to U.S. Exports

As a part of its structural adjustment program, the Jamaican Government has progressively liberalized the import licensing system since 1985. As of October 1988, 100 items require import licenses. These include vegetables, fruits, certain chemicals, vehicles and parts, and arms and ammunition. Most items requiring import licensing are not limited by specific quotas, and in this respect do not affect U.S. exports. Moreover, import licensing is not generally used as a means of establishing supplier monopolies or oligopolies. However, in this context it should be noted that the JCTC, the government purchasing agency described above, does occupy a monopoly supplier position for some items. With that caveat, import licenses are reported to be easily obtained and do not appear to present a constraint to U.S. exports.

Investment in certain service-oriented sectors is generally reserved for Jamaican investors, although foreign investors might receive approval under special circumstances. These areas include internal distributive trade; restaurants and catering; internal transport; legal auditing, and accounting services; architecture; structural mechanics; electrical and civil engineering and contracting (except for joint ventures with foreign firms); entertainment; real estate development; mass communication media; advertising and public relations; automobile and other repair services; and personal services such as hairdressing and dry cleaning. However, foreign firms have succeeded in establishing subsidiaries in some of these areas including accounting and auditing, engineering, and publishing.

There are no indications of any problems in these areas restraining U.S. exports or investment.

Although the government generally welcomes foreign investment, such investment must be registered with and approved by the Bank of Jamaica. The government maintains a minimum investment standard of U.S.$40,000. Under an earlier government, forced partial disinvestment and land sales were imposed on foreign aluminum companies operating in Jamaica during the 1970's, but this has not occurred during the present decade.

JAMAICA

In 1984, the Government of Jamaica signed a seven year contract with the Soviet Union under which the Bauxite Alumina Trading Company, a government entity, is obligated to export one million metric tons of wet bauxite to the USSR annually. Under the agreement, Jamaica purchases 20 percent of the contract value in Soviet machinery and equipment, which has taken the form of Lada automobiles. More recently the government has planned to export pimiento to the USSR in exchange for agricultural machinery and equipment. Although these countertrade arrangements could limit U.S. export opportunities to the Jamaican market by displacing U.S. substitutes, the value involved is currently very small in the context of overall Jamaican imports.

Although sometimes criticized by interested parties for its slow pace, the Jamaican Customs Administration does not appear to be burdensome to the point of restraining U.S. exports or inputs required by U.S. investors.

6. Export Subsidies Policies

The government rebates 7.5 percent of the FOB value of designated manufactured goods destined for non-CARICOM markets to adjust for duties imposed on inputs. If production takes place under the Export Incentives Act, duty free status on inputs may be awarded for the duration of the incentive period as an alternative to the 7.5 percent rebate program. Other export incentives include access to credit lines through the national EX-IM Bank, financing through the export development fund, and an export credit facility.

7. Protection of U.S. Intellectual Property

Jamaica is a member of the World Intellectual Property Organization (WIPO) and respects intellectual property and the right of compensation of property. Recently, the government's awareness of intellectual property has increased as a result of U.S. CBI legislation which withholds CBI benefits from countries engaged in the broadcast of U.S. copyrighted materials without consent of the owners.

There have been no reports of patent and trademark issues detrimental to U.S. firms or individuals.

Jamaica presently uses a 1911 Copyright Act of the U.K. supplemented by a local Act of 1913. Due to the widespread piracy of audio and video recordings, it is felt locally that copyright protection needs to be strengthened. New copyright legislation has been tabled, and the government is planning to accede to the Universal Copyright Convention and the Berne Convention. The country is not a party to any of the principal intellectual property conventions at present.

JAMAICA

8. Worker Rights

a. The Right of Association

Article 23 of the Constitution specifically provides for the right to form or join a trade union, and other, more general articles obligate the government to protect the person and property of trade unionists. In Jamaica, labor unions, as do professional groups and private associations, function freely. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations of workers rights.

Unions draft their own constitutions and rules, elect officers, determine objectives, affiliate with national or international groups, and select delegates to conferences. Some Jamaican unions have joined democratic international trade secretariats, the Caribbean Congress of Labor, and the International Confederation of Free Trade Unions. The third largest labor union affiliates with the Communist-dominated World Federation of Trade Unions, and the World Confederation of Labor has attracted one Jamaican adherent. Labor and management groups select their own delegates to tripartite meetings of the International Labor organization (ILO).

Unions have played a major role in Jamaican economic and political life since the 1930s. About 25 percent of the work force belongs to unions, and union influence is felt in all important economic sectors. Competition among unions for members heightens the quality of union representations for organized workers. The two largest unions, the Bustamante Industrial Trade Union and the National Workers Union, have organizational and leadership ties to the two major political parties, the JLP and the PNP, respectively. Both unions maintain their independence and sometimes take positions different from those of their respective parties. The third largest Jamaican union, the University and Allied Workers Union, is linked with the (Communist) Workers Party of Jamaica, whose leadership maintains direct control over the union. Jamaican laws and governmental practice do not restrict trade unions, and no allegations of worker rights violations have been reported through international or national organizations.

b. The Right to Organize and Bargain Collectively

The Constitution provides for the right to organize and belong to labor unions, and LRIDA provisions include guidelines for labor, management, and government on issues such as organizing work sites, negotiating agreements, and conflict resolution. Employees may not be fired solely because they are union officers. On the other hand, union affiliation may not be a prerequisite to employment. The government rarely interferes with union organization efforts, and judicial and police authorities effectively enforce the LRIDA and other labor regulations.

Labor, management, and government remain firmly committed by law and in practice to collective bargaining in contract negotiations and conflict resolution. Collective bargaining

is widely used, even in some nonunionized firms. When labor and management fail to reach an agreement, cases may be referred to the Ministry of Labor for arbitration or mediation. An independent Industrial Disputes Tribunal (IDT) forms the first appeal level above the Ministry. Any cases not resolved by the IDT pass to the civil courts. This system has proved effective, although unions and some employers continue to protest a 1986 LRIDA amendment, which permits the Minister of Labor unilaterally to refer cases involving the national interest to the IDT, because they fear it will undermine collective bargaining as a process.

Domestic labor laws apply to Jamaican export free trade zones. Ministry of Labor officers cite a need for more compliance verification, especially in the free zones, but believe that most employers obey legal requirements. While domestic manufacturing companies are predominantly unionized, only 2 of the 18 factories in the Kingston Free Zone have union representation. During 1988 nonunionized workers in some of these free zone plants conducted short work stoppages to protest working conditions. Free zone employers, all foreign, have historically opposed unionization, and the government, concerned about possible loss of jobs and export earnings, has treated the problem cautiously. Jamaica's second largest union has indicated that it intends to organize workers in zone factories.

c. Prohibition of Forced or Compulsory Labor

The Constitution does not specifically address the matter of forced or compulsory labor. However, Jamaica is a party to the ILO Convention which prohibits compulsory labor, and there have been no allegations of this practice in Jamaica.

d. Minimum Age for Employment of Children

The Juvenile Act provides that children under the age of 12 shall not be employed except by parents or guardians. Such employment may be only in domestic, agricultural, or horticultural work. Children under 12 years of age may not be employed at night or at industrial sites. The Educational Act stipulates that all children aged 6 to 11 must attend elementary school. Industrial safety, police, and truant officers are charged with enforcing the law. However, enforcement is difficult, and children under 12 are sometimes seen peddling goods or services on city streets. There is no evidence of widespread illegal employment of children in other sectors of the economy.

e. Acceptable Conditions of Work

The LRIDA establishes some basic conditions of work. The Factory Act stipulates that all factories be registered and approved by the Labor Ministry before they can begin operating. The Ministry's industrial safety division is required to make annual inspections of all factories, but budget constraints reduce the number of inspections actually made. The Ministry maintains records on industrial accident victims. If a private sector work site does not meet the

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definition of a "factory," the Ministry does not have the authority to inspect it.

Although based on freely negotiated settlements, government wage policy aims to keep maximum annual wage and fringe benefit increases to 10 percent or less to help contain inflation. Most wage settlements have followed this guideline, but exceptions have been made for workers with a history of inadequate pay. The government increased minimum wage levels in a two-step process that began in June 1988 to $18.18 per week effective January 1, 1989. Higher minimum wages apply to skilled workers, depending on their specialty. The minimum wage law also provides for a 42-hour standard workweek and overtime pay. The Ministries of Labor, Finance, the Public Service, and National Security enforce labor laws and regulations.

f. Rights in Sectors with U.S. Investment

U.S. investment in Jamaica is found in the following goods producing sectors: primary and fabricated metals (bauxite/alumina), petroleum (marketing), food and related products, other manufacturing (mainly garments for export), and wholesale trade (distribution of sewing, copying and office machines). There have been no reports of firms with U.S. participation abridging local standards of acceptable working conditions.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		106
Food & Kindred Products	13	
Chemicals & Allied Products	82	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	10	
Wholesale Trade		23
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

MEXICO

Key Economic Indicators

	1986	1987	1988(est)
Income, Production, Employment			
GDP (Current US$ Bil)	27.2	143.1	175.0
Per Capita GDP (Current US$ Bil)	1,580	1,745	2,096
Real GDP Growth Rate	-3.8	1.4	0.5
GDP by Sector (pct)			
Agriculture, Forestry, Fishing	9.4	9.2	N/A
Mining	3.7	5.1	N/A
Manufacturing	24.6	25.1	N/A
Construction	4.3	4.3	N/A
Commerce, Restaurants, Hotels	26.7	27.0	N/A
Transport, Storage and Communications	7.1	7.3	N/A
Financial Services, Insurance and Real Estate	7.9	7.1	N/A
Communal Services, Social and Personal	16.5	15.1	N/A
Size of Labor Force (Mil)	24.7	25.4	26.1
Employment (Mil)	20.3	20.8	21.4
Unemployment Rate	17.8	18.0	18.0
Money and Prices			
Money Supply (M1 Growth Rate)	72.1	129.7	75.0
Commercial Interest Rates	151.0	160.2	87.53
Financial Savings Rate (pct of GDP)	35.8	34.6	27.1
Gross Domestic Investment Rate (pct of GDP)	15.5	15.3	15.5
Consumer Price Index (pct chge)	105.7	159.2	50.0
Wholesale Price Index (pct chge)	102.3	166.7	65.0
Exchange Rate (pesos/US$)			
Official	923	2,198.5	2,250.27
Parallel	915	2,227.5	2,292.50
Balance of Payments and Trade (Bil US$)			
Total Exports fob	16.03	20.66	20.50
Total Exports to U.S.	10.65	13.32	13.86
Total Imports cif	11.43	12.20	17.50
Total Imports from U.S.	7.39	7.88	11.26
Aid from U.S.	N/A	N/A	N/A
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	75.4	81.4	80.4
Medium and Long Term Debt Service Payments (Incl. Private Sector Interest)	11.1	11.4	12.3
Gold and Foreign Exchange Reserves	6.8	13.7	10.0
Balance of Payments	-1.6	3.9	-2.7

Note: U.S. and Mexican data on bilateral trade differ largely due to differences in handling in-bond trade. Mexican data includes only value added.

MEXICO

1. General Policy Framework

Since December 1987 Mexican economic policy has been guided by a strong anti-inflation package -- the Economic Solidarity Pact -- which combines tight fiscal and monetary policies with wage, price and exchange rate controls. The Pact has achieved considerable success so far in 1988 as inflation has been reduced from over 15 percent in January to less than 1 percent in September. The new government headed by President Salinas, who took office in December 1988, is expected to continue with policies to bring about ongoing structural adjustments, combat inflation, and further open the economy.

The Mexican authorities have pursued tight fiscal policies in 1988 and have achieved considerable success in reducing current and investment outlays. During the first half of the year, real programmable expenditures declined by 11.3 percent compared to the same period last year and the real primary budget surplus (i.e., the public sector balance excluding interest payment) grew by 31.3 percent. Nonetheless high domestic interest rates have kept the government's local borrowing costs up and the burden of servicing internal, and to a lesser extent external, debt has posed serious problems for Mexican economic policymakers in their efforts to reduce the overall fiscal shortfall.

The Mexican Government has relied heavily on its own securities to finance the fiscal deficit in 1988 as the amount of government bills and bonds outstanding rose from 36.1 to 51.97 trillion pesos (equivalent to U.S. 15.7 and 22.6 billion, respectively) during the first six months of the year. Moreover, the share of public sector internal debt outstanding in the form of government securities held by private individuals rose from 36 to 42 percent between December 1987 and June 1988 while the share of commercial and development bank lending fell from 42 to 38 percent and that of the Bank of Mexico declined from 22 to 20 percent. (This latter figure indicates that direct monetary creation to finance the deficit fell over this period.) This change in the composition of the public debt resulted from the government's belief that its own securities, particularly Treasury bills and development bonds, were generally the least inflationary way of financing the fiscal shortfall. So far in 1988 net public sector external borrowing has been negligible.

The Mexican monetary authorities have lowered the growth of the major monetary aggregates over the course of 1988 and the economy has become progressively less liquid. Between March and August the annual growth rate of M-1 fell from 140 to 105 percent while the growth rate of M-4, the most comprehensive monetary aggregate, declined from 154 to 93 percent. Much of the contraction in the monetary aggregate reflects a decline in international reserve levels and tight credit conditions brought about primarily by high bank reserve requirements. Between May and August 1988 gross foreign exchange reserves declined by about US dollars 4 billion and at the end of August credit from the banking system to the private sector was about 20 percent lower in real terms than

it was a year earlier. Although nominal passive interest rates have fallen by more than 100 percentage points between January and October 1988, real interest rates remain very high in Mexico because inflation has fallen even more rapidly.

2. Exchange Rate Policies

Mexico has three exchange rates which have been virtually frozen since mid-December 1987 and officially frozen since the end of February 1988 as part of the Economic Solidarity Pact. The controlled exchange rate applies to most exports and imports, debt payments, and in-bond industry receipts. The official free rate is the rate commercial banks use to buy and sell dollars and the private free rate is the rate offered in exchange houses. The government kept the differences between the three exchange rates below one percent for most of 1987 and all of 1988. In November of 1987, however, the peso was devalued by 33 percent in the banks and by 43 percent in the private exchange houses. In December 1987 the controlled rate was devalued by 22 percent. Mexico has no foreign exchange controls and capital can move freely into and out of the country.

U.S. exports to Mexico have been steadily growing in the recent past. According to U.S. Department of Commerce data they rose by 17.7 percent in 1987 and by 34.6 percent during the first 6 months of 1988. U.S. imports from Mexico rose by 16.9 percent in 1987 and 17.3 percent during the first half of 1988. Total U.S.-Mexico trade is expected to reach over U.S.$ 42 billion this year and Mexico's bilateral trade surplus is projected at about U.S.$ 5 billion, down from US$ 5.9 billion last year.

3. Structural Policies

Over the past two years the Mexican Government has made a strenuous effort to bring about important structural changes in the economy. Among the most important of these are policies to open the economy as rapidly as possible, to promote non-petroleum exports, to reduce the number of state-owned companies and increase privatization, and to temper government outlays as a proportion of gross domestic product (GDP). In addition to joining the General Agreement on Trade and Tariffs (GATT) in 1986, the government has eliminated import licenses for most products and it has reduced the maximum tariff rate from about 100 percent two years ago to 20 percent at present. As a direct consequence, imports have risen by about 53 percent during the first eight months of 1988, after expanding by 6.9 percent in 1987. Most government foreign purchasing decisions are based on free market considerations.

The principal taxes in Mexico are income taxes, sales taxes, and taxes on the petroleum sector. During the first half of 1988, income taxes accounted for 31 percent, sales taxes for 19 percent, and taxes on the petroleum sector for 35 percent of total tax revenues. Mexico has no export taxes and

in mid-December 1987 eliminated a uniform import tax of five percent.

4. Debt Management Policies

Over the past six years the Mexican Government has undertaken two major debt restructurings which have eased significantly Mexico's external debt servicing burden. The Mexican authorities have taken a highly responsible attitude in managing their external debt and have avoided confrontational actions with their creditors. Early in 1988 Mexico was able to reduce its external debt by over $1 billion by issuing new bonds backed by U.S. Treasury Zero Coupon bonds in exchange for discounted previously issued public sector debt. Furthermore, the government encouraged the private sector to pay off its external debts and these have fallen by an estimated US dollars two billion during the first half of 1988. Mexico's overall external debt fell from $107 to $103 billion during the January-June 1988 period.

The Mexican authorities believe they must take further actions to reduce Mexico's external debt servicing outlays in order to help promote economic growth and ensure that the country can meet its import needs. The Salinas Administration is likely to request further negotiations with the country's creditors in 1989. At present the ratio of the external debt to GDP is estimated at about 60 percent and the ratio of external interest payments to merchandise and service exports is about 28 percent. Mexico has a good working relationship with its external private bank creditors and with the International Monetary Fund (IMF), World Bank, and the Inter-American Development Bank. In 1986 and 1987 it had a successful IMF standby program and it is currently negotiating with the World Bank for several important policy-based loans. The Mexican authorities have taken strong actions to deal with the debt crisis that emerged in 1982 and the country's ability to deal with the debt problem has improved markedly since that time.

5. Significant Barriers to U.S. Exports

As part of its policy of rationalizing the system of protection of domestic producers, Mexico agreed to reduce the number of items subject to import licensing and rely on tariff protection instead.

As of April 1988, 293 items constituting about one-quarter of Mexican import value remained subject to such requirements, down from 8,300 in 1982. Despite the significant reduction in licensing requirements, they still adversely affect some products of export interests.

The General Law of Insurance Companies limits foreign ownership of Mexican insurance companies to 15 percent. Article 37 of the law requires Mexican insurers to place at least 50 percent of their reinsurance in the Mexican market, which substantially reduces U.S. reinsurers' access to the

Mexican reinsurance market. Requirements for withholding (unearned) premium and outstanding loss reserves by ceding companies also expose reinsurers in the U.S. to serious exchange losses. Article 3 effectively requires all Mexican import and export insurance to be placed domestically, which denies U.S. marine insurers fair competitive access to this class of business.

Except in very limited circumstances, U.S. motor carriers are prohibited from operating in Mexico. (One exception grants Gray Lines exclusive authority to operate tour buses on multiday trips within Mexico provided that, among other things, Gray Lines train and use Mexican drivers.) The restriction also impedes U.S. transport of components to and from U.S.-owned Mexican in-bound plants and border zone shipments. All shipments bound for interior points must either be interlined or interchanged. Both methods increase transit time and the costs associated with damage, loss and pilferage.

As a matter of Mexican Government policy, only wholly Mexican-owned companies may offer enhanced or value-added telephone services.

Except for two private banks (one U.S.-owned) whose banking activities are limited, the commercial banking system was nationalized in 1982. Many foreign banks have representative offices in Mexico but they are prohibited from engaging in commercial banking activities.

To date, testing, labelling and certification has not been a problem area for U.S. exporters. Imported products must be labelled in Spanish; certain drugs and food and beverages must have Health Department certification. Mexico is a recent signatory of the GATT Standards Code.

Foreign investment in Mexico is governed by the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment, which in general limits foreign investment to 49 percent of business enterprise capital. Foreign investment in the auto parts sector is further limited to 40 percent. Foreign investment participation in a firm's management may not exceed its share of the firm's capital. Certain sectors, such as petroleum, radioactive minerals, electricity and railroads are reserved to the state or, in the case of radio and TV, bus and domestic air transport and others, to Mexican nationals. Foreigners may not own land in border or coastal areas; however, trust arrangements are available and many foreign companies, especially in the in-bond (maquiladora) industry, operate in the border area. Exceptions are permitted when it is in the best interest of Mexico's economy, and there are thousands of majority foreign-owned companies, including some of the largest in Mexico. Reportedly, in some instances performance requirements, such as local content, export requirements, location and research and development requirements, have been required in negotiations which led to approval of majority ownership.

MEXICO

Mexico's development programs in the auto, electronic (computer) and pharmaceutical sectors all contain requirements affecting foreign investment. Among other things, the auto decree, as noted, limits foreign equity participation in the auto parts sector and mandates local content levels. Production of heavy trucks is reserved for a majority government-owned company; however, this company currently is being privatized. Price controls, product registration and generic labeling requirements remain problems for pharmaceutical sector investors.

The de la Madrid administration was flexible in authorizing majority foreign ownership and implemented several improvements in investment regulations. The de la Madrid administration estimated it simplified about 50 percent of the procedures involved in obtaining a foreign investment authorization.

Mexico follows a strong "buy national" policy in government procurement. Under Mexican Law, the federal government and state-owned enterprises are required to issue invitations to tender to award contracts for purchases, leases and providing services connected with goods, and tenders are officially open to suppliers from all countries, whether GATT members or not. However, Mexican law also requires giving preference to Mexican goods and services to promote national development. In addition, before drawing up agreements for procuring foreign goods or services imported directly or bought in Mexico, ministries and other units must get Ministry of Trade and Industrial Development authorization.

Customs procedures have not been a significant obstacle to U.S. exporters. Customs authorities on both sides of the border are working to relieve bottlenecks caused by high traffic volume and limited border truck crossings.

6. Export Subsidies Policies

Mexico has signed a Bilateral Understanding on Subsidies with the United States. The Mexican Government has informed the U.S. Government that it currently has no export subsidy program.

7. Protection of U.S. Intellectual Property

Mexico is a party to the Berne Convention, the Universal Copyright Convention as well as the Paris Convention for the Protection of Industrial Property and the Brussels Satellites Convention.

In December 1986, Mexico amended its 1976 law on inventions and trademarks to provide a 14 year non-renewable protection term for patented goods. Patents lapse after five years if not worked. Process patent protection is now available for chemicals, alloys and pharmaceuticals. Ten years after enactment of the 1986 amendments, product patents will also be available for pharmaceuticals, chemicals and

foods and beverages for animal consumption.

By 1996 patents will also be available for genetic engineering processes to obtain plant varieties and animal breeds and for biotechnological processes for obtaining chemicals, pharmaceuticals and beverages and foods for animals. Plant species, animal species, their varieties and biological processes to obtain them, existing alloys, foods and beverages for human consumption and new applications for known inventions remain unpatentable indefinitely.

The amended patent and trademark law establishes criminal sanctions for disclosing an industrial secret or invention with penalties of up to $30,000. A technical flaw in the amendments, however, makes these sanctions and fines unenforceable. The Mexican Attorney General's Office can start an investigation as soon as it knows facts that might indicate a crime. The office may take all necessary steps to stop infringement including securing documents and property. The Mexican Patent and Trademark Office, however, must issue an administrative ruling on each case before it goes before a court, thus slowing its resolution. Enforcement efforts are hindered by severe understaffing in the Patent and Trademark Office enforcement division. Implementing regulations were published and made official in August 1988.

Any patentable invention, process for obtaining foods and beverages and biotechnological processes is eligible to receive a "Certificate of Invention." This grants the right to receive royalties on an invention but does not guarantee exclusive production rights. Patent use is reviewed three years after patent issuance. If the patent is found to be unworked, it is subject to compulsory licensing. If the patent remains unworked within two years from the date of the first compulsory license, the patent will expire.

Under Mexican law, trademarks may be registered for a five year period. Registration may be extended for successive five year terms. The law on inventions and trademarks encourages linking a distinctive Mexican trademark to the foreign trademark. However, this is optional under the amended law.

Mexico's public health authorities must register certain products such as pharmaceuticals and agricultural chemicals for approval before public sale. The information companies provide Mexican regulatory authorities is placed on public record. Once made public, the information is available to second parties who may use it to produce rival products.

Mexico's technology transfer treatment is a major problem for U.S. firms. The law on controlling and registering technology transfer and using patents and trademarks gives Mexico broad jurisdiction on controlling the terms and conditions under which it acquires technology. The law requires registering all contracts or other documents for transferring rights to technology, patents, trademarks, technical assistance and so forth with the Mexican Government. The law and its related regulations do not permit

trade secret confidentiality beyond the contract period. The law also requires the supplier or licensor to assume liability for the patent or indemnify the licensee if third party property rights are infringed. The supplier must also guarantee the technology's quality and effectiveness.

Finally, Mexico requires foreign companies to limit their royalties for patent licenses and technical assistance to three percent of sales or less. Since 1985 Mexico has permitted royalty payments of more than five percent to foreign firms on a case-by-case basis. In exchange, these firms must agree to offer scholarships, high quality technology, improved technical assistance, projects that contribute to Mexican research and development and projects that substitute imports and those that are export-oriented.

Although Mexico's copyright law is stronger and more easily enforceable than its trademark or patent law, some U.S. producers have experienced copyright infringement problems. The U.S. motion picture industry complains that a significant volume of U.S. network programming is being retransmitted by Mexican cable systems without compensation. So far no U.S. firms have initiated legal action which would serve to test the copyright law and implementation thereof.

8. Worker Rights

a. The Right of Association

The rights of Mexican workers to organize and to strike are provided under Article 123 of the Constitution. Workers and employers have the right to establish and join organizations of their own choosing, and a pluralistic trade union movement exists. Numerous trade union confederations, independent unions, and a variety of employer organizations also exist. Mexico has had a free and independent trade union movement, as defined by the International Labor Organization (ILO), for decades. Mexican trade unions are neither controlled nor restricted by the Government, but the vast majority are affiliated with the PRI. A minority of unions, covering an estimated 10 to 15 percent of Mexico's organized workers, is independent, and some support the opposition parties.

Mexican law provides for and protects the right to strike. This right, however, does not apply to public sector workers who are prohibited from striking. Strikes do occur but are relatively infrequent. Procedures for legal strikes are set forth in Mexico's basic labor legislation, the Federal Labor Law of 1971, but these provisions are lengthy and complex. The law provides for the filing of notices of intent to strike and for efforts at conciliation, mediation, and arbitration between the parties in dispute through the local, state, or federal tripartite (labor, management, government) conciliation and arbitration boards. By making them a measure of last resort, strikes are difficult to initiate, but not impossible. They usually take place over collective bargaining impasses or over such issues as plant closures or

layoffs. Wildcat strikes continue to occur.

Some 9 million Mexicans (out of a total work force of 25 million) are unionized. Nearly 8 million are affiliated with PRI labor organizations. PRI-affiliated unions tend to support the Government and PRI on most issues, though not necessarily with respect to improvements in wages and working conditions. They are, furthermore, able to place a substantial number of union leaders in government positions; many are federal senators and deputies for the PRI. While PRI does not control the labor movement, the fact that most union leaders are also PRI officials and may occupy PRI elective offices, does limit their freedom of maneuverability. One PRI-affiliated union, the 800,000-member National Teachers Union (SNTE), has a significant dissident movement, particularly in the states of Chiapas, Oaxaca, and Michoacan, which rejects purported authoritarian control of the union.

Independent unions outside the PRI-affiliated Mexican Labor Congress (CTM) cover the entire ideological spectrum. Mexican unions are free to maintain relations with international trade union bodies. The CTM is affiliated with the International Confederation of Free Trade Unions (ICFTU) and is a leading member of the ICFTU's Inter-American Regional Organization, headquartered in Mexico City. The Latin American regional organization of the Communist-controlled World Federation of Trade Unions (WFTU) maintains its headquarters in Mexico City, though they have no Mexican following to speak of and only one minuscule farm worker union affiliate.

b. The Right to Organize and Bargain Collectively

The right to organize and to bargain collectively is provided for under Article 123 of the Constitution and implemented in Mexican labor law; it is generally respected in practice. There are few, if any, restraints on union organization.

Collective bargaining is extremely common, particularly in industry and commerce. The aforementioned tripartite boards of conciliation and arbitration promote voluntary worker-employer negotiations. The boards have additional statutory responsibilities, such as the registration of collective bargaining agreements reached between labor and management.

Workers are protected in Mexico against antiunion discrimination, and labor laws encourage unionization (though there are no legal requirements for unionization in any industry or branch of commerce.)

Although it is difficult to generalize about labor union representation in the maquiladora (in-bond or duty-free zone) industry, overall labor relations are good. In all sectors the right of association and the right to organize and bargain collectively, a prohibition on the use of any form of forced labor, minimum age for the employment of children, the right to strike, and acceptable working conditions exist and are

respected. Some firms are represented by the CTM, others by rival labor federations, and still others by independents. Eighty to 90 percent, however, are not organized at all. Fidel Velazquez, president of CTM, has been working with the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) on the possibilities of unionizing maquiladora workers. To date there has been no reported progress as a result of these discussions.

Government workers are almost fully unionized, but collective bargaining is much less common. Government workers are not permitted to bargain over wages but only over certain working conditions.

c. Prohibition of Forced or Compulsory Labor

Mexico is a signatory to the ILO conventions regarding the prohibition of forced or compulsory labor. Such practices are also prohibited by Mexican law. There have been no recent reports of forced labor in Mexico.

d. Minimum Age for Employment of Children

The law sets the minimum age for employment at 14 years. Children over 14 years but under 16 years may work but are subject to special legal protection and shorter working hours than adults. They cannot be employed in certain hazardous jobs. Child labor laws are observed fairly strictly in large and medium sized manufacturing and commercial establishments. They are less well observed in small shops and factories, and even less so among street vendors, many of whom are children. Enforcement of child labor laws is the responsibility of the Labor Secretariat and local, state, and federal boards of conciliation and arbitration.

e. Acceptable Conditions of Work

The minimum wage set by law is upgraded at periodic intervals by the National Minimum Wage Commission, a tripartite body composed of government, trade union, and employer organization representatives. The current minimum wage in Mexico City and other high cost areas (there are 3 minimum wage zones in Mexico) is approximately $3.25 per day. Despite periodic increases, it has not changed much, in dollar terms, over the past 3 to 4 years, due to recurring devaluations of the peso.

The maximum length of the workweek is 48 hours. In recent years, the average workweek has declined considerably, to a level of 42 to 43 hours. The CTM and other Mexican unions are currently campaigning to reduce the legal maximum, through proposed legislation, from 48 to 40 hours.

Mexican legislation on occupational health and safety is relatively advanced and provides substantial protection.

Health and safety standards are better enforced in large firms. There appears to be a higher incidence of industrial accidents in smaller firms and on construction sites, a reflection of a lack of sufficient inspection personnel to monitor adequately health and safety regulations.

f. Rights in Sectors With U.S. Investment

In Mexico, U.S. investment is found in the following goods producing sectors: food and related products, chemicals and related products, primary and fabricated metals, machinery, except electrical, electric and electronic equipment, transportation equipment, other manufacturing, and wholesale trade. (Note: Petroleum is a state monopoly in Mexico.)

In all of the above sectors with U.S. investment, the right of association and to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, a minimum age for the employment of children, and acceptable working conditions with respect to minimum wages, hours of work, and occupational safety and health, exist and are respected. All these rights are set forth in the Mexican Constitution and in other Mexican legislation.

With regard to the formation of labor unions, some differentiation should be made between those U.S.-owned companies producing for the internal Mexican economy and the in-bond (or maquiladora) firms producing for the U.S. market. While the former have a very good record, there are accusations that the latter may not fully observe worker rights. For example, with respect to the right to organize and bargain collectively, while most U.S. firms producing for the internal market are unionized, 80-90 percent of the in-bond industry is not (the exception is the state of Tamaulipas where the in-bond industry is almost entirely organized). In-bond plants in the principal maquiladora cities of Ciudad Juarez and Tijuana are hardly unionized at all.

There have also been allegations from critics in the U.S. that the in-bond industry often uses and exploits child labor. Mexican law allows children 14 to 15 to work, subject to specific legal protections and limited to certain non-hazardous jobs. From age 16, children can work at any jobs and are treated legally as adults. In visits to more than a dozen in-bond plants throughout Mexico, a U.S. Embassy officer never observed children who appeared to be under age 16.

Accusations are also frequently made that unacceptable and "sweat shop" conditions exist in the in-bond industry. However, in-bond workers are paid the legal minimum wage or better, and working conditions in plants visited by Embassy officers have been good. In-bond workers on the whole work 42-44 hours a week, less than the legal maximum 48 hour work week. Occupational safety and health conditions in plants visited are also good. The plants had good lighting, were in modern buildings and had state of the art working conditions;

all had a small clinic on the premises with one or two full-time nurses and sometimes a full-time doctor. Thus conditions are not only acceptable, but usually good. It should be noted that the plants visited were large (600 to 3,000 employees). Alleged "sweat shop" conditions and other abuses may exist in small (10 to 100 worker) plants. However, the majority of U.S. investment is in larger plants, while the smallest plants are more likely to be locally owned.

MEXICO

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		65
Total Manufacturing		3,959
Food & Kindred Products	333	
Chemicals & Allied Products	906	
Metals, Primary & Fabricated	206	
Machinery, except Electrical	102	
Electric & Electronic Equipment	275	
Transportation Equipment	1,018	
Other Manufacturing	1,020	
Wholesale Trade		277
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		4,301

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

NICARAGUA

Key Economic Indicators

Millions of Nicaraguan Cordobas

	1986	1987	1988
Income, Production, and Employment			
Real GDP (1980 cordobas)	21,377	20,308	N/A
Real GDP Growth Rate (pct)	-4.5	-5.0	N/A
GDP by Sector			
Manufacturing	26.5	26.3	N/A
Agriculture	22.6	22.7	N/A
Government	11.8	11.5	N/A
Real per capita GDP (1980 cordobas)	6,317	5,692	N/A
Size of Labor Force (mils)	1.09	1.12	N/A
Unemployment Rate (pct)	22.0	24+	24+
Money and Prices			
Money Supply (M1)	208,224.2	380,388.2	N/A
Comm'l Interest Rates	N/A	16 - 45 percent	N/A
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
CPI	748	1800	10,000+
GDP Deflator	280	468	N/A
Exchange Rate			
Official (1 NC=)	70	70	
Parallel	2,200	15,000	
Balance of Payments and Trade ($ millions)			
Total Exports	226.0	251.0	N/A
Total Exports to U.S.	0.004	0	0
Total Imports	761.1	743.2	N/A
Total Imports from U.S.	0	0	0
Aid from U.S.	0	0	0
Economic Aid from Other Countries	N/A	750	N/A

NICARAGUA

1. General Policy Framework

The Sandinista Government declared its commitment to a mixed economy when it assumed control in 1979. In practice, Sandinista economic policy has been a blend of Eastern bloc-style central planning and third world "anti-dependency" policies with an ever shrinking role for the private sector. President Ortega has stated repeatedly that the Nicaraguan revolution has a socialist ideology based on Marxism, but "geopolitical realities" prevent the complete nationalization of the economy. The GON's inability to eliminate private property is a "tactical necessity" to preserve the FSLN's revolutionary power.

Sandinista economic mismanagement compounded by the war have produced an economy that has been declining at an accelerating pace since 1984. The economy is characterized by a chronic shortage of skilled labor, runaway inflation (inflation will hit five digits in 1988), inadequate foreign exchange, and an irrational pricing system. To try and stem the deterioration, President Ortega announced a major economic reform program in June 1988. The reforms included a major devaluation, partial lifting of wage and price controls, an increase in the minimum wages for some workers, interest indexation and new limits on credit. These measures had no significant effect in the second half of 1988 because they did nothing to encourage investment or productivity. In fact, government confiscation of the largest private sector sugar mill shortly after these reforms took effect further discouraged the private sector.

The fact that almost half of the Nicaraguan government's budget is spent on defense contributes to a chronic fiscal deficit. More than 65 percent of government revenues come from taxes on liquor, beer, soft drinks and cigarettes. Tax revenues are expected to decline by 20 percent in real terms in 1988 as sharp price hikes have dampened consumer demand for the above items. While the GON has raised some transportation and gasoline prices, health, transportation, utility and basic foodstuff costs remain heavily subsidized. The Government announced in September that, as in the past, it will finance its fiscal deficit by printing more money.

U.S. trade sanctions against Nicaragua have been in place since May 1985. The trade embargo prohibits the import of goods and services from and the export of goods to Nicaragua. The embargo does not prohibit financial transactions or the export of services. Nicaragua has found alternative markets for all export products and new sources for most import products (including U.S. goods) although costs have increased.

2. Exchange Rate Polices

The Nicaraguan Government maintains an official exchange rate and also reestablished a legal parallel exchange rate in 1988. Since February 1988 when the Nicaraguan government introduced new cordoba notes, the official exchange rate has

been devalued eight times. (One new cordoba equalled 1,000 old cordobas and the GON set the exchange rate at 10 new cordobas to one U.S. dollar; approx. 50,000 old cordobas equalled one U.S. dollar on the black market). The Sandinista government vowed to keep the parallel exchange rate at par with the black market and this has resulted in rapid devaluations in the last quarter of 1988. In the last two months of 1988, the parallel exchange rate was devalued by 75 percent while the official rate fell by 60 percent. From February to December 1988 the official exchange rate moved from 10 cordobas to the dollar to 920 to the dollar.

Nicaraguan exchange rate policies have had no effect on the competitiveness of U.S. exports since such exports are illegal under U.S. laws. Nicaragua's major exports are agriculture products. Other factors including Sandinista pricing and credit policies, the high cost of imported inputs, and damage from Hurricane Jane reduce any benefit Nicaraguan exporters might receive from a more realistic exchange policy.

3. Structural Policies

According to official statistics, almost half of all economic activity remains in private hands. In fact, however, the Nicaraguan government dominates economic activity through pervasive regulations and controls. In general the government determines consumer and producer prices, the distribution of raw materials and most salaries, and often dictates product mixes and production rates. The Nicaraguan government is the sole exporter, the exclusive importer and controls all foreign exchange. Private companies and farmers frequently are required to sell their products at prices set by the state to Sandinista organizations.

Nominally the June reforms permit the private sector greater freedom to set prices and salaries, however, the Nicaraguan government has issued veiled warnings that the private sector should not automatically pass on higher costs associated with devaluations and price increases of such GON-controlled commodities as gasoline. U.S. subsidiaries remaining in Nicaragua are subject to the same comprehensive regulations and controls as Nicaraguan firms. While Nicaragua's foreign investment law allows full repatriation of capital and remittances of profits, the lack of foreign exchange makes remittances nearly impossible.

Nicaragua's structural policies do not affect the market for U.S. exports since these are illegal under U.S. law.

4. Debt Management Policies

Nicaragua's external debt totalled approximately $7.4 billion at the end of 1987, of which some $1.1 billion consisted of short-term liabilities. For years, Nicaragua has consistently failed to keep current on its external debt payments; by the end of 1987, debt arrears totalled about $1.8 billion. In 1987, 64% of Nicaragaua's debt was owed to

foreign governments with another 21 percent owed to commercial banks.

In 1987, Nicaragua's contractual ratio of debt service to exports totalled more than 200 percent, but the ratio of debt service actually paid to exports was only 16 percent. Over the last five years, the ratio of actual payments has averaged about 18 percent. Nicaragua continues its efforts to reschedule its debt, but with increasingly less success. In 1987, Nicaragua was able to renegotiate $18 million in debt compared to $314 million in 1986 and $1.2 billion between 1983 and 1985. In 1988, however, Nicaragua did reach agreement with the Central American Bank for Economic Integration (CABEI) on a rescheduling of its debt to that sub-regional development bank.

Neither the U.S. Government nor U.S. commercial banks are making new loans to Nicaragua. Nicaragua has not rescheduled its official debt under the Paris Club nor does it have an adjustment program with the World Bank or IMF.

5. Significant Barriers to U.S. Exports

The biggest barrier to U.S. exports to Nicaragua is the U.S. trade embargo which makes such exports, other than for humanitarian, educational, and religious purposes, illegal. Additionally, the government controls the allocation of scarce hard currency needed to purchase imports. The government also sets prices and wages and controls the distribution of raw materials to private firms although these controls have been relaxed somewhat during the last year.

Because of the chronic shortage of foreign exchange, the government frequently engages in countertrade practices, particularly with its Soviet bloc trading partners. In addition, again because of the foreign exchange shortage, the government purchases many of its imports from countries that have given it lines of credit, usually at concessionary terms.

A number of U.S. firms maintain a presence in Nicaragua although many others have closed or curtailed their operations. The firms that remain are subject to the same government controls imposed on local companies and suffer from the same lack of access to foreign exchange. They are therefore unable to repatriate profits. The U.S. firms that have remained in Nicaragua have done so to protect their investment in the hope that eventually business conditions will improve, not because it is currently profitable to do business in the country.

6. Export Subsidies Policies

In recent years, Nicaraguan exports have declined because of disincentives and bottlenecks created by misguided Sandinista economic policies. Problems include low producer prices, shortages of raw materials and imported inputs, inefficient management of state farms and businesses, inadequate infrastructure, and emigration of skilled workers.

One exception to these obstacles, is the special incentive system that the government has created for non-traditional exporters. Exporters of non-traditional industrial products are allowed to exchange 25% of their earnings at the higher parallel market rate. Non-traditional exporters of agricultural products are allowed to sell 50% of their proceeds at the parallel rate. Partially as a result of these incentives, non-traditional exports rose sharply in 1987.

7. Protection of U.S. Intellectual Property

Although Nicaragua is a signatory of the Universal Copyright Convention and the Brussels Satellite Convention, the Nicaraguan government does not devote extensive resources to protecting the rights of foreign intellectual property owners.

Although Nicaragua has circumvented the U.S. export ban to a certain extent by importing through various front companies and middlemen, U.S. products remain in short supply. Nicaraguan government controls on imports and the overall shortage of foreign exchange further limit the availability of the equipment needed for creating or using counterfeited or pirated items. Most of Nicaragua's skilled labor and professionals--especially engineers and technicians--have left the country; therefore we doubt that there is much possibility that patents on items of advanced technology are being infringed.

The U.S. trade embargo, import restrictions, currency unavailability, and the small size of the domestic market make the problem of piracy and patent infringement fairly insignificant.

8. Worker Rights

a. The Right of Association

Article 87 of the Constitution provides Nicaraguan workers the right to associate in organizations of their own choosing and to elect their own representatives. In practice, however, the government often uses coercion, economic pressure, or force to impede workers' rights to organize and elect their representatives. For example, in May, the Labor Action and Unity Central (CAUS), a Communist union and one of the four independent unions in the labor alliance Permanent Workers Congress (CPT), defeated a Sandinista union in elections for labor representatives at the Tona brewery in Managua. The defeated Sandinista Workers Central (CST), with the behind-the-scenes support of Commander Victor Tirado, began a campaign to oust the freely elected CAUS leaders. This campaign finally culminated on August 17, when some 300 turbas and a reserve military unit occupied the brewery. After firing 47 CAUS union members at Tona, a new labor directorate was "elected," largely composed of demobilized Sandinista soldiers.

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According to independent labor leaders, the Ministry of Labor and Sandinista police were involved in the CST's ouster of the CAUS union representatives. The Tona labor dispute is a textbook example of the problems facing independent unions when they attempt to challenge a Sandinista-controlled union which is backed by the government and FSLN mass organizations.

The right to strike is recognized in Article 83 of the Constitution. However, a decree law in 1981 stipulated that any worker who incited a strike could be jailed for up to 3 years. The government in February used the Somoza labor code to declare a strike of automobile and construction workers illegal. The government authorized the dismissal of the striking workers and dispatched hundreds of prisoners to replace them. In April, about 60 workers began a hunger strike to pressure the government to accede to the strikers' demands. At the same time, hundreds of workers organized in small groups to solicit funds so the strike could continue. In response, the government used special units of Ministry of Interior troops known as the Black Berets (Boinas Negras) to intimidate the hunger strikers and their supporters. The hunger strike finally ended on May 15 after the government cut water and electricity to the union headquarters; 28 supporters of the hunger strike were arrested.

The Sandinista Workers Central (CST) is affiliated with the Soviet-controlled World Federation of Trade Unions. The other major Sandinista labor central, the Rural Workers Association (ATC) is not affiliated with any international body. Anti-Sandinista trade unions are allowed a measure of freedom to maintain international contacts, although subject to government surveillance and harassment. For example, the Confederation of Labor Unification (CUS) is affiliated with the American Federation of Labor/Congress of Industrial Organizations (AFL-CIO) while other unions are associated with the International Confederation of Free Trqade Unions (ICFTU) and the World Confederation of Labor (WCL). The government assigns Sandinista organizations to represent the Nicaraguan workers and employer associations in the International Labor Organization (ILO), giving rise to frequent credentials challenges in that organization.

A number of complaints alleging violations of ILO conventions on freedom of association, and the right to organize and bargain collectively have been filed against the government of Nicaragua by ICFTU, WCL, the Latin American Central of Workers (CLAT), and the International Organization of Employers (IOE). In September an ILO study mission was dispatched to Nicaragua to investigate these allegations. Based on the results of this mission, the Committee on Freedom of Association concluded in November that the situation of employers' and workers' organizations and their members in Nicaragua was so serious as to warrant a commission of inquiry unless the Government of Nicaragua provided information "demonstrating a change of attitude" and "a clear desire to make progress" before the Committee's February 1989 meeting.

b. The Right to Organize and Bargain Collectively

Articles 82 through 88 of the Constitution contain a number of labor rights, including the right to negotiate individual or collective bargaining agreements. Nicaraguan workers, however, do not enjoy these rights in practice. The Government of Nicaragua does not prohibit, but also does not participate in, collective bargaining with independent labor unions; it directs its own Sandinista-controlled union, the CST, to accept what the government proposes. With respect to working conditions, the government simply does not negotiate with unions on this issue. In November, Jaime Wheelock, Minister of Agriculture-Livestock Development and Agrarian Reform, told members of the Sandinista-controlled union that if the workers attempted to strike he would "cut off their hands."

Restrictions on opposition union organizing activity are mostly extraofficial and indirect. Union activists are subject to state-sponsored intimidation by Sandinista militants. There are no economic priority zones where additional restrictions or regulations on labor apply.

c. Prohibition of Forced or Compulsory Labor

Although there is no official policy of using forced labor, the government uses its mass organizations to mobilize local communities to perform specific economic development projects. The CDS chiefs in various neighborhoods are responsible for organizing these labor crews for weekend work projects. Since the CDS is responsible for control of certain ration cards, failure to participate in these work projects can result in economic sanctions.

d. Minimum Age for Employment of Children

Children under the age of 14 legally are not permitted to work. Article 84 of the Constitution states that, "child labor that can affect normal childhood development or interfere with the obligatory school year is prohibited." This law is generally enforced in the small modern sector of the economy, but children frequently work on family farms at an earlier age.

e. Acceptable Conditions of Work

The government has not strictly enforced employer compliance with occupational health and safety requirements. In June the government suspended the National System for Ordering Work and Salaries, although it continues to serve as a "reference point" for employers in determing wages and salaries. The minimum wage for workers varies from sector to sector. For example, the average wage for agricultural workers is about $14 per month (plus food allocations and incentives). The average minimum wage for the industrial and service sectors is about $21 per month. With hyper-inflation having reached five-digit figures for 1988, the real purchasing power of workers has plummeted dramatically over

the past year and the living standard for the working class has declined sharply. The government periodically adjusts state workers' salaries.

The legal work week in Nicaragua is 48 hours for most workers. The legal workday for agricultural workers is 6 hours, and the work day in the mining sector is 7 hours.

f. Rights in Sectors With U.S. Investment

Articles 82 through 88 of the Nicaraguan constitution contain a number of labor rights, including the right to establish and join organizations of labor's own choosing, to elect their own labor representatives and to negotiate individual or collective bargaining agreements. Nicaraguan workers, however, do not enjoy these rights in practice. The government often uses coercion, economic pressure, or force to impede the workers' rights to organize and elect their representatives. Union activists are subject to state-sponsored intimidation by Sandinista militants.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		42
Total Manufacturing		30
Food & Kindred Products	30	
Chemicals & Allied Products	1	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-1	
Wholesale Trade		8
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		80

Source: U.S. Department of Commerce Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Values in US$ Million Unless Otherwise Noted

	1987	1988
Income, Production Employment		
GDP (current prices)	5,203.1	4,154.5
GDP (constant 1970 prices)	2,127.3	1,701.8
Real GDP Growth (pct)	.4	-20.0
GDP per capita (current dols)	2,322.8	1,830
Population (millions)	2.24	2.27
Labor Force (000s)	770.5	800.0
Unemployment (pct)	11.6	23.0
Industrial Prod. Index (1981=100)	104.0	80.0
Money and Prices		
Domestic Credit Outstanding	4,363	3,900
Domestic Deposits	3,750	2,900
Off-shore Deposits	20,601	7,500
Consumer Prices (pct change)	1.0	2.0
Wholesale Prices (pct change)	3.7	1.0
Central Govt Current Revenues	1,082.5	600.0
Central Govt Current Expenditures	1,672.6	800.0
Balance of Payments and Trade		
Exports (fob)	339.0	298.0
U.S.Share	218.2	198.0
Imports (cif)	1,211.1	700.5
US Share	417.2	300.0
Principal Exports (fob)		
Bananas	85.7	82.0
Shrimp	64.9	49.2
Coffee	17.9	14.0
Sugar	16.9	5.0
Clothing	12.9	10.1
Petroleum Products	47.6	50.0
Fish Meal and Oil	7.4	4.0
Colon Free Zone Trade Volume	4,329.5	4,033.0
Public Sector Debt and Finances		
External Debt Svc Scheduled	577.1	1,003.1
External Debt Outstanding (yr-end)	3,820.9	3,835.5
Debt Service (pct of export of goods and nonfactor services)(1)	30.9	59.2
Panama Canal		
Number of Oceangoing Transits	12,228	12,394
Total Cargo (Millions Long Tons)	150.8	155.0
Tolls Revenue (Millions dols.)	331.0	340.5
Gross Income flow to Panama from Canal Area USGovt Agencies	560.5	565.4
U.S. Economic/Military Assistance	12.0	1.1

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Notes: US$=1 Balboa
(1)This item is for contractual debt only; actual debt is much higher due to arrearages on principal/interest payments.

1. General Policy Framework

Panama's gross domestic product (GDP) in 1987 at current prices was $5,203.1 million, up 1.4 percent from 1986 or .4 percent when adjusted for inflation. Real growth for 1987 occurred in all sectors of the economy except two.

GDP in 1988 was expected to drop 20 percent ($1.1 billion) with declines conservatively estimated at 20 to 50 percent in the construction, manufacturing, tourism, fishing, retail sales, and government sectors. With such a drop, the economy would fall to 1983-85 GDP levels.

Panama's economic depression in part is linked to a liquidity crisis in the banking sector resulting from a depositor run on the banks after the illegal dismissal of President Eric Arturo Delvalle on February 26, 1988. The depositor run resulted in a general bank closure from March 4 to May 9. General license banks are now open, but restrictions on cash withdrawals of demand deposits and a freeze on certificates of deposits and savings accounts remain in place. The National Bank of Panama and the National Savings Bank have low cash reserves and very minimal liquid resources. As a consequence, the government has monetized checks as a means to help make salary payments to goverment employees. These checks are negotiable for limited purposes, but are primarily used for commercial transactions and for making payments due the government and its centralized agencies.

General Noriega's federal indictments in February 1988 on drug-related charges and the illegal dismissal of President Delvalle exacerbated the most serious political and economic crisis ever in U.S.-Panamanian relations. Besides suspending economic and military assistance, the U.S. Government has suspended Panama's eligibility for the Caribbean Basin Initiative and Generalized System of Preferences benefits. Furthermore, the U.S. Government is holding in escrow U.S. Government payments to Panama specified under the 1977 Carter-Torrijos Treaties. In addition, U.S. businesses and individuals may not make certain tax and other trade-related payments to the Panamanian Government as a consequence of U.S. Executive Order 12635 of April 8, 1988.

Panama's economic depression is a direct consequence of the continuing political crisis and precedes the imposition of sanctions. U.S. economic sanctions, however, have exacerbated the depression. The political crisis has also adversely affected off-shore banking activities in Panama with many banks moving their portfolio assets to other locations, particularly the Cayman Islands.

Because of illiquidity in the banking sector, the lack of new loan authorizations and the absence of funds for a government capital development program, no new major export opportunities currently exist in Panama for American businesses. In fact U.S. exports to Panama in 1988 are expected to drop more than $100

million. However, trade activity in the Colon Free Trade Zone continues to be of importance to many U.S. and foreign businesses and, overall, bilateral trade with the U.S. will remain important for Panama.

2. Exchange Rate Policies

Panama's exchange rate is fixed at one balboa to the dollar. The balboa is issued only in coin form and the U.S. dollar circulates freely as legal tender. Panama maintains no foreign exchange controls. The openness of Panama's economy and the traditional high degree of integration of its international financial markets means that Panama's money supply is determined primarily by its trade of goods and services and international interest rate movements.

3. Structural Policies

Panama has traditionally relied on the private sector to provide most goods and services, and has no viable possibility for doing otherwise. While the government took the lead in providing new investment in the 1970'S, current policies look to the private sector for the bulk of new investment. Government programs in education, health, and sanitation have succeeded in substantially improving living standards. However, progress registered to date is eroding as the government's fiscal crisis deepens since funds for capital development expenditures are virtually non-existent. With the exception of major investments in sugar and cement (as a result of private sector bankruptcies), very little direct public investment has gone into manufacturing. The government is implementing a policy of selling several money-losing enterprises.

The government established a program to reduce tariffs on a large number of products to achieve greater production efficiency. This program, however, is now on hold with the government's cancellation of the World Bank structural adjustment loan (SAL-II) program in December 1987. Price controls and import quotas still apply to many categories of agricultural and industrial products.

Certain aspects of the labor code are considered by some in the private sector as a disincentive to investment, especially provisions relating to layoffs. Because of the growing fiscal crisis, government decisionmaking has become ad hoc, with scant attention to medium and long-range planning.

4. Debt Management Policies

The Panamanian Government is in declared or virtual default to all lenders, foreign and domestic. Its public sector debt at the end of 1988 will be 3.9 billion dollars, two-thirds owed to foreign commercial banks and one-third to foreign governments and international financial institutions. By December 31, 1988 Panama will have accumulated arrearages

totaling $1.368 billion, of which $1.033 billion is in principal and $335 million in interest.

Part of Panama's debt problem stems from a longstanding need to finance planned fiscal deficits. Fiscal policy is particularly crucial here since Panama uses the dollar as its currency and has no capital controls or currency reserves. As a result, the government has virtually no ability to make monetary adjustments to steer the economy. When the government began its stabilization program in 1983, the public sector deficit was 10.7 percent of GDP. Although this figure was reduced to 1.2 percent in 1986, the fiscal deficit increased to about 5 percent in 1987, taking into account a roll-over agreement reached with foreign commercial banks in August 1987 on interest owed. Because the government lacked the political will to reform the social security system, the Minister of Planning announced the cancellation of the World Bank Structural Adjustment Loan (SAL-II) in December 1987.

The Legislative Assembly in December 1987, rejected the government's 1988 budget presentation because of concern that the budget would result in layoffs of government employees and because the government failed to specify sufficient resources to implement the budget. As a consequence, the 1988 budget, at least on paper, continues at 1987 levels. In February 1988, the cabinet considered 20 recommendations to reverse the government's fiscal deficit, but these recommendations were never presented to the Legislative Assembly for action.

Although the government continued talks with foreign commercial banks concerning a further moratorium beyond mid-March 1988, the intensification of the political crisis derailed the possibility of further serious financial discussions. In March the government defaulted on both a $40 million yen-denominated bond issue to Japan and on payments to foreign commercial banks. Since 42 percent of the central government's budget is programmed for amortization of the debt, default means that since March the government has been devoting virtually all of its financial revenues to meeting civilian and military payrolls and to day-to-day operations.

Due to the economic and political crisis, actual central government revenues for 1988 plunged to 50 percent of 1987 levels. The 1988 current account surplus will be about 7.5 percent of GDP because of Panama's failure to service its debt. The government has made no plans to resume debt payments in the 1989 budget which has been presented to the Legislative Assembly. As a result of the government's arrearages and the political and fiscal crisis, Panama has almost no possibilities for external financing in 1989, other than small loans such as a $20 million transfer provided by Libya in 1988.

5. Significant Barriers to U.S. Exports

In 1986 the Government of Panama eliminated the use of import licenses, in accordance with the World Bank agreement. All goods imported into Panama must pay the respective import

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duties and surcharge, plus a five percent sales tax. This requirement applies to all products or goods, regardless of the country of origin. Goods enter the Colon Free Trade Zone (CFZ) duty free; however, products entering the Panamanian economy from the CFZ are assessed duty and taxes. In practice, the Government of Panama does little to prevent clandestine entry of goods from the CFZ, especially for regime supporters.

The Ministry of Health's office of food and drugs requires that all imported foods and beverages which are packaged or bottled must be approved and registered by this office. The Ministry's approval depends upon a laboratory analysis of each product by the University of Panama. The original registration is valid for a period of ten years. Pharmaceuticals, drugs, vitamins, cosmetics and other similar products also are subject to the above regulations.

The Government of Panama does not present any barriers to U.S. investments in the following service areas: banking, insurance, travel, air couriers, franchising, or accounting services. Some professionals can expect barriers due to procedural requirements - architects, engineers, and lawyers have to be certified by Panamanian boards. Only Panamanian citizens may engage in retail trade.

The Government of Panama officially promotes foreign investment and affords foreign investors national treatment. The government traditionally has favored agribusiness and export-oriented industries and has set aside special industrial areas and provided fiscal benefits. Disinvestment may be difficult for foreign and Panamanian companies because of labor code regulations. The Panamanian Government plays an active role in the resolution of labor-management disputes. In addition to a constraining labor code (modified in 1986), foreign investors perceive other impediments to doing business in that country, including government red rape, a small domestic market, and the high cost of doing business. Overall, there is virtually no distinction in Panama between domestic and private investment. The exceptions are: retail trade, legal practice, radio ownership and public changes. In a break with long-established policy, the government has now prevented the transfer of properties belonging to President Delvalle and some other regime opponents and is considering confiscation of these holdings. This measure is not directed against foreign-owned property, but conceivably could affect U.S. interests in joint ventures.

Merchandise imported into Panama must be cleared through customs by a licensed customs broker. Exceptions are made for merchandise imported for the government, or into the Colon Trade Zone.

Under normal conditions, the procedure for clearing incoming goods is not burdensome nor does it present any major barrier. Recently, however, there have been reports of increased delay and need for "grease" payments. All shipments must have a consular invoice, a commercial invoice and a bill of lading. No consular invoice is required for shipments to

the Colon Free Trade Zone, or via air. Often goods are cleared within two working days.

Exemptions recently were issued in August 1988 by the U.S. Treasury Department to amend U.S. economic sanctions allowing U.S. companies to pay customs duties on goods imported for their own use. As a result many U.S. companies have partially replenished depleted inventories. Other restrictions imposed by the Government of Panama, however, have effectively prevented other U.S. companies from importing.

In September 1988 the Panamanian military seized part of a U.S. military shipment at the port of Las Minas. The seized goods, which included a 122mm cannon gun tube, were eventually returned to the U.S. military, but customs officials continue to cause paperwork delays for U.S. military shipments to Panama.

The central government and its autonomous and semi-autonomous agencies buy through competitive bids, suppliers credits, and countertrade with Central American and socialist countries.

According to Panama's fiscal code, the government is required to call for bids whenever the total amount of the procurement exceeds $50,000. Although government budget deficits have precluded awards of any major contracts recently, it appears that exemptions to the competitive bidding process are routinely granted by executive order. Multinational competitive bidding is required whenever the project is financed by international financial institutions.

Although Panama pledged to reduce or replace import quotas with tariffs as part of the World Bank agreement, little progress has been made since cancellation of the loan program in December 1987. Quotas are currently used, for the most part, to protect inefficient agricultural producers. When demand exceeds supply, the government has recently set a pattern of issuing these quotas not to traditional importers but to members of the regime or its strong supporters. Panama is not a contracting party to the GATT.

6. Export Subsidies Policies

The government subsidizes exports in two major ways, both of which are available to foreign as well as Panamanian investors. A "Maquiladora"-type program grants export industries low rent, duty free import of inputs, tax exemptions and, in the Colon Free Zone, prohibition against unionization. The government issues "Certificados de Abonos Tributario" (CATS) to exporters of non-traditional products. The CATS may then be sold (factored) or used to pay corporate income taxes. At this time, the government has imposed restrictions on the use of CATS, particularly by manufacturers involved politically with the opposition.

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7. Protection of U.S. Intellectual Property

Panama is a party to the Universal Copyright Convention and the Brussels Satellites Convention. Panama's adherence to major international conventions offers foreigners more protection for intellectual property than currently is offered to domestic Panamanian interests under Panamanian law. A legislative proposal to strengthen laws protecting domestic intellectual property rights was approved by the Panamanian Cabinet in 1985, but has never been formally enacted by Panama's legislative assembly.

In recent years, Panama has recorded some notable successes in enforcement of U.S. intellectual property rights. In 1986, the Panamanian government cooperated with the U.S. to shut down the cable television firm of REXSA, which was pirating U.S. television programming. In 1985 and 1986, Panama closed down large videotape pirating operations in Panama City and the Colon Free Zone. Most recently, in August 1988 tho Panamanian Supreme Court upheld a 1987 decision by the Commerce Ministry that a Panama City restaurant was illegally using a U.S. trademark in its name and advertising.

Panama's current economic depression and related political upheaval, which began in June 1987, are believed to have sparked renewed pirating and counterfeiting activities, particularly in the Colon Free Zone. Enforcement of Panama's laws governing intellectual property rights has been uneven during the recent months of crisis. Observers believe the Noriega/Solis Palma regime may not actively pursue violations of U.S. patent and copyright laws by regime friends and cronies. In fact, one major U.S. clothing manufacturer has unsuccessfully tried for several years to pursue a trademark violation case against a local manufacturer with ties to the regime. In addition, the Colon Free Zone appears to be increasingly used as a distribution point for pirated products and labeling of counterfeit goods brought in from other countries.

Panamanian law does not specifically address the issue of protection of specific new technologies, such as computer software, integrated circuits or semiconducter chips. In a recent test case, however, a Panamanian court upheld protection of computer software authorship rights based on a broad interpretation of an article of Panama's administrative code governing literary and artistic property which refers to new forms of intellectual property.

Estimates of losses to U.S. firms from counterfeiting and pirating operations in Panama are as high as 40 million dollars a year, particularly in the areas of video pirating and cable television broadcasts.

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8. Worker Rights

a. The Right of Association

Workers enjoy a wide range of benefits under the law. The rights to organize labor unions and to strike are generally unrestricted in the private sector as well as in certain public sector agencies specified by law. According to Labor Ministry statistics, about 17 percent of the employed work force belong to unions. Elections within Panamanian labor organizations, as well as employer and professional associations, are generally democratic and free from government interference. These organizations are unrestricted in their right to affiliate with international bodies, and their members may freely participate in political parties and other aspects of Panamanian political life. Most public sector employees are not permitted to form unions or to strike, but may establish representative associations and have access to government dispute-resolution procedures. In August the Federation of Public Sector Employees (FENASEP) staged work stoppages and a large protest march without regime interference. Further job actions by FENASEP members followed in September. The electrical and port workers' unions (the strongest and most militant of the public sector unions) were also involved in labor disputes in September. The regime responded to these labor actions by firing over 100 of the workers involved, and by detaining some 40 union members, including union leader Isaac Rodriquez (who had been in hiding for more than 3 months earlier in the year for charges stemming from a previous job action, and whom the regime subsequently detained and then exiled to Spain). During this time, senior military officers were placed in charge of the national port authority and the electrical company. At one point during the port strike, troops were used to occupy the Pacific Ocean ports of Balboa and Vacamonte. Reports indicate the regime threatened antiregime public sector workers with dismissal if they persisted in job actions. There have been reliable reports of actual politically motivated firings in the public sector work force.

b. The Right to Organize and Bargain Collectively

The right to organize unions and bargain collectively is well established legally and is extensively exercised in practice. However, there are limitations on the right of employees in the Colon Free Zone and the offshore banking sector to organize unions.

The government periodically consults with organized labor and employer groups on a range of public policy issues, and both sectors are entitled by statute to representation on important government boards, such as those governing the social security fund and the vocational training institute.

c. Prohibition of Forced or Compulsory Labor

Forced labor, which is prohibited by the Panamanian Constitution, is not practiced.

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d. Minimum Age for Employment of Children

Labor is prohibited for children under age 14, or under age 15 if the child has not completed primary school. Both hazardous work and night work are prohibited for persons under age 18. Children between ages 12 and 14 may perform farm or domestic labor as long as the work is light and does not interfere with their schooling.

e. Acceptable Conditions of Work

Panama has a comprehensive labor code which gives extensive rights and benefits to workers. The maximum workweek is 48 hours. The law has established a minimum wage for most work categories and requires substantial bonuses to be paid for overtime. Although labor code reforms in 1986 released employers from the obligation to pay certain bonuses and overtime premiums, employers continue to be legally required to provide workers with compensation adequate for a decent standard of living. The economic downturn resulting from the political turmoil which has persisted since mid-1987 has caused many employers to reduce work hours and/or employee pay in order to cut expenses and stay in business. Many workers preferred the nonenforcement of certain labor code provisions to a permanent loss of their jobs.

The labor code details numerous health and safety standards for all places of employment. Pregnant employees receive 12 weeks' mandatory maternity leave and the right to return to their jobs. The Ministry of Labor and Social Welfare is responsible for ensuring compliance with these regulations, but limited resources hamper strict enforcement of some labor code provisions.

f. Rights in Sectors With U.S. Investment

The total U.S. direct investment in Panama was valued at $4.3 billion in 1987. U.S. direct investment in Panama is mainly concentrated in goods producing sectors and in the service sectors. The foreign holding companies are established in Panama for reasons of taxes, privacy and fewer financial disclosure requirements. U.S. private investment in Panama's goods producing sectors is concentrated in the petroleum, food and related products, chemicals and related products, and wholesale trade sectors. Panama is currently experiencing an economic crisis caused by the political crisis. Even in these circumstances, with many firms laying off workers, labor leaders give U.S. firms in all sectors high commendation for willingness to work within Panama's labor code. Labor leaders report extensive negotiations with U.S. firms to find ways to avoid layoffs, reduced work hours, etc. These leaders say the U.S. firms pay decent salaries and maintain good relations with labor organizations.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987*
(Millions of U.S. dollars)

Category		Amount
Petroleum		648
Total Manufacturing		278
Food & Kindred Products	79	
Chemicals & Allied Products	126	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		901
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,827

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Peruvian Guaranies Unless Otherwise Stated

	1986	1987	1988(1)
Income, Production, Employment			
GDP' (current prices)(1)(2)	1,751,648	2,387,496	3,246,995
GDP (constant 1982 Prices)(1)(2)	733,428	755,430	785,647
GDP per capita (constant prices)	203,730	203,730	205,767
GDP by Sector (pct)			
Agriculture/Cattle/Forestry	25.2	25.6	26.5
Manufacturing	16.3	16.2	16.1
Construction	6.7	6.4	6.5
Transport and Communications	4.6	4.6	5.0
Commerce and Finance	27.2	27.2	26.5
General Government	17.3	17.5	17.0
Other	2.6	2.5	2.4
Minimum Wage (monthly)	72,090	103,000	143,000
Labor Force (thousands)	1,217	1,257	1,298.5
Unemployement Rates (pct)(1)	11.0	11.6	10.8
Underemployment Rate (pct)(1)	20.7	22.9	20.4
Consolidated Public Sector Deficit as a pct of GDP(6)	7.7	7.0	7.2
Money and Prices			
Money Supply (M1)(1)(2)	173,131	257,923	373,988
Commercial Banks Lending Rate (pct)	23.0	23.0	28.0
Savings Rate (pct of GDP)	14.4	15.3	15.5
Investment Rate (pct of GDP)	24.7	25.0	24.9
Wholesale Price Variations	33.4	34.0	32.8
Consumer Price Variations (1982)(7)	31.5	33.3	30.0
Exchange Rates			
Official Export	320	550	550
Average Market	670	840	930
External Accounts			
Merchandise Exports fob(1)(4)(5)	316.0	379.8	492.0
Merchandise Imports (cif)(1)(4)	578.0	620.0	670.0
Exports to the U.S. fob (pct share)(9)	9.8	6.3	3.7
Imports from the U.S. pct (cif)(pct) (8)	8.6	8.0	7.7
Merchandise Trade Balance fob(1)(4)	-262.0	-240.2	-178.0
Current Account Balance(1)(4)	-350.0	-320.0	-260.0
Balance of Payments(1)(4)	-220.0	-240.0	-130.0
Aid from U.S.(4)	1.1	.9	.8
Aid from Japan(4)	40.0	52.0	55.0
Aid from the FRG(4)	6.0	8.0	10.0
External Debt (Public)(3)(4)	1,966.0	2,042.0	2,200.0
Debt Service Paid	214.7	299.7	341.0
(pct of exports)(1)(3)(4)	67.9	78.7	69.3
ForEx Reserves(1)(3)(4)	364.8	405.1	335.0

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Notes:
(1) Estimates or projections.
(2) Millions of guaranies.
(3) End of period.
(4) Millions of U.S. dollars.
(5) Embassy export estimates are derived from registered exports based on volume and international price, and not on lower government fixed dollar prices for exports.
(6) Includes deficit financed through the preferential exchange rate system.
(7) Uses Central Bank, Fetraban and Embassy price estimates.
(8) Based on Paraguay Central Bank data: a large percentage of U.S. exports to Paraguay are destined for third countries and therefore not incorporated in local import accounts.
(9) Uses U.S. Department of Commerce estimates.

1. General Policy Framework

California-sized Paraguay, with a population of 3.8 million inhabitants, and an annual population growth rate of 2.9 percent, has a small domestic market and limited but expanding access to world markets through the Paraguay/Parana river system and road links to Brazil. Economically, Paraguay is a developing country with a gross domestic product of $3 billion (1987) and a per capita income of roughly $800. Blessed with fertile soil and favorable climatic conditions in the half of the country located East of the Paraguay river, Paraguay is predominantly an agricultural economy. Cotton and soybeans account for nearly three quarters of total exports. The ongoing joint construction of huge hydroelectric dam projects with Brazil (Itaipu) and with Argentina (Yacyreta) on the Parana river, will give Paraguay one of the largest per capita hydroelectric-power capacities in the world, when both projects are completed in the 1990's. In looking at Paraguay's trade sector, it must be borne in mind that Paraguay is an intransit country point for U.S., Europe, and Japanese goods bound for the Brazilian and Argentine markets.

During the heavy construction phase of the Itaipu hydroelectric dam project (1976-81), the Paraguayan economy registered the fastest growth rates of any economy in the South America Continent (eight percent per annum). Beginning in 1982, a series of negative exogeneous and endogenous factors combined to reduce sharply these rates of growth, thus creating a pattern of intermittent periods of recession (1982,83, and 86), and modest recoveries (1984-88, and 1987-88). Among the negative consequences of the relative downturn are not only reduced levels of real growth, but also abnormally high inflation rates, declining living standards, a flattening of investment levels, a deterioration in the balance of payments, and huge increments in external indebtness.

Paraguay's public finances weakened considerably during the past six years and today represent the number one economic policy deficiency. A sharp falloff in public sector revenues beginning in 1982, combined with an acceleration of fiscal expenditures to finance a number of huge public sector

projects, sowed the seeds for the large chronic fiscal deficits. In an effort to mitigate the strong inflationary pressures inherent in the deficit, the government resorted to major Central Bank subsidies of the public sector enterprises by providing highly preferential exchange rates for public sector imports and external debt payments. These subsidies (Central Bank reserve losses), if accounted for, would currently balloon the fiscal deficit from four percent of GDP to above seven percent of GDP. A July 1988 government decreed 25 percent devaluation in the official exchange rate regimen and concommitant utility rate hikes are expected to reduce somewhat the level of subsidies in the second half of 1988. Similarly, efforts at budget cutting and an improvement in revenues, such as those derived from foreign trade, should marginally improve the fiscal accounts. However, the existing subsidies, at nearly $200 million per year, are unsustainable in the medium-term (three-to-five years). The adoption of revenue measures to ensure that the non-financial public sector pays its way is essential in the short term. For the medium term, policy initiatives to reduce the size and scope of the public sector, and tax reform measures to increase collections, are sorely required to control the deficit.

As mentioned, Paraguay's deficits are partially financed through central bank foreign exchange reserve losses. The deficit is also financed through Central Bank expansion of the money supply. The rapid rate of monetary expansion (50 percent growth in 1987) is a worrisome contrast to the traditional conservative monetary policy practiced by the Stroessner regime, and has become a chief factor in the inflationary equation. To restrain the money supply, the Central Bank maintains a high reserve requirement, nearly 40 percent, on commercial bank deposits, and attempts to control official low interest credits for private sector agricultural activity. Similarly, on occasion, the Central Bank conducts open market operations where it trades hard currency reserves for local currency in circulation.

2. Exchange Rate Policies

Since 1984 the Paraguayan government has maintained a complicated and cumbersome multiple exchange rate control system for official transactions. On July 4, 1988 the government issued new foreign exchange reform measures that reduced the number of existing official exchange rates from five to only two. Currently, all foreign exchange earned from exports of goods must be settled through the banking system at the highly overvalued exchange rate of 550 guaranies per dollar (the real market rate is hovering in the 980 guaranies per dollar range). To compensate exporters for the unfavorable exchange rate terms, the Central Bank maintains a list of export reference prices ("aforo" prices) as the basis on which surrender and conversion of export proceeds are made. The difference between the aforo price and the actual FOB export price is settled at the existing free market exchange rate. In practice, the average effective exchange rate for exports is approximately 750 guaranies per U.S. dollar. This is attributable to the fact that aforo prices

are normally lower than the fob world market price, thus reducing the percentage of foreign exchange that exporters turn in at the official exchange rate of 550. Similarly, public sector imports and external debt payments are currently fixed at a preferential rate of 400 guaranies per dollar, or roughly 60 percent below the existing free market rate.

Apart from the fixed exchange rate regimen for the public sector, commercial banks and exchange houses are authorized to trade foreign exchange in a legal free market exchange rate system. All foreign exchange transactions, such as private sector imports, external debt payments, remittances of profits, dividend payments, and interest on incorporated capital, are handled at the floating free market rate.

3. Structural Policies

Except for public sector utility rates (water, electricity, telephone), petroleum products, and several key food items (wheat and sugar products), consumer prices are generally determined by supply and demand factors. Government purchases of local and foreign goods are subject to an open bidding process, that takes into account price, quality and reliability. There are no regulations that favor local products over foreign products.

Paraguayan taxes are among the lowest tax rates in Latin America. Personal income taxes are virtually non-existent, except for high wage private sector executive level jobs. Also, property and corporate taxes are low. The two largest sources of government tax revenue are the import and sale of petroleum products and a stamp tax on private sector and personal transactions. Customs revenue represents only eight percent of total public sector revenues. Regarding overall tax policy, Paraguay's chief problem is not the level of existing tax rates, but the high rate of non-compliance and administrative incompetence/corruption of the local internal revenue service.

There are no official regulatory practices that directly impact negatively on U.S. exports. In fact, the government's maintenance of an overvalued exchange rate for public sector imports provides an incentive to purchase goods from abroad. Indirectly, the unfavorable exchange rate terms for exports, in the sense that it reduces private sector hard currency earnings, reduces their import purchases.

4 Debt Management Policies

During the period 1981 to 87, Paraguay's disbursed public and private debt increased from $1.0 billion to $2.0 billion. During the same time frame, external debt service obligations skyrocketed from $109 million per year to $299 million. In 1987, Paraguay's debt service included $180 million paid on principal, and $120 million in interest. In terms of actual payments, Paraguay's debt service payments, as a percentage of exports of goods and services totaled 35 percent in 1987,

total 1987 registered exports, stood at 78.7 percent. Debt service payments are projected to climb to $340 million, although the debt service to export ratio should drop to 32 percent. Paraguay's reluctance to seek an IMF supported program prevents it from obtaining across-the-board rescheduling agreements with its international creditors. The government has, however, conducted ad hoc rescheduling agreements with some of its private creditors and is attempting a major rescheduling agreement with its largest bilateral creditor, Brazil. Paraguay's relatively low level of foreign exchange reserves has forced it to run up external arrears estimated at $180 million.

Of the $2.0 billion in total registered public external debt, approximately 39.0 percent is held by the central government and an additional 61 percent is owed by the public sector enterprises.

Among Paraguay's principal multilateral creditors are the Inter-American Development Bank ($450 million), and the World Bank Group ($410 million). Of the Bilateral creditors, Brazil is the largest lender, with a credit balance of $400 million; France is second with $200 million. By contrast Paraguay's debt to the U.S. is an insignificant $50 million.

U.S. creditors should take warning that recent Paraguayan judicial decisions (subject to appeal) questioning the concept of repayment of loans in foreign exchange, applicable to external debt obligations between international private banks and Paraguayan private firms, could result in major losses for international creditors here. This factor places in doubt the viability of all loans that are not guaranteed by the Paraguayan government.

5. Significant Barriers to U.S. Exports

Being a small country, with an insignificant manufacturing sector, Paraguay has not sought to construct protective trade barriers. In fact, in practice Paraguay is probably the most open market in the southern cone.

Import licenses are not required in Paraguay except for firearms and certain types of pharmaceutical products.

There are no existing barriers that are known to have a negative impact on U.S. export of services. A proposed bank reform law, if passed, could be prejudicial to foreign banks operating in Paraguay. Under the proposed law, the reserve requirement for foreign banks would be increased above fifty percent, while locally owned banks' reserve requirement would be reduced below 40 percent.

The Government of Paraguay favors private investment, particularly when it increases production of goods and services or stimulates the development of rural areas of the country. Existing investment legislation classifies investment as "necessary", "advantageous", or "ordinary".

Necessary investments are those which have priority in the national economic development strategy and will produce or process raw materials and expand exports. Necessary investments are provided with certain exemptions from taxes and customs duties. Advantageous investments are defined as those that contribute to the substitution of imports and enhance utilization of domestic resources. Advantageous investments also receive some tax and import duty benefits. Similarly, the investment code provides special credit terms from official banks for investments in preferential geographic regions, for firms that are legally constituted in the country and in which Paraguayan citizens own a majority stake. Finally, any type of investment which requires the importation of materials not produced in the country to be used in the manufacture of goods for export are exempt from customs duties and related taxes, if the firm is exporting the final product.

Public sector procurements are generally based on a competitive bidding process. Assuming no more than one firm bids on a particular purchase proposal, the Government must call two more bids to attempt to attract new firms into competitive bidding. If after the third bid there remains only one firm, then the government agency can authorize the purchase on a non-competitive basis.

Probably the chief obstacle to smooth export operations to Paraguay remains the cumbersome bureaucratic procedures practiced by local customs. The long delays by customs dispatchers in clearing shipments is as much of a handicap for Paraguayan exporters, and is not seen as a discriminatory measure against imports.

6. Export Subsidies Policies

The Paraguayan Government provides very limited export subsidies. In fact, the maintenance of an overvalued exchange rate for exports suggests that, by contrast, local private exporters are subsidizing the public sector. Nonetheless, many agricultural exporters do receive favorable short-term financing from official sources (Central Bank, and the National Development Bank) with negative lending interest rates the norm. Also, some agricultural exporters are permitted selective preferential import exchange rates for the purchase of key imports such as machinery, seed, and fertilizers. The government also subsidizes the operations of a number of state agencies that compete with private sector firms in the production of goods and services. By way of example, in the case of the state owned airlines, the Paraguayan government not only provides subsidized exchange rates for imports of equipment and spare parts, but also provides below cost prices for jet fuel and aircraft motor lubricants. The state backed airline is in direct competition with Eastern Airlines in the Asuncion-Miami-Asuncion route.

PARAGUAY

7. Protection of U.S. Intellectual Property

Of the major intellectual property accords, Paraguay is party only to the Universal Copyright Convention.

Under existing Paraguayan legislation, which is analogous to U.S. legislation, intellectual property is unequivocally protected. The legislation states that every new discovery in any type of industry, whether foreign or domestic, confers upon its author, for a renewable period of 15 years, the exclusive right to fully exploit the discovery for his exclusive gain. The law also stipulates that Paraguay will respect the patent laws and conditions established in a foreign country.

Paraguay's chief failure in the area of intellectual property rights is the lack of consistently effective enforcement of the laws in place. Another negative factor is the slow working of the judicial system in issuing timely and clear decisions on trademark infringement cases.

Paraguay is a major regional hub for the import/export of counterfeit goods. From Taiwain and Hong Kong come large quantities of counterfeit watches, perfumes, other cosmetics and designer clothing. While there are known cases of police enforcement and judicial action against those involved in the counterfeit business, the routine payment of bribes and commissions to government authorities, and the huge volume of the trade, make it doubtful the local authorities can, in the short run, seriously limit this illicit activity.

In Paraguay, there is massive reproduction and trade in pirate video casette tapes. Nearly all of Paraguay's local video stores rent large numbers of pirate casettes. While officials appear to turn a blind eye to this activity, we know of no suit brought by a U.S. firm in the local court system.

The large scale infringement of new technologies is not evident largely because Paraguay does not have the market or known-how to absorb these technologies. However, it is well known there is widespread piracy of satellite and television signals. We have also received reports that a local firm is purchasing U.S. personal computer parts and assembling them under a local brand name.

While the presence of counterfeit products is prevalent in Paraguay, most of the bogus products are imitations of Japanese and European products. Nonetheless, the potential for future losses to U.S. intellectual property rights owners suggest that we press Paraguay to improve law enforcement efforts in this area.

8. Worker Rights

a. The Right of Association

Paraguay has been without beneficiary status in the U.S. Generalized System of Preferences (GSP) program since 1987,

when it was found not to be in compliance with the GSP statutory requirements regarding internationally recognized worker rights. Paraguay was removed from the program after a review of allegations that Paraguayan workers were being denied freedom of association, and that their leaders were being harassed.

Only a small proportion of Paraguay's workers are organized. The government-linked Confederation of Paraguayan Workers (CPT) represents the overwhelming majority of those workers who are organized as well as those labor unions which enjoy legal recognition, but it is not independent, and makes only pro forma efforts to defend workers' interests. According to some trade unionists, most of the CPT unions are "paper" unions, created and funded by the Government to maintain control of labor. The Inter-Syndical Workers' Movement (MIT) was formed in 1985 as an independent alternative to the government-controlled CPT. MIT has only eight member unions, far fewer than the CPT.

The right to strike, while recognized under Paraguayan law, is very difficult to exercise due to the complex legal process of fact finding, arbitration, and adjudication required before a strike can be considered legal. However, at least four times in 1988 workers at Asuncion's Hospital de Clinicas, the teaching hospital of the National University Medical School, walked off the job for short periods as a form of political protest. Although the workers at the hospital did not follow the required legal steps before going on strike, the government did not prosecute them.

Many public sector workers are forbidden to unionize. The Government awarded legal status in 1988 to one of the founding members of MIT, the Paraguayan Journalists' Association, 9 years after the union was formed. Meanwhile, the Ministry of Labor continued to deny recognition to a new MIT union which attempted to be the first to organize a savings and loan association. The government continued to harass leaders of MIT unions, some of whom were arrested.

In recent years, there have been several complaints presented to the International Labor Organization (ILO) against Paraguay by the International Confederation of Free Trade Unions (ICFTU) and other international trade union organizations. These complaints involve dismissals and harassment of trade unionists; violent repression of peaceful trade union demonstrations; surveillance and raiding of trade union premises by police; and arrest, detention, and ill-treatment of trade union leaders.

In November the ILO Committee on Freedom of Association examined the outstanding issues involved in these complaints for which the Committee had not yet issued final conclusions. The Committee requested the Paraguayan Government to provide the ILO with responses to those allegations the government had not answered earlier, as well as follow-up information. It also requested the government to amend the public service law so as to include specific legislative provisions on the right of public employees to organize, and to introduce effective

machinery for the settlement of collective disputes in the public service. With regard to the ban on strikes by doctors and nurses employed in a public hospital, it requested the Government to introduce appropriate conciliation and arbitration procedures.

The government permits labor unions to maintain contact with regional and international labor organizations. MIT is associated with the Coordinadora de Centrales Sindicales del Cono Sur, a regional trade union body, and receives program assistance from the American Institute of Free Labor Development (AIFLD), the Latin American arm of the AFL-CIO. The CPT-member union at the Paraguayan Cotton Company (CAPSA) became affiliated in 1988 with the International Union of Food and Allied Workers Association (IUF), based in Geneva.

b. The Right to Organize and Bargain Collectively

The right to bargain collectively is recognized in the labor code, but the government does little to enforce the provision, and it is not practiced generally. Some employers agree to collective bargaining, but there are no legal sanctions or government pressures forcing them to do so. The labor laws permit a union to represent all of the employees of a company in collective bargaining even if less than half of the employees are members of the union.

Under the law, there exist no areas, such as special economic zones, exempt from the provisions of the labor code. But, in practice, the rights of labor are more strongly exercised in the capital city, Asuncion, than in other cities or the rural areas, because the vast majority of the country's unionized jobs are located there. The city of Presidente Stroessner, on the Brazilian border, has a special duty-free status, but no exemption from labor laws.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by law, and is not practiced.

d. Minimum Age for Employment of Children

Minors between 15 and 18 years of age can be employed only with parental authorization and cannot be employed in dangerous or unhealthy conditions. Children between 12 and 15 years of age may only be employed in a family enterprise, an apprenticeship, or in agriculture. These labor laws are generally enforced.

e. Acceptable Conditions of Work

The Paraguayan labor code provides minimum guarantees of worker rights and benefits. Public sector, temporary, and domestic workers are not covered under this law. According to the code, maximum hours are 8 per day or 7 for night work, with 1 day of rest per week. The labor authority establishes a minimum wage depending on the type of work and the region, based on studies of the cost of living prepared by the National Economic Coordinating Committee. The minimum wage for private

sector employees in Asuncion was $125 per month, nearly double the amount set for public sector workers. However, most workers in both the public and private sectors earn wages below the minimum. The law provides for a 1-month annual bonus. Married women need their husbands' consent to enter a labor contract, although labor contracts cannot be denied to women who worked prior to marriage. Paid maternity leave of 6 weeks prior to and after birth is required. Day care centers for children under 2 years of age are mandatory for enterprises employing more than 50 women. Severance pay is specified and compensation provided in cases of unjustified dismissal.

The labor code also governs conditions of safety, hygiene, and comfort. The absence of a strong independent trade union movement, and the slowness and relative expense of the labor law system, results in the frequent failure to provide the protections established by the labor code.

f. Rights in Sectors with U.S. Investment

The U.S. Embassy is not aware of any U.S., or partially U.S., owned goods producing companies, in which the right of workers to associate or organize has been directly impeded by management. There is no evidence of a U.S. firm violating local or internationally recognized labor rights standards.

As part of the 1985-86 Congressionally mandated general review of the Generalized System of Preferences (GSP) the United States suspended indefinitely Paraguay's eligibility for the GSP. The determination was based on Paraguay's failure to meet the worker rights criteria of U.S. law. The situation in Paraguay continues to be monitored by the U.S.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-15
Total Manufacturing		2
Food & Kindred Products	2	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment		0
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
Total Petroleum/Manufacturing/Wholesale Trade		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

PERU

Key Economic Indicators

Millions of US Dollars Unless Otherwise Noted

	1986	1987	1988 (est.)
Income, Production and Employment			
GDP (1)			
1970 Intis, thous.	358,664	383,363	371,862
1979 $	17,486	18,696	18,135
Current $	16,659	20,258	19,650
GDP Growth (pct)	8.5	6.9	-3.0
GDP by Sector			
Manufacturing	4,100	4,577	N/A
Agriculture	1,914	2,031	N/A
Electricity	180	219	N/A
Commerce	2,748	3,364	N/A
GDP per capita ($1)	824	907	796
Labor Force (000's)	6,768	6,989	7,205
Unemployment (pct)	8.2	8.5	9.5
Money and Prices			
Money Supply (M1) (millions Intis)	33,323	78,988	416,402
Comm. Interest (pct)	19.0	24.7	120 (2)
Savings Rate (pct)	N/A	N/A	N/A
Investment rate (pct)	N/A	N/A	N/A
CPI (pct)	62.9	114.5	1800
WPI (pct)	37.3	72.4	417.5
Exchange Rate			
Official (avg)	13.95	16.84	33 (1/1-9/6) 250 (9/7 -)
Parallel (avg)	17.76	31.55	75 (1/1-9/6) 500 (9/7 -)
Balance of Payment and Trade			
Total Exports fob	2,531	2,605	1,355 /2
Total Exports to U.S.	858	815	344 /2
Total Imports cif	2,596	3,068	1,447 /2
Total Imports from U.S.	692	810	394 /2
Aid from U.S. (FY)	58.4	58.0	77.4 /2
Aid from Others	N/A	N/A	N/A
External Public Debt	14,447	15,441	N/A
Annual Debt Service Paid	376	485	203
Gold/Fx Reserves (gross)	2108	2417	1529
Gold/ForEx Reserves (net)	958	43	-300
Balance of Payments	-517	-806	-344

(1) Central Reserve Bank
(2) 1988 January to August

PERU

1. General Policy Framework

The Garcia Government faces an increasingly difficult situation of growing fiscal deficit, domestic hyperinflation and serious recession combined with balance of payments problems, a heavy foreign debt, and estrangement from the international financial community.

Economic policies have been and continue to be contradictory and ineffective. Adjustment measures undertaken during 1988 have been insufficient to deal with the real causes of Peru's economic crisis. The most recent, November 22 package involved a currency devaluation combined with higher controlled prices for products of primary necessity, including public utilities. Despite the social and political costs of these measures, there has been no lasting impact.

The Garcia Government has pursued a fiscal policy of continued deficit spending. Current expenditures -- wages, agricultural and other price subsidies in particular -- have grown steadily, while tax revenues have fallen.

According to the Central Reserve Bank, the fiscal deficit rose from 3 percent of GDP in 1985 to 6.3 percent in 1986 and to 8.4 percent in 1987. Unofficial 1988 projections show a deficit ranging from 12 to 14 percent of GDP. Although a 1989 Central Government budget has been submitted to the Peruvian Congress, this budget was developed on the basis of the December 1988 price level (no inflation). Thus it cannot be used to project the size of the deficit in 1989; high inflation is likely to distort budgeted revenues and expenditures.

Peruvian monetary policy is formulated and implemented by the Central Reserve Bank (BCR), which is not, in actual practice, independent of government control. An entrenched deficit has led to excessive reliance on Central Bank credit, as the government can no longer borrow sufficient funds either domestically or abroad.

2. Exchange Rate Policies

Exchange rate policies are set by the Directorate of the Central Reserve Bank (BRC), in consultation with the Ministry of Economy and Finance. On September 6, 1988 the number of rates was reduced to two (from 13). On November 22, 1988 the MUC (Mercado Unico de Cambio) or official rate was devalued to 500 Intis per dollar, with the bank and street free market rate wavering around 1000 Intis per dollar. All essential imports are now paid at the same MUC rate. Non-essential imports must be paid at the free rate. Exporters are paid at the MUC rate.

Central Reserve Bank (BCR) authorization is required for payment of Peruvian imports, using foreign exchange from the banking system. With payment authorization from the BCR, which rations foreign currency, a letter of credit may be

opened. Imports made using personal foreign exchange holdings are not subject to this regulation, but must have sector ministerial approval. Payment authorization has been prohibited for 815 products (considered non-essential) since September 6, 1988 in order to stem the outflow of reserves. A 1988 regulation provides for mandatory import financing for 3,232 products, with payment terms assigned according to the amount of the transaction: 90 days for shipments of less than $100,000, 180 days for shipments of $100,000 to $500,000, and 360 days for shipments of more than $500,000.

The United States is Peru's largest trading partner, in both imports and exports, with 26.4 percent of Peruvian imports in 1987 coming from the United States. Within the context of rapidly declining levels of imports to Peru, the overvalued Peruvian currency (at the official rate) has improved the U.S. price competitiveness of U.S. exports.

3. Structural Policies

Government import agencies for agricultural commodities are ENCI (Empresa Nacional de Comercializacion de Insumos) for all foodstuffs except rice and ECASA (Empresa de Comercializacion de Arroz) for rice. Commodities are imported at the MUC exchange rate, which has risen steadily but remains significantly overvalued. The MUC rate was 33 intis/dollar from March until September, 250 intis/dollar until November, and ended 1988 at 500 intis/dollar. On January 6, 1989 the rate was devalued again to 700 intis/dollar.

Prior to the exchange rate devaluations, ENCI imported food at the highly overvalued MUC rate and sold it to consumers at slightly higher, controlled prices. The profit was used to finance the "Fondo de Reactivacion y Seguridad Alimentaria" to promote food crops, mainly in the Sierra. This marketing structure encouraged food imports and discouraged domestic production. ENCI has been completely decapitalized since the devaluation of the MUC rate because it continues to sell food at artifically low, controlled prices while paying higher import prices. Gasoline, other fuels and certain basic construction materials are also sold at highly subsidized prices, all of which constitute a temendous drain on the government's budget.

The government has seen tax revenues drop by one-third since the beginning of 1988. Rising inflation has decreased real corporate and personal incomes, led to higher unemployment, and caused many to evade taxes owed. Moreover, high inflation has eroded the base of those taxes which are paid.

In order to stem the outflow of scarce foreign exchange, the government has imposed heavy regulatory requirements on both imports and foreign investment. These requirements are detailed elsewhere in this report.

PERU

4. Debt Management Policies

President Garcia's announcement in his July 1985 inaugural address, that Peru would limit payments on its medium and long term external debt to 10 percent of export earnings, became a hallmark of the government's heterodox economic program. Restricting payments has severely strained relations with Peru's international creditors, both public and private.

Peru's total foreign debt was 16.1 billion dollars at the end of 1987, and is expected to be close to 17 billion dollars by the end of 1988. Of this, approximately half is in arrears. Peru's debt as a percent of GDP has risen from 80 percent in 1987, to 87 percent in 1988, and its capacity to service its debt, as measured by debt service obligations relative to exports has deteriorated. Peru's arrearages include over $700 million owed to the International Monetary Fund (IMF) and over $400 million to the International Bank for Reconstruction and Development (IBRD). As a result of its arrears to the IMF and World Bank, the Fund declared Peru "ineligible" in August 1986 to draw further on Fund resources, while the World Bank suspended disbursements in May of 1987. Arrearages to both the IMF and World Bank will need to be cleared before further credit can be extended by these entities to Peru.

Non-payment of debt service to commercial banks has led to a decline in new trade credits to finance imports. Peru has been unable to secure confirmed letters of credit recently for essential food imports. The government is increasingly attempting to finance imports of capital goods with countertrade.

5. Significant Barriers to U.S. Exports

All imports require a prior license from the Institute of Foreign Trade (ICE).

Imports of basic agricultural products are based on the Annual Import Program issued annually in December by the Ministry of Economy and Finance and the Ministry of Agriculture. Based on this program, the government agencies call for tenders during the year in accordance with market demand. Once a tender is called and granted, the import license must be obtained from ICE before a letter of credit may be opened with a commercial bank.

For private imports, the procedure is more complicated, varying widely from product to product. Any imported product, which is also produced locally, requires a certificate of non-competition from the Ministry of Industry.

In October 1987, the import of 531 items was banned. Currently, 536 items are prohibited -- approximately 10 percent of total items. Among these are: fresh, canned and prepared fruits and vegetables, beer, liquors, and wines, soaps, cosmetics, cotton textiles, wearing apparel, footwear,

jewelry, household appliances, some automobiles, and other luxury goods.

A surtax of 19 percent or 24 percent is applicable to all imports with the exception of some products under duty and tax-free regimes.

Agricultural products require specifications requested by the importer which are in accord with local market demand. For processed products, imports must meet minimum standards set by the Ministry of Industry. Products meeting U.S. standards usually have no trouble meeting local requirements.

There are no specific requirements for labeling of agricultural products. Industrial products require at least: brand name, country of processing, date of expiration for food and medicines for human and animal consumption. When a foreign product is packaged in Peru, this must be indicated. Foreign products not meeting these requirements will be reexported within 60 days.

Supreme Decree 260 of August 1986 bans repatriation of profits, dividends, royalties, depreciation, or payment for technical fees or debt service on medium or long term debt, for a period of two years through December 31, 1988. Repatriation of original investment capital, upon liquidation of the original investment, is also banned. Foreign investors in the field of minerals production, oil and gas exploration/production, and foreign investments which export at least 80 percent of local production to countries other than Andean Pact members were exempt from the provisions of Supreme Decree 260. Peru's deteriorating balance of payments position would indicate that the remittance prohibition on firms in other sectors, due to expire on December 31, 1988, might be extended. Once the ban is lifted, additional remittances may be authorized ~~if the~~ company in question promotes exports, utilizes national inputs, or contributes to regional development.

Under the Andean Pact code, to which Peru adheres, foreign investors face restrictions on remittance of profits and dividends. Under Andean Pact Decision 220, foreign investors are entitled to remit abroad in freely convertible currency each year net profits up to a level equal to 20 per cent of the registered value of the investment. (Member governments may authorize higher percentages.) Peruvian Government regulations authorize additional repatriation of up to 20 per cent per annum of the registered investment, if a firm meets certain minimum criteria in export promotion (up to additional 7 percent repatriation), use of nationally-produced inputs (up to additional 5 percent), and geographic decentralization goals (up to 8 percent, depending on the region).

The Peruvian Government currently prohibits new foreign investment in the following sectors: banking and insurance, public services, internal transport and mass communications. In addition, foreign investors are prohibited from acquiring and owning property within 50 km of Peru's national borders.

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In selected industries, such as automotive and certain consumer electronics and consumer goods industries, foreign investors are required to incorporate local arts varying between 25 and 50 percent of the finished products.

All international public tenders contain a credit requirement. Government procurement regulations provide for mandatory countertrade requirements, although often these are not enforced in practice.

Pre-shipment verification of import documents and goods (inspection) with respect to price, quality, quantity, and freight charges is required by law. If such verification is completed without problems, or if problems are corrected, then a "verification voucher" is issued. Payment of imports will only clear the Central Reserve Bank if a verification voucher is attached to the application for the clearing of foreign currency for payment. An import valued at less than $5000 is not subject to the verification procedure. Nonetheless, ICE can order inspection of lower value import shipments. Specialist Services International (SSI) inspects exports from the U.S. and Canada to Peru. All products except petroleum and arms shipments are subject to supervision and inspection.

6. Export Subsidies Policies

The government subsidizes exports of non-traditional products through a tax rebate/bonus scheme called CERTEX. The amount of bonus varies with the type of commodity. Qualifying products are free from export duties. Imports of products for the processing of industrial non-traditional products are also free from import duties.

Textile exports to the U.S. do not qualify for this subsidy. However, cotton and alpaca clothing exports, not destined for the US market, are accorded an exchange rate subsidy.

7. Protection of U.S. Intellectual Property

Peru is a member of the World Intellectual Property Organization and a party to the Universal Copyright Convention and the Brussels Satellites Convention.

Intellectual property is covered under provisions of both the Andean Pact and Peruvian law. Foreign exchange controls designed to stem the drain on reserves continue to block repatriation of royalty payments derived from intellectual property.

Investors seeking protection for trademarks, patents, licenses and technology transfer arrangements must obtain approval from the Bureau of Industry, Ministry of Industry and Commerce, from the Ministry of Economy and Finance, and from the Research Institute for Industrial Technology and Technical Standards.

Under Peruvian law, the term of patent protection is ten years. Patent protection is not applicable to certain products, including pharmaceuticals, food, and beverages for human consumption.

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Peruvian trademark protection has a term of five years, renewable if usage in Peruvian or Andean markets can be proved. All symbols, including words, labels, emblems, and logos sufficiently distinctive to designate products can be registered.

Foreign trademarks to be licensed in Peru may not: (i) prohibit or limit the export or domestic sale of products manufactured under trademark protection; (ii) in general, require the use of raw materials, intermediate goods and equipment supplied by the holder of the trademark or by its affiliates; (iii) fix the price of products manufactured under trademark protection; (iv) require payment of royalties to the holder of the trademark for unused trademarks; or (v) require employment of personnel supplied or indicated by the holder of the trademark.

Peru grants five years (non-renewable) copyright protection on industrial designs and models not previously introduced. Clothing designs may not be copyrighted.

Software copyright protection, under legislation introduced in Congress in 1987, has not yet been enacted. Some protection, although not explicit, is accorded to the creator of software under the present copyright law.

The Andean Pact Decision 220 allows for the transfer of new technology. However, license contracts for such technology may not contain provisions: (1) requiring or implying mandatory purchase of capital goods, intermediate products, raw materials or other technology from specific suppliers; (2) fixing prices by the licensor for products manufactured with the technology; (3) limiting volume of production; (4) prohibiting the use of competitive technologies; (5) giving suppliers right of first refusal to purchase the product; (6) requiring royalty payments on non-used patents.

Peruvian treatment of intellectual property has had an impact on US trade with Peru, although we are not able to quantify it.

While licensing opportunities appear to be on hold until the freeze on repatriating royalty payments is lifted, new licensing arrangements approved by the government -- especially those involving transfer of new technology -- are not covered by the freeze.

8. Worker Rights

a.The Right of Association

The Constitution provides for the right of workers to freely associate and form labor unions without previous authorization. In practice, however, there are legal restrictions on the right to organize (see below), and a registration requirement with the Ministry of Labor in order

for the union to become legal and capable of performing its functions. Suspension or dissolution of labor unions is forbidden by the Constitution, but it can be done legally through the civil court system at the request of the union itself, or by cancellation of the union's registration by the Ministry. Unions may form industry-wide federations which can, in turn, form confederations, all of which can be affiliated with international labor organizations. Peru is an active member of the International Labor Organization. Private and public sector unions of workers performing the same type of work cannot join together at any level.

The Constitution provides for the right to strike "according to law." There is no strike law, however, even though Congress has considered various implementing bills since the Constitution was promulgated in 1979. By Supreme Executive Decree (which defines some strike behavior in the absence of a formal law), workers in the private sector must give 72-hour notice to the employer and the Ministry of Labor before going on strike. When direct negotiations between workers and employers break down, the Government intervenes and constitutes a tripartite (government, management, labor) board to review the situation. If no agreement is reached, the Government then weighs the overall economic implications of the employer's and the workers' positions and makes a decision. The decision can be appealed in the civil court system. The government will then make a final offer which, if rejected, will open the way for declaring the strike illegal. A government determination that the strike is illegal can lead to the dismissal of workers or union leaders and permits employers to hire strikebreakers legally. Despite these restrictions, strikes, often wildcat in nature, do take place. The miners' strike of late 1988 gave rise to numerous complex legal battles over its legality, none of which prevented the miners from striking. There are no norms regulating strikes in the public sector and all such strikes are therefore open to legal challenge.

b. The Right to Organize and Bargain Collectively

Government rules stipulate that, in the private sector, unions can be formed only in enterprises with 20 or more workers, and only if more than 50 percent of the workers request it. Only one union is allowed for each enterprise or place of work and by category of worker, blue or white collar. In the public sector, 20 percent of the workers can request a union, thus allowing up to five unions to represent the same group of workers. Among the restrictions applying to public sector unions is a one-year term, without reelection, to the leadership. Collective bargaining is provided for under the Constitution, but there are restrictions on what can be bargained. In the public sector, for example, only working conditions can be negotiated, and then only as long as the changes do not involve expenses greater than the funds already budgeted. In the private sector, collective bargaining can cover both working conditions and pay. Labor laws and regulations are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits compulsory labor, and this is respected in practice. There have been a few reports of escapees from forced labor camps run by Sendero Luminoso in the jungle. Peasants are recruited forcibly to tend the fields and join the Sendero ranks. After a recent incident in Atalaya, Cusco Department, an official delegation from the Labor Ministry went to investigate and reported that the enslaved Indians had gone back into the jungle.

d. Minimum Age for Employment of Children

The law prohibits the employment of children under 14 years of age. In the formal sector of the economy, it allows for the employment of older children in some jobs, for a limited period of time and working a curtailed workweek at full pay. According to a recent Peruvian Senate report, 1.1 million children 6 to 14 years of age work. Unofficial sources estimate that about half a million children work in the Lima area alone. Of the relatively few accusations of labor exploitation of children, official authorities verified 38 in 1988. A recent month-long campaign undertaken by a leading Lima newspaper has increased public awareness of abuses in the employment of children.

e. Acceptable Conditions of Work

Workers have an 8-hour day and an official 48-hour week for men, and 45 for women. Retirement age is 60 for men and 55 for women. There are government standards for health and safety by industry, but these are rarely enforced either by the employer or the government (which has no inspectors). In negotiating new contracts, public and private sector workers can bargain for additional pay because of hazardous working conditions. Many employers wait for a demand from the workers to improve conditions. Accidents are common, and usually there is no emphasis on prevention, although once they happen, employers normally make compensation.

All workers are entitled to 30 days' paid vacation. Those in the private sector have to work a minimum of 260 days (excluding 30 days' sick leave) or forfeit their vacation. This regulation does not apply to the public sector. The minimum wage was increased recently by the government, but it still lags behind inflation. However, many Peruvians are paid more than the minimum wage and many others supplement their income through multiple jobs and/or subsistance farming.

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f. Rights in Sectors With U.S. Investment

In the petroleum and primary and fabricated metals (mining) sectors all workers have the constitutional right to associate without interference from the government or a company. The right to strike is also guaranteed by the constitution, although complementary legislation defining a legal/illegal strike has not been passed by congress.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		367
Total Manufacturing	63	
Food & Kindred Products	(D)	
Chemicals & Allied Products	20	
Metals, Primary & Fabricated	19	
Machinery, except Electrical	0	
Electric & Electronic Equipment		(*
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade	78	
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		508

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

URUGUAY

Key Economic Indicators

	1986	1987	1988(10)
Income, Production, and Employment			
Real GDP Growth Rate (pct)(1)	6.6	4.9	3.0
GDP by Sector (pct of total)(2)			
Agriculture	12.5	12.0	12.5
Fishing	0.6	0.5	0.5
Manufacturing	21.5	22.8	22.0
Utilities	1.8	1.8	2.0
Construction	2.3	2.4	2.6
Commerce	14.7	15.1	16.0
Transport and Warehousing	6.0	6.1	6.3
Communications	1.0	0.9	1.0
Housing	7.1	6.8	7.0
Financial and Insurance			
Government and Other Services	32.5	31.6	30.1
Real per capita Income (new 1978 pesos)(3)	10,107	11,055	11,526
Size of Labor Force (mils(4)	1,256	1,289	1,289
Unemployment Rate(5)	10.1	9.1	8.5
Money and Prices			
Money Supply (M1) (current mil new pesos end cal year)(1)	71,022	118,714	154,000
Interest Rates			
Commercial			
Peso Accounts(1)	94.7	95.8	103.0
Dollar Accounts(1)	14.4	12.2	12.5
Savings Deposits			
Peso Accounts(1)	32.0	27.8	28.5
Dollar Accounts(1)	4.6	4.0	4.5
Certificates of Deposits (180 days)			
Peso Accounts(1)	61.7	60.8	66.5
Dollar Accounts 1)	6.1	5.6	6.5
Savings Rate (pct GDP)(2)	14.2	11.3	12.0
Investment Rate (pct GDP(2)	7.8	8.9	9.1
Consumer Price Inflation (1973 = 100)(5)	50,515	79,454	127,127
Wholesale Price Inflation (1968 = 100)(1)	272,767	428,908	686,523
Exchange Rate (Interbank Floating Selling Rate) ($1 = new pesos)(1)	181.0	281.0	450.0
Balance of Payments and Trade			
Total Exports fob ($mil)(1)	1,088	1,189	1,300
Total Exports to U.S. cif ($mil(8)	158	221	180
Total Imports cif ($mil)(1)	870	1,142	1,050
Total Imports from U.S. cif ($ mil)(1)	74	91	85
AID from U.S. ($ mil)(6)	14.4	12.1	0.2
AID from Other Countries (7)	10.0	10.0	10.0

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	1986	1987	1988(9)
Net External Debt (yr-end) ($ mil)(1)	2,631	2,648	2,600
Total Debt Service Payment(1)	497	817	800
Gold/ForEx Reserves ($ mil)(1)	974	1,018	1,100
Balance of Payments ($ mil)(1)			
Merchandise Trade	273	109	300
Net Non-Financial Services	72	48	90
Net Financial Services	- 278	-281	-280
Current Account	67	-124	110
Capital Account	189	169	-28
Net International Reserves	-256	-45	-82

Sources:
(1) Central Bank of Uruguay.
(2) Embassy Computation Based on Central Bank Data.
(3) Embassy Computation Based on Central Bank and Office of Statistics and Census Data.
(4) Embassy Computation Based on Office of Statistics and Census Data.
(6) U.S.AID.
(7) U.N. Developement Program.
(8) Official Data Excluding Non-Monetary.
(9) Embassy Estimates

1. General Policy Framework

The Government of Uruguay seeks to earn through increased exports sufficient foreign exchange to meet its debt service requirements and to increase the standard of living of the people. In many ways the Uruguayan economy is one of the most open in the developing world, with a large private sector, free convertibility of the peso at market-based rates, and totally free capital movements.

However, Uruguay suffers from several major structural problems. A large state sector, including both the general public administration and a number of state corporations, as well as an extensive pensions program, have resulted in chronic deficits. Despite some diversification, the economy remains largely based upon traditional commodities such as wool, beef and hides. The Government of Uruguay seeks to encourage new export products and markets, and to cautiously reform the state sector.

It is maintaining a policy of relatively tough fiscal discipline. Although a large public deficit exists, progressive efforts have been made to reduce it, as well as the large "parafiscal" deficit of non-performing loans which the Central Bank purchased from private, foreign-owned banks during 1982-84. The total deficit has been reduced from 10.1 percent of gross domestic product (GDP) in 1984 to 4.1 percent of GDP in 1987.

Nevertheless, the deficit must be financed. This is largely achieved through government borrowing. Additionally,

money supply has been increased, but at a relatively low rate. The government was able to bring inflation down from 83 percent in 1985 to 57.3 percent in 1987. However, inflation in 1988 will probably be at least 70 percent. When excess of liquidity occurs the Central Bank increases bank reserve requirements or resorts to open market sale of treasury notes.

Uruguay is somewhat unusual in that it has a highly dollarized economy, owing to its open foreign exchange regime. There are substantial inflows of foreign exchange both from the current account surplus, as well as capital flight from neighboring countries. However, the vast majority of these inflows are held in dollar accounts and therefore do not affect the peso money supply.

2. Exchange Rate Policies

The Government of Uruguay is publicly committed to a floating exchange rate. It does intervene in the exchange market to smooth fluctuations in foreign exchange inflows and outflows. Because of its dominant position in financing international trade and in obtaining the foreign exchange required for public enterprise operations, the state-owned Bank of the Republic of Uruguay (BROU) is normally the dominant actor in Uruguay's small foreign exchange market.

Through 1987 and the first half of 1988, the trend of peso devaluation has roughly kept pace with internal inflation. According to government officials, the exchange rate will continue to vary in a free and realistic way.

3. Structural Policies

The Government of Uruguay has begun its program of streamlining the state apparatus by closing the passenger service on the state-owned railroad. New legislation providing for the creation of free trade zones was passed in 1987. It is hoped that the free trade zones will become a focus of new foreign investment. Public tendering is required for all government purchases above 6.8 millions of new pesos (US$ 16,500). In general tenders are open to all bidders, foreign or domestic.

Government control on prices is limited to a small set of products and services for general consumption such as bread, milk, passenger transportation, fuels and utilities. For central government revenues the government relies very heavily on consumption taxes (value added and excise taxes -- 63 percent), followed by taxes on foreign trade (tariffs and export taxes -- 15 percent), and the industry, commerce and agricultural income tax -- 9 percent. Tariffs, of course, have some adverse effect on U.S. exports, but are generally lower than in most developing countries.

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4. Debt Management Policies

Uruguay is a heavily indebted, middle-income developing country. As of March 1988 its total external debt was $4.8 billion, of which $1.779 billion has been renegotiated under its most recent multiyear rescheduling agreement with creditor banks. Uruguay's debt service (public and private) totaled $790 million in 1987 which is equal to 48.9 percent of exports of goods and services and 11 percent of GDP.

Uruguay has always sought cooperative solutions to its debt problem, and never defaulted, preferring instead to reach agreements with its creditors. After successfully completing an International Monetary Fund (IMF) "stand-by" agreement, it entered into an "enhanced surveillance" program. In absolute terms Uruguay's net foreign debt has decreased during the last two years, from $2.911 billion at the end of 1985 to $2.788 billion at the end of 1987.

5. Significant Barriers to US Exports

U.S. banks, which have largely withdrawn from retail banking in Uruguay, have attributed that withdrawal to the dominance of retail banking by the state-owned BROU. Foreign insurance companies are limited in their operations by the partial monopoly granted to the State Insurance Bank. Government of Uruguay-owned air carrier, PLUNA, has a ground handling monopoly which prevents U.S. carriers from self-handling or selling services to other airlines. ANTEL, the Uruguayan Government-owned communications agency has the monopoly of domestic and international operation of telephone, telex and telegraphic services.

There are very few formal restrictions on foreign investment in Uruguay and none on the repatriation of profits or capital. ANCAP, the state petroleum corporation, has a monopoly on the refining of gasoline. Foreign, including U.S. petroleum firms operating in Uruguay, must buy their gasoline from ANCAP. ANCAP also has a monopoly on the production of alcohol within Uruguay. Local content and export performance requirements are imposed only on the car, truck and farm tractor assembly industries. This policy has posed problems for some US investors, especially in the automotive industry, who as a result of stringent local content requirements have left the country.

6. Export Subsidies Policies

The Government of Uruguay does not maintain any export subsidies.

7. Protection of U.S. Intellectual Property

Although Uruguay is a party to the Berne and Universal Copyright Conventions and the Paris Convention on industrial property, the Government of Uruguay has not made the

protection of foreign intellectual property a high priority. Existing laws, while not discriminatory, are often outdated and inadequate. While trademarks appear to be reasonably well protected, the patent regime is weak and lack of enforcement limits the effectiveness of the copyright regime.

The Uruguayan patent law only provides protection for processes of manufacture, rather than the product itself. The principal U.S. industry which is affected by this limitation is the pharmaceutical industry. Under Uruguayan law the burden of proof lies upon the plaintiff in pursuing a claim that an imitating product was produced by the same process by which the patented product was made.

Uruguay has an adequate copyright law; however, there is considerable pirating, particularly of video cassettes, even though it has been a criminal offense since 1982. While police raids of illegal copying laboratories have had some success, the problem remains significant.

There is no law specifically addressing the copyright status of computer software, and there is extensive pirating of foreign, including U.S., products. A case is pending in the Uruguayan judicial system to determine the status of software under existing general copyright law.

8. Worker Rights

a. The Right of Association

The Constitution provides for the right of workers to organize freely and encourages the formation of unions. Workers have the right to choose their own representatives, publicize their views and determine their own programs and policies. Worker-chosen representatives have the right to represent their members' interests. These interests are respected in practice as well as in law. Uruguayan workers have the right to strike, and many unions did so during 1988. Unions are not controlled or restricted by the Government. The persons and property of unionists are protected to the same extent as that of any other citizen. There are no restrictions on the unions' right to affiliate with international trade union bodies.

b. The Right to Organize and Bargain Collectively

The worker's right to organize and bargain collectively is protected by law and respected in practice. About 200,000 of Uruguay's 1.5 million workers are unionized, and all unions have the right to participate in collective bargaining. A Tripartite (government, workers, employers) Council exists for negotiating wages. Unlike mediation and arbitration which are used to resolve an impasse, the Council is involved in the entire process of negotiations. While employers and labor may bargain outside the Council, the government retains some persuasive power to obtain cooperation with the Council since no contract is legally binding until recognized by the government. The strike remains as a legal -- if not always

viable -- option for workers regardless of whether their contract was negotiated within the Council framework. In 1988, 70 percent of the over 300,000 workers whose salaries were negotiated under the Council were covered by signed contracts when the Council finished its work in September. The remaining workers were given a 15 percent increase retroactive to June 1, the day the negotiations began, under government-decreed contracts. The contracts negotiated under the auspices of the Council were within government-established guidelines for wage increases.

The central labor body, the Interunion Workers Assembly-National Workers Association (PIT-CNT), has filed a protest with the International Labor Organization (ILO) over the government-decreed wage increases. The ILO reportedly will investigate the complaint in early 1989.

Workers are protected by law and practice against antiunion discrimination.

Workers employed in the special export zone are fully covered by all labor legislation.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor does not exist in law or in practice.

d. Minimum Age for Employment of Children

Children are protected by a child labor code, violations of which are punishable by fines of up to $500. Children under the age of 15 generally are not employed, but children as young as 12 may be legally employed if they have a special government work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment. Salaries and hours for children are controlled more strictly than for adults. Children over the age of 16 may sue in court for payment of wages, and children have the legal right to dispose of their own income. Children working in the informal sector, such as street vendors or others with no fixed place of work or in the agrarian sector, are generally less strictly regulated and receive lower pay.

e. Acceptable Conditions of Work

Uruguay's minimum wage was raised in July to approximately $74 per month. The median family income for Uruguayans during the April-June 1988 period, however, was close to double the minimum wage. Adults normally work six 8-hour days per week.

Workers are entitled to 10 days' paid vacation after a year of employment; this vacation period increases with each year of employment. Workers are protected by legislation

regulating the health and safety of working conditions, though coverage of certain workers in rural areas or in the informal economy is not as thorough.

f. Rights in Sectors with U.S. Investment

Because the level of U.S. investment in Uruguay is relatively small, worker rights conditions are equally applicable to all sectors where U.S. capital is invested (chemicals and related products; primary and fabricated metals; machinery, except electrical; transportation equipment; and wholesale trade).

There is no evidence of attempts to evade Uruguayan standards for minimum wage, hours of work, or occupational safety and health by U.S. firms or firms with substantial U.S. investment. In general, U.S. investment in Uruguay is in industries paying above-minimum wage. The subjective judgment of embassy officers who have visited U.S. firms is that they tend to be a bit better in terms of safety and health standards than equivalent Uruguayan firms.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		91
Food & Kindred Products	(D)	
Chemicals & Allied Products	12	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	3	
Electric & Electronic Equipment	(D)	
Transportation Equipment	-2	
Other Manufacturing	(D)	
Wholesale Trade		9
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

VENEZUELA

Key Economic Indicators

Billions of Bolivars Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
National Income (current prices)	434.2	637.6	N/A
Production GDP (1984 prices)	443.1	456.6	N/A
Total Labor Force (000s)	6,021	6,213	6,452
Employment (000s)(June)	5,314	5,602	5,954
Unemployment (July)	11.7	9.8	7.7
GDP Growth Rate (pct)	5.3	3.2	4.2 (1)
GDP by Sector			
Manufacturing	65.6	68.5	N/A
Agricultural	25.2	26.3	N/A
GDP per capita (Bolivars)	18.772	19.008	N/A
Money and Prices			
Money Supply (M2)	95.2	129.1	154.2 (1)
Comercial Interest Rate	12.6	12.6	12.7
Savings Rate	10.0	10.0	10.0
Investment Rate	12.5	13.0	13.0
Consumer Price Index	12.7	40.3	35.5 (1)
Exchange Rates (Bs/$)			
Official	7.4925	14.4925	14.4925
Free Market	23.55	28.00	36.80
Balance of Payments and Trade (billions of $)			
Exports (including oil)	8.8	11.00	10.4 (1)
Imports	7.6	8.7	10.9 (1)
Exports to U.S.	5.4	5.9	5.7 (1)
Imports from U.S.	3.1	3.6	4.4 (1)
Percent of Total	40.8	43.7	40.3 (1)
External Public Debt	25.3	25.4	N/A
Annual Debt Service	4.0	4.8	4.7 (1)
Internal Reserves	9.9	9.3	6.6 (1)
Balance of Payments	-3.7	-0.9	-4.4 (1)

(1) Preliminary figure for 1988 (as of October 31, 1988).

Source: Banco Central de Venezuela, Superintendent for Foreign Investment and Foreign Trade Institute.

1. General Policy Framework

Venezuela, a multiparty democracy with a bicameral legislature, is a major oil producer/exporter and a founding member of the Organization of Petroleum Exporting Countries (OPEC). After nearly three decades of economic and political stability, it has a relatively well developed economic infrastructure, and an impressive potential for economic

growth. Major resources include petroleum, natural gas, hydroelectric power, iron ore, coal and bauxite. Venezuela is evolving new policies to diversify from dependence on petroleum exports and to develop nontraditional export industries such as petrochemicals, mining (gold, iron ore, bauxite, and coal), aluminum, iron and steel, cement, manufacturing, forestry, and consumer products. To this end, Venezuela encourages foreign investment in export-oriented sectors. The United States is Venezuela's chief trading partner, accounting for about 55 percent of Venezuelan exports and 40 percent of its imports. The bulk of foreign investment is U.S.

The Government of Venezuela pursued an expansionary fiscal policy during 1986-1988, which was a principal factor behind the recent positive growth rates and increasing inflationary pressures. The inflation rate in 1987 was an unprecedented 40.3 percent, which is expected to be reduced in 1988 to approximately 35 percent. However, due to falling oil revenues (the main source of central government revenue) and the government's ambitious public investment program (aluminum, electric power, petrochemicals, etc.), the fiscal deficit has been in the 6 to 7 percent of gross domestic product (GDP) range since 1986; high by Venezuelan standards. This deficit has been financed by domestic sources, principally the Venezuelan Investment Fund (FIV) and the placement of government bonds in the domestic capital market. Many of the government's planned investments, particularly in the aluminum, mining, iron and steel and petrochemical sectors aim to diversify the increasingly export-oriented Venezuelan economy. Beginning in 1983, the government took several measures to stimulate domestic private investment in the agricultural sector, including directing that the banking system allocate 22.5 percent of its loan portfolio to agriculture, partial forgiveness of agricultural sector debt, preferential interest rates for commercial bank loans, preferential exchange rates for certain agricultural inputs, subsidies for fertilizers, and a price support system designed to increase prices at the producer level.

The Venezuelan Central Bank pursues its monetary policy goals primarily through reserve requirements, its rediscounting and open market operations and the establishment of maximum and minimum interest rates. Since 1986, monetary policy has been restrictive (monetary supply growth significantly below the inflation rate) as a means to partially offset the inflationary pressures caused by a large fiscal deficit and a 93 percent devaluation of the official exchange rate in late 1986. Over the Central Bank's objections, domestic interest rates have been frozen at 13 percent, well below the rate of inflation for the past two years, encouraging excessive credit demand and sluggish growth in deposits.

2. Exchange Rate Policies

Venezuela has four exchange rates. The bolivars (bs) 14.50 to one U.S.$ rate applies to most imports, approved

services and financial imports. Some approved debt payments are at the bs 4.30/$1.00 and bs 7.50/$1.00 rate. The free market rate (currently about bs 37/$1.00) applies to all other transactions. The government now allocates foreign exchange to importers every four months, based primarily on past import levels. An official rule requires that only 20 to 50 percent of the value of imports is provided in preferential rate foreign exchange upon receipt of an import permit, with the remainder supplied only after the goods are officially registered incountry. Additional delays in disbursing the foreign exchange force many importers to obtain 180 to 200-day letter of credit financing. Due to tightening liquidity problems, businessmen report that, in practice, 20 percent of the value of the import is normally provided in preferential foreign exchange upon receipt of the import permit. A 278-day letter of credit financing is now customary for automotive subassemblies. Mandatory two-year financing of capital goods imports became effectove at the end of 1988.

The government has an extensive system of import licensing requirements designed to conserve foreign exchange and protect local producers. Tariff rates are relatively high, although they are often reduced or waived. We understand a 60 percent surcharge was imposed at the end of 1988 on some 500 manufactured products.

3. Structural Policies

Venezuelan price controls are widespread, leading to an inefficient use of resources, shortages, and inflationary pressures. The current scheme applies different degrees of control to three separate lists of items which cover most production. Prices for products of state enterprises are set under government approved guidelines, in which political considerations often outweigh economic considerations. Price controls on fuel and electricity encourage over-consumption. Government controls affect the cost of money in the form of interest rate ceilings which in turn has caused exessive demand for credit, a low savings rate and capital flight.

Price controls affect U.S. commercial interests in varying ways. Local U.S. investors may benefit from inexpensive electricity, cheap fuel and raw material inputs. On the other hand, the profit line may adversely be impacted by discretionary decisions of government price authorities.

Principal taxes levied by the Government of Venezuela include: income taxes, oil/mining taxes, municipal taxes, inheritance and gift taxes, and real estate taxes. Corporations are subject to progressive tax rates. Nearly all income derived from economic activities carried out in Venezuela is taxable; only farm income is exempt. Normally, foreign corporations with operations in Venezuela receive the same tax treatment as Venezuelan corporations. Venezuelan tax schedules are considered to be moderate in comparison with those of other countries. Tax evasion is widespread.

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Through licensing, the government manages imports, in order to foster development of local industries or to conserve scarce foreign exchange. Import licenses are granted routinely for items such as machinery and raw materials which are considered to be essential. There are price controls on goods and services which are considered to be basic to the public well-being, including autos, food, and pharmaceuticals. Preshipment inspection is required to certify price, quality and quantity of all imported items which have been approved for import with exchange at the preferential rate.

4. Debt Management Policies

Venezuela's external debt totals approximately $30 billion, a 17 percent reduction from the $36.2 billion outstanding in December 1983. This debt reduction involved a debt repayment of $30.1 billion in principal and interest since 1983. Eighty-five percent of Venezuela's external debt is owed to commercial banks. The 1987 debt service ratio of 46.1 percent is high by international standards. The total debt to GDP ratio is 60 percent. Venezuela does not currently have a World Bank or International Monetary Fund program. It has not had a Paris Club rescheduling. It borrows significant amounts from the International Development Bank. Its debt strategy since 1984 has focused on negotiating an agreement with the commercial banks to restructure the maturities of its foreign debt and maintained interest payments on a current basis.

In February 1986 the government signed a restructuring agreement with commercial banks covering $21.4 billion of public sector debt which had to be amended due to a sharp decline in petroleum prices. A new public sector amendment, approved in September 1987, covers $20.4 billion of the original $21.4 billion restructured in the first agreement, but requires substantially lower principal payments ($1.35 billion) over the three years 1987-1989. In addition, the amendment carriers a lower interest spread over LIBOR (7/8 compared to 1-1/8) and stretches the repayment period to 1999 instead of 1997. The government seeks to encourage a net inflow of resources to keep liquid operating reserves at reasonable levels, but certainly not below the $2 billion required by the restructuring agreement. The government has taken steps to encourage project finance and lines of commercial credit. in 1988, it floated three bond issues in the international capital markets. The relatively high debt service requirments of the rescheduling agreement and the continuance of weak petroleum prices, has led to increased calls by political and business leaders for a re-opening of the current restructuring agreement to obtain more favorable terms. There is a widespread feeling domestically that Venezuela's exemplary record of meeting debt payments has not been adequately rewarded by new money flows from the commercial banks.

In a surprise move at the end of 1988, the Venezuelan Government announced the temporary suspension of principal

payments on external debt owed to foreign commercial banks. Payments under trade credit lines were not affected. Interest payments continued to be made.

5. Significant Barriers to U.S. Exports

A license from the Ministry of Development is usually required to import basic and finished products. Depending on the classification of the product in the customs tariff code, it may also be necessary to obtain a permit from another ministry such as public health, finance, agriculture, defense, or interior. Many products not considered essential are prohibited entry and there is an additional list of items which can only be imported by the Government of Venezuela.

Presidential Decree 1200 and Andean Pact Decisions 24/220 regulate licenses for technology transfers in Venezuela. The maximum term for a technology agreement is 15 years, but it may be renewed for a similar period. All technology transfer contracts must be approved and registered by SIEX (The Superintendency of Foreign Investment), or the appropriate authority, otherwise they can't be enforced in local courts. SIEX does not regulate the selection or use of technology, but it does require that such transfers meet certain national development interests.

Venezuela maintains certain barriers which affect U.S. and other foreign countries' activities in services exports. In the areas of financial services (accounting, banking), advertising, consulting (management, and technical services) insurance, health and medical services, Andean Pact decision 24 and national implementing legislation places a limitation on foreign equity participation to only 20 percent. In some other sectors, barriers to service exports are modest and limited.

The Ministry of Health sets standards for preserved animal foodstuffs and vegetable foods to be served to children. In the other cases, Covenin (the Venezuelan Committee for Industrial Standards) usually adopts the standards of the country of origin. General requirements exist for information which must be included on the labels of imported goods. Promotional literature, catalogs, technical manuals, warranties, and instructions should be in Spanish. The Venezuelan wine labelling system limits variance in alcohol content to 0.5 percent.

Direct foreign investment in foreign, mixed, or national companies can be authorized if these companies meet any of the following criteria: (1) their products incorporate 40 percent or more national value added; (2) they are export-oriented enterprises with national value added of 30 percent or more; (3) they directly or indirectly generate significant employment; (4) they invest in regions which are considered to be less economically developed or in industrial free trade zones; (5) they bring in new technology; (6) they pledge to invest/reinvest in Venezuela at least 50 percent of earnings generated by the foreign investment; or (7) they meet other

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criteria determined by the national executive. There are some restrictions on direct foreign investment. Recently, in a move to encourage private sector exports and foreign investments in export intensive projects, investors and private exporters were given the option of using the free market exchange rate if certain conditions are met.

Venezuela recently increased its efforts to encourage foreign investment. There are no limits on foreign ownership in sectors such as electronics, informatics, biotechnology, agriculture, agrobusiness, tourism, and low-cost construction. Foreign firms that enter into joint ventures with state enterprises and firms that export at least 80 percent of their production with local content of at least 50 percent are also exempt from ownership restrictions. Under the new Andean Pact decision 220, divestiture requirments have been removed from foreign investment regulations. Investors are permitted to remit annually up to LIBOR plus 20 percent of their registered investment, net of all Venezuelan taxes. Royalty payments are limited by the Andean Pact to 3 percent, which discourages the entry of some franchise operations. In addition, the automotive sector, which includes investors from a variety of countries, has been asked to adhere to a schedule of progressively higher local content and export performance requirements. We understand, however, that these regulations are being interpreted flexibly.

Both foreign and Venezuelan companies are obliged to limit the number of foreign employees to 25 per cent of their total staff, and the remuneration paid to foreigners cannot excede 25 percent of the total paid to all company employees.

The "buy Venezuelan" regulation, updated by presidential decree 1.182 (July 1986) requires government entities to purchase most goods and services from Venezuelan sources if they are available locally, provided they meet standards of pricing, quality, and timeliness. Imports related to national security/defense and those subject to international agreements are exempted from this decree. (Private sector companies are not bound by this regulation.) Imported turnkey projects are discouraged by a requirement for maximum domestic content. The "registry of national technology and industrial capacity" under the direction of the ministry of development rules on the local availability of goods and services. Ministries and government agencies typically make their own purchases.

Under government procurement regulations, supplier preference must be granted in the following order of priority: domestic manufacturers; domestic distributors of foreign-made products; agents of foreign manufacturers; and foreign manufacturers. By presidential decree, purchases of goods valued at over bs. 1 million must be by open bid, although this may be restricted to local suppliers and registered representatives. Purchases between bs. 250,000 and bs. 1 million may be by closed (invitational) tender unless open bidding is preferred. For amounts under bs. 250,000 direct purchasing is allowed. On construction services direct awards may be made for contracts up to bs. 5 million. Open or

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closed tenders are possible for contracts from bs. 5 to 10 million. The open bidding process must be used above the bs. 10 million level, although the process can be declared void if to do so would be in the "national interest."

6. Export Subsidies Policies

The Government of Venezuela recently made changes in the exchange control system governing imports and exports. Private sector exporters now have the option of receiving revenues from the value-added portion of their foreign sales at the free market rate, if they renounce export bonus incentives. A recent U.S. countervailing duty investigation determined that in the case of a specific product, some government programs, which included preferential input pricing, short-term FINEXPO (the Central Bank Export Financing Agency) financing, interest-free loans, and corporate tax dispensations, conferred subsidies on a particular aluminum product. We understand this decision is being appealed. Current Venezuelan industrial policy may be subject to changes by the new administration taking office in February 1989. Two major factors may strengthen the position of proponents of a liberalization of the tariff policy: (1) the government is negotiating a sizeable world bank loan program which, if concluded, will involve liberalization of the import regime; and (2) the presidential candidates of both major parties have indicated that Venezuela will seek entry into the General Agreement on Tariffs and Trade (GATT) early in the next administration.

7. Protection of U.S. Intellectual Property

Venezuela is an active member of the Universal Copyright Convention, the U.N. World Intellectual Property Organization (WIPO), and is also a signatory to the Berne Convention on the protection of copyrights and intellectual property. Venezuela is not a member of the Paris Convention on industrial property rights protection.

Venezuelan law and regulations make a distinction between intellectual property (copyrights, patents and trademarks) and industrial property (patents and trademarks). Significant changes (attitudinal and statutory) are taking place in Venezuela's intellectual property regime that may benefit the U.S. and other foreign firms by enhancing intellectual property protection. In 1988 the legislature approved an updated rights of authorship law (copyrights) which will bring local copyright standards more into conformity with international practice. Copyright problems stem from lax enforcement, not from problems with the law as enacted.

There is no explicit computer software protection in the rights of authorship law, but software can and has been copyrighted and the copyright has been enforced in Venezuela.

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In recent years, problems once experienced by U.S. motion picture companies regarding unlicensed copying and selling of U.S. films and videocasettes have been reduced. However, a recent motion picture industry publication still raised concern about widespead piracy in Venezuela, referring to frequent unlicensed public exhibitions of feature films in small towns, in hotels and in condominiums.

The Congress has a new proposal before it to strengthen the industrial property law of 1961. It is designed to improve the standard of protection for patents and trademarks.

Trademark registration fees are relatively low, but product owners must be sure to register their trademarks in every available category to ensure the widest possible protection. Trademark protection is based upon registration and use in Venezuela; the first person to register a mark obtains the right to it. As a result, cases have occurred where well-known U.S. and foreign trademarks have been misappropriated and local counterfeit products bearing those trademarks have appeared on the market. Trademark protection expires if it is not used within two years.

The patent term is 5 to 10 years with the indefinite right to renew for a similar period of time, and the patent must be worked within two years after being granted or it may be subject to cancellation. Importation does not satisfy the working requirement. According to Venezuelan law there is no protection at this time for processed foods, pharmaceuticals, chemical preparations, nor for seeds, plants or micro-organisms. While patent and trademark infringment takes place in Venezuela, we have no basis for determining the dollar volume of the losses or potential losses due to counterfeiting and piracy.

To upgrade the country's protection of industrial property the GOV has submitted to the Venezuelan legislature a bill that significantly upgrades patent and trademark protection in the country. Important elements include the extension of patent protection to pharmaceutical products, biotechnological inventions, foods and beverages, and a fifteen year patent term counting from the date the patent is issued.

8. Worker Rights

a. The Right of Association

Both Venezuela's Constitution and its 1936 labor law, as revised in 1976, recognize unions' right to exist and workers' right to strike. The legal definitions of these rights, the Government's enforcement mechanisms, and the prevailing political climate permit unions to function freely and effectively. About 25 percent of the work force belongs to unions, and organized labor is widely considered to have substantial economic and political influence. The Confederation of Venezuelan Workers (CTV), which is by far the largest labor organization in Venezuela, frequently

demonstrates its independence from the government and political parties. During 1988 CTV leaders strongly criticized the President of Venezuela, although the majority of those leaders and the President belong to the same political party. The CTV is affiliated with the International Confederation of Free Trade Unions, and its leaders regularly travel to International Labor Organization conferences.

b. The Right to Organize and Bargain Collectively

The labor law specifically states that workers will be free from all "interferences, prohibitions, subordinations, and coercions" in the exercise of their rights to form unions and elect officials. The same legislation proclaims that it is the duty of unions to represent their members in negotiations for a collective contract, and it also protects employees who engage in union activities from reprisals by employers. Venezuelan law encourages collective bargaining, which is widely practiced. There are no enclaves, such as export processing zones, in which workers' legal rights are restricted.

Labor law is enforced by Ministry of Labor inspectors, tripartite (labor-management-government) commissions (which hear complaints regarding firings), and labor courts. Although the latter are overburdened and slow, the overall system is generally regarded as effective in protecting workers' rights.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor; unremunerated labor is prohibited by law.

d. Minimum Age for Employment of Children

Venezuelan law prohibits: employment of children under age 14; a work day of more than 6 hours for 14- and 15-year olds; and night work or employment at hazardous tasks for those under 18. This legislation is much more difficult to enforce in the informal sector than in the formal sector, and there has been some media attention to the need for stricter and more widespread enforcement.

e. Acceptable Conditions of Work

At the free market exchange rate prevailing in September 1988, the minimum salary for urban workers was about $70 monthly. This does not include mandatory fringe benefits that vary with the worker's individual circumstances. Some Venezuelan leaders have recently stated that the local currency is undervalued in the free market by 50 to 75 percent. According to labor leaders, 40,000 union members, representing 30 percent of the entire organized labor force, earn the minimum wage. Agricultural workers are subject to a lower minimum wage -- about $53 monthly at the September 1988 free market rate.

These figures reflect a considerable deterioration in real wages during the past few years, coinciding with a drop

in the price of Venezuela's chief export, petroleum. Observers generally agreed that workers are suffering hardships, but no consensus has emerged on how to improve the situation.

By law, the workweek for blue collar workers may not exceed 48 hours plus 2 hours daily overtime. White collar workers are subject to a 44-hour workweek. Some unions, such as the petroleum workers, have negotiated a 40-hour week. The law is generally observed, with the exception of restrictions on overtime. Paid holidays and weekly rest days are also provided for by law.

A health and safety law was passed in 1986, and the process of developing standards and administering them is under way. Opinions regarding its effectiveness vary. Some businessmen regard the penal sanctions of this law for cases of negligence resulting in injury as too harsh, and some labor leaders believe that efforts to improve working conditions are proceeding too slowly.

f. Rights in Sectors with U.S. Investment

The major goods-producing sectors which have attracted U.S. investments in Venezuela are food and related products, chemicals and related products, electric and electronic equipment, and transportation equipment (automotive equipment and tires). In none of these sectors do workers rights differ significantly from Venezuela's national norms. A characteristic of U.S. investment in Venezuela is that it creates relatively large firms, and such companies invariably fall under the scrutiny of Venezuela's strong unions. Non-unionized employees in this country are very conscious of their legal rights and staunchly defend them.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		534
Total Manufacturing		1,061
Food & Kindred Products	221	
Chemicals & Allied Products	191	
Metals, Primary & Fabricated	66	
Machinery, except Electrical	-22	
Electric & Electronic Equipment	111	
Transportation Equipment	114	
Other Manufacturing	380	
Wholesale Trade		134
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		1,729

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Billions of Algerian Dinars Unless Otherwise Stated

	1986	1987(est)	1988(est)
Income, Production, Employment			
Real GDP (1980 prices)	204.3	206.0	206.0
Real GDP Growth Rate (pct chg)	0.6	0.8	0.0
GDP by Sector (1980 prices)			
Petroleum	26.0	31.6	32.0
Other Mining	3.1	3.2	3.2
Manufacturing	23.4	23.7	25.0
Agriculture	22.8	23.9	19.0
Construction	30.3	28.1	28.3
Services	81.1	78.0	80.0
Import Taxes and Duties	18.8	17.5	18.5
Labor Force (millions)	4.6	4.8	5.0
Unemployment Rate (pct yrly avg)	17.5	18.3	19.6
Money and Prices			
Money Supply (M1) (millions of dinars)	204,751	223,869	N/A
Commercial Interest Rates (short-term)	5.0	5.0	7.0
Savings Rate	N/A	N/A	N/A
Investment Rate (pct of GDP)	32.0	27.0	24.0
CPI (pct change)	10.0	7.5	11.0
Wholesale Price Index	3.0	7.0	9.0
Exchange Rates			
Official (avg $/AD)	0.213	0.205	0.18
Parallel (est)	0.09	0.06	0.04
Balance of Payments and Trade (millions of US$)			
Total Exports fob	8,450	8,660	8,200
Total Exports to U.S.	1,979	2,144	2,100
Total Imports cif	6,410	6,300	6,400
Total Imports from U.S.	452.9	426.3	820
Aid from U.S.	0	0	1.5
Aid from Other Countries	20	20	25
External Public Debt (medium and long-term)	20,100	22,200	22,800
Annual Debt Service (paid)	5,004	5,245	5,867
Gold and ForEx Reserves	3,860	3,840	3,174
Current Account Balance	-3,100	87	-300

1. General Policy Framework

Algeria has pursued an autarchic development policy since independence in 1962. The economy is characterized by inefficient state monopolies and chronic shortages. Although the Government of Algeria began a liberalization program in late 1987, it retains a

preponderant economic role, including a monopoly on exports and imports. The most important industry is the state-owned petroleum sector, which accounted in 1987 for 97 percent of exports and 16 percent of gross domestic product (GDP) -- a figure which is grossly understated owing to the inflated exchange rate. The oil price decline of 1986 sharply reduced Algeria's hard currency earnings, from $13 billion in 1985 to an estimated $8 billion in 1988. In response, the Government of Algeria instituted an austerity program, trimming imports by $6.3 billion in 1987 and an estimated $6.4 billion in 1988. At the same time, the government started requiring that all overseas purchases be financed. Finance has become since 1987 the single most important issue in doing business with Algeria.

The oil crisis stimulated the government to implement economic reform. In early 1988 the government broke up state-owned collective farms and granted the land to farmers. The reform of state enterprises has proved more difficult. The government has promised greater autonomy for managers, but results have been limited to date. The economic reform proved too narrowly drawn: two years of austerity and the long stagnation of one-party rule gave rise to serious riots in early October 1988. President Bendjedid responded quickly, offering significant political reform, which was endorsed by popular plebiscite on November 3, 1988. The political changes augur a greatly increased pace of economic liberalization, including relaxation of the import monopoly and privatization of some state enterprises.

Despite austerity, U.S. exports to Algeria have increased over the last two years, primarily because of the explosive growth in sales of agricultural commodities financed by the GSM 102 program. Food sales have grown from about $200 million in FY1986 to de facto $650 million for FY1988, reflecting both Algeria's great reliance on food imports and its current need for concessional financing. Moreover, political rapprochement following President Bendjedid's 1985 visit to the United States has helped to promote exports; the contract signed in late 1988 for the sale of three Boeing 767s to Air Algerie in November 1988 provides one example.

Algerian private enterprise remains crippled by difficult access to bank credits and foreign currency. Further, a punitive tax structure forces most private operators into black market transactions and, incidentally, takes away profit incentive from state enterprise managers. In 1988 the government resurrected local chambers of commerce and promised the private sector an important role in construction, services and tourism.

2. Exchange Rate Policies

The dinar is a nontransferrable currency, officially valued at over four times the parallel rate. The central bank claims that the value of the dinar is set against an undisclosed basket of foreign currencies. In reality, the rate is an arbitrary figure established in close collaboration with the Ministry of Finance. Since September 1987 the central bank has allowed the official rate to slide approximately 35 percent against the dollar. Given the significant over valuation of the dinar, few observers expect that its slide will promote nonhydrocarbon exports. However,

devaluation has saved the Government of Algeria hard currency, since ministry and state enterprise hard currency import budgets are denominated in dinars.

Only ministries and state enterprises have access to hard currency at the official rate. State enterprises receive a hard currency budget (Autorisation General d'Importation -- AGI) at the beginning of each year. They can spend the AGI only on projects listed in their ministry-approved annual plans. The government recently announced that private industry will be allowed some AGI money in 1989. Facing a severe balance of payments squeeze, the government in October 1988 stopped the small (1,000 dinars every four years) tourist allocation, which had been private citizens' equivalent of the AGI. The government offers a multiple exchange rate in two minor cases: emigrants making local investments and tour operators selling Algerian package tours to foreigners are granted a 40 percent exchange premium.

3. Structural Policies

The goverment controls all major purchasing decisions through its monopoly on imports. The government often makes purchases on a political basis, in keeping with Algeria's general goals of diversification of supply and balanced trade. Purchases are linked to national priorities, expressed most broadly in the Five Year Plan (1983-1989). Generally, the plan favors small enterprises, agriculture and the petroleum sector and limits import of consumer goods. As regards U.S. exports, the continuing imbalance of trade in Algeria's favor has provided the United States some leverage for increasing exports over the last two years. Under the current system, a state enterprise which wants to use its AGI to make an overseas purchase must process the paperwork through its bank and receive approval from its ministry. Further, the financing package must be approved by the Ministry of Finance and the central bank. Very large purchases then go before a high level interministerial committee (le Comite des Grands Equilibres).

With few exceptions, the government does not allow the import of products which compete with national production. It has promised liberalization of its import monopoly in 1989. Further, ministry control of purchase decisions is slated to be replaced by that of government trust funds (Fonds de Participation), which include some of the most able administrators of the state sector. The exact nature of the changes will not become clear until mid-1989. Hard currency and financing remain by far the most important constraints on purchases, outweighing such items as pricing and tax policies. In the current balance of payments crunch, countertrade -- especially in the largest deals -- is very important to the government. For example, Boeing is selling its aircraft in return for natural gas. Regulatory constraints on U.S. purchases have been felt most heavily in the area of livestock sales, where the retention of strict French veterinary regulations has effectively blocked sales of U.S. heifers.

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4. Debt Management Policies

Algeria is proud that it has never had recourse to the Paris Club or the International Monetary Fund (IMF). However, in 1988 the burden of debt became progessively heavier owing to lower oil prices and devaluation of the U.S. dollar. Medium and long-term overseas debt now stands at $22 billion. Repayment for 1988 will total $5.2 billion, of which $3.6 billion is principal. Accordingly, debt service for 1988 will rise above 60 percent of export earnings. Further, Algerian short-term debt ballooned in 1988 to over $3.5 billion, due to financing of even routine spare parts purchases.

Algerian banks are believed to have raised close to $3.5 billion in new finance this year, nearly one billion of which came from commercial banks. Many overseas banks have reached internal limits on lending to Algeria and are concerned about the effect of continuing low oil prices. Few U.S. banks are now active in the market. Nonetheless, Algeria retains a reputation as a good LDC debtor: Japanese and French banks provided new credits in 1988. The World Bank has been increasingly active, granting $300 million in 1988. Algeria has never drawn upon its reserve tranche with the IMF, but may well be forced to do so in 1989 unless oil prices rise or commercial banks prove more forthcoming. The implications of the debt for U.S. trade are great. Competitive financing has become esential for sales to Algeria. Eximbank and the Commodity Credit Corporation (CCC) have guaranteed or financed the great bulk of U.S. sales to Algeria.

5. Significant Barriers to U.S. Exports

Algeria employs a great variety of trade barriers. These are designed to protect national sovereignty and local industry. Accordingly, they discriminate against all foreign suppliers, not just those from the United States.

In a move to conserve hard currency, the government has increasingly sought to grant civil works projects to local companies. This has meant that local companies have won projects for which they do not have technical expertise. For example, a U.S. company lost a major pipeline enrichment project to a local company -- only to find itself hired as a consultant by that same company. Financial services are reserved for state enterprises; no foreign banks or insurance companies operate in Algeria. A law which acts as a barrier to exports is the anti-intermediary law, which requires that only the company providing goods or services can deal with Algerian purchasers. The law has proved burdensome for small U.S. companies, which cannot be represented by trading companies as they are in most markets. Algerian contracting standards are largely those inherited from the French at independence. They have posed problems for U.S. suppliers in two areas: cattle and wood. Specifically, Algeria requires that all cows be free of blue tongue and interbronchial rhinitis (I.B.R.) -- something which U.S. dairy farmers cannot certify to exacting Algerian standards. Wood specifications have been drawn up with metric measurements; U.S. suppliers

have had some recent success in convincing Algerian buyers of the equivalance of U.S. standards.

Algeria did little to encourage foreign investment until the joint venture law of 1986, which most potential investors have found over restrictive. The Algerian partner must be a state enterprise (with the exception of tourism projects) and must own at least 51 percent of the joint venture company. The joint venture must be authorized by the government, which evaluates projects according to their potential to increase non-hydrocarbon exports and provide technology transfer. Foreign companies cannot own land or hold mineral rights. Moreover, there is no guarantee of central bank authorizaton for repatriation of funds. Several U.S. companies have investigated setting up operations under the law, although none has done so yet. The Algerian government is moving to reverse its restrictive approach to development finance. In December 1987 it became a member of the International Finance Corporation, a World Bank body that promotes private investment.

Further, some progress was made in 1988 when foreign companies' right to international arbitration was recognized. Foreign investment in the oil and gas sector falls under the hydrocarbons exploration law of 1986. The law has attracted the interest of U.S. petroleum companies, even though it does not allow foreign companies to own mineral rights or provide for international arbitration. The law provides that foreign companies can be reimbursed with up to 49 percent of newly-discovered oil production. Legal changes permitting international arbitration of disputes for mining and hydrocarbons investors are now being drafted for presentation to the National Assembly in 1989.

6. Export Subsidies Policies

Since 1986 the government has placed increased importance on nonhydrocarbon exports. It has done so in an ad hoc manner, reflecting the fledgling state of the sector. In a late 1987 deal to repay Soviet military debt with approximately several hundred million dollars worth of Algerian manufactured goods, Algeria undertook to provide free shipping. According to the World Bank, the national railway company provides transport for phosphate -- almost all of it exported -- at 25 percent of operating costs. Further, the government has promised preferential access to finance for private and state companies seeking to make export-related investments.

7. Protection of U.S. Intellectual Property

Algeria is a party to the Universal Copyright Convention and the Paris Convention on patents.

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The Government of Algeria has a good record of respect for intellectual property rights. Generally, Algerian practice is to obtain authorization and pay royalties for proprietary technology. Copying of patented technologies is generally beyond Algeria's present technical capability. As for trademarks, most major international brands are unavailable on the local market. Adidas shoes, a rare exception, are made under license.

Algeria's intellectual property practices have no discernible impact on U.S. trade.

8. Worker Rights

a. The Right of Association

Workers do not have the right to form autonomous labor unions. In 1987 the International Labor Organization (ILO) Committee of Experts reported that the single trade union system in Algeria was reinforced by legislation and acted to deny workers the possibility of establishing and joining organizations of their own choosing. Since 1962 the right to organize and represent workers has been the prerogative of the General Union of Algerian Workers (UGTA), an FLN "mass organization." Though considered a government entity, the UGTA in 1988 took on more of an activist role, particularly concerning wages and job security, as the effects of the Government's austerity program were increasingly felt. In late 1988 there were widespread instances of workers defying the UGTA and establishing independent, factory-level trade unions.

Strikes are illegal in the public sector, and may only be called in the private sector upon the approval of the UGTA authorities. The ILO Committee of Experts has pointed out that legislation prescribing prison sentences for striking workers is an infringement of the right to strike. It has also noted the impropriety of having internal union strike decision procedures determined by an official presidential ordinance rather than by union bylaws. In several recent instances, however, workers in private enterprises have successfully engaged in unsanctioned work stoppages to win more pay and protect benefits. Moreover, in the fall of 1988 there was a wave of strikes by public employees and workers in state enterprises without apparent legal reaction. Still, most labor-management disputes are resolved in face-to-face meetings, often with the intermediary presence of Labor Ministry inspectors.

b. The Right to Organize and Bargain Collectively

A new labor law, passed in July, maintains UGTA's status as the sole authorized worker's representative, while providing for full representation and unfettered organizing under UGTA auspices, collective bargaining, access to the workplace, unrestricted issuance of union publications, and time off for official union activities. In the wake of labor unrest in the fall, however, the July reforms remain to be

translated into practice and further revisions of labor legislation appear possible. Antiunion discrimination remains illegal, and unions are granted the right to initiate collective and individual court cases against employers. Labor laws are enforced uniformly throughout the country. There are no export processing zones in Algeria.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor.

d. Minimum Age for Employment of Children

The minimum employment age is 18 years old. The minimum age is enforced in the state sector, the country's largest employment sector. It is unregulated in the small private sector, but violations are not widespread.

e. Acceptable Conditions of Work

The new law did not change Algeria's employment standards. There is a 44-hour workweek and strict occupational and health regulations.

f. Rights in Sectors with U.S. Investment

There apparently is no current U.S. investment in hydrocarbon exploration or production in Algeria, but one small joint venture is producing oil service equipment, which appears to adhere to legislated workers' rights practices.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

BAHRAIN

Key Economic Indicators

Figures in Bahraini Dinars Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
GDP at Current Prices (billions)	1.38	1.32	1.29
GDP Rate of Decline in 1988 (pct)			2
GDP by Sector (millions)			
Industrial	1,125	N/A	N/A
Services	258	N/A	N/A
Agricultural	20.6	N/A	N/A
Per capita GDP (thousands)	3.9	3.4	3.2
Labor Force (thousands) (Bahraini and foreign)	172,441	173,444	N/A
Unemployment Rate (pct)			3.2
Money and Prices			
Money Supply (M1) (millions)	235.7	246.7	N/A
Commercial Interest Rate Prime Rate (pct)	6.5	6.0	7.0
Savings Rate	4.5	4.5	4.5
Investment Rate	N/A	8.0	8.5
Rate of Deflation (CPI)	-1.8	-1.5	N/A
Exchange Rate(1)			
Balance of Payments and Trade (BD millions)			
Total Exports(2)	881.5	896.0	N/A
Exports in Petroleum Sector	740.8	739.4	N/A
Exports to U.S. ($ mil)	86.9	69.6	N/A
Total Imports	905.3	1,021.5	N/A
Imports from U.S. ($ mil)(3)	194.5	204.7	N/A
Trade Deficit	-23.8	-125.1	N/A
U.S. Trade Surplus w/Bahrain	107.6	135.1	N/A

Notes:
(1) BD 1.00 is pegged at SDR 2.10, plus/minus 7.25 percent. Since 1980, the BD/dollar rate has been BD 0.377/US$ 1.00.
(2) Including re-exports.
(3) Principal U.S. exports are foodstuffs, automobiles, aircraft, elevators and winches, boilers, engines, tobacco products, office machinery, machinery, furniture, and chemicals.

1. General Policy Framework

The Bahraini economy is among the freest and least regulated in the Arab world. Only the oil sector is dominated by the state. The government prefers to allow local businessmen the maximum amount of freedom. This island emirate is home to approximately 170 financial institutions. The central bank, the Bahrain Monetary Agency (BMA), is a

modern, efficient, well run institution. Bahrain offers the advantages of an economy without significant taxation, or foreign exchange controls. The Bahraini dinar (BD), which is essentially linked to the dollar, is a freely convertible currency offering little or no exchange risk. Commercial law is liberal and advanced communications facilities are in place. There are no restrictions on the remittance of capital or profits from Bahrain. With the exception of taxes on petroleum-related companies, Bahrain has no taxes on either corporate profits or individual earnings. Foreign investment is expected to bring new technology, provide closer links to the world economy, and bring significant new capital to the country.

The Government of Bahrain warmly welcomes foreign investment, especially in financial services and manufacturing. The Bahraini Government shows some preference for Arab Gulf investors on projects related to the oil sector or basic infrastructure. This is evidently not a hard and fast rule, since at least one major energy sector contract, the expansion of the Bahrain Natural Gas Company (Banagas) plant, has recently been awarded to a Japanese firm. In order to encourage foreign banks and financial houses to set up shop in Bahrain, the government does not require any local participation of them.

The government budget for 1988 is an estimated BD430 million ($1.14 billion). According to official statements, expenditures are to exceed revenues by BD60 million ($159.2 million), and the entirety of the deficit is to be covered by domestic borrowing. In fact, given the government's reliance on the oil sector for 55 to 60 percent of its revenue, the downward fluctuation in oil prices observed recently could well increase the deficit substantially. Budget deficits have become an increasingly serious problem for the government since 1986, when red ink flowed to the tune of BD19.5 million ($51.7 million). The main culprit has been unpredictable oil prices, whose downward fluctuation has hit the state's income hard.

The government follows a policy of limiting the creation of foreign debt as much as possible and relying on domestic borrowing instead. It has turned successfully to issuing 91-day treasury bills to meet its financial needs; such treasury bill sales are held weekly. The volume of the sales has gradually risen, reaching BD5.8 million ($15.4 million) at the end of 1988. Until recently, only local commercial banks could buy the bills. However, the government has now decided to cast its net wider in the search for financing and permit all offshore banking units to buy the T-bills as well. This development may well indicate that larger government deficits are anticipated for the future. Sales of T-bills are generally oversubscribed, since their short maturity and competitive yield make them attractive to investors. In addition to treasuries, the government issues longer-term development bonds in smaller volumes.

The government budget represents currently about 12.5 percent of gross domestic product (GDP). If the deficit

remained around BD60 million, it would represent no more than two percent of GDP. Even a doubling of the deficit to BD120 million ($320 million) would bring it only to about four percent of GDP. However, heavy reliance on oil and petroleum products for official revenues means that the government could face more serious problems. According to the 1988 budget, the oil sector was originally expected to bring the official coffers 58.6 percent of total revenue.

The Bahrain Monetary Agency may use open market operations to influence the volume of the money supply.

2. Exchange Rate Policies

Since 1980 the Bahraini dinar has been de facto pegged to the U.S. dollar at a rate of $1.00 to BD 0.377. There are no government controls on convertibility of the dinar. There is no black or parallel market in Bahraini dinars.

3. Structural Policies

The Government of Bahrain as a rule does not attempt to manipulate prices on the local market. However, it sets maximum prices for basic food commodities and price ceilings for certain items such as imported automobiles.

The government makes major purchasing decisions through the tendering process. For major projects, the Ministry of Development and Industry extends invitations to selected firms to tender bids directly to companies after a pre-qualification process has been conducted. Smaller contracts handled by individual ministries and departments are not subject to pre-qualification. A construction company tendering a bid on a government project must be registered with the Ministry of Works, Power, and Water and have a Bahraini sponsor. According to the government, tenders normally are secured by a bond equal in value to two and one-half percent of the tender itself. Unsecured tenders are rejected without further consideration. Performance or contract bonds are also required. According to ministry regulations, any firm awarded a tender must provide a performance bond worth 10 percent of the value of the tender within 14 days of the award. Failure to do so results in cancellation of the award. The following banks are noted in the regulations as being authorized to execute performance bonds: National Bank of Bahrain; Bank of Bahrain and Kuwait; Al-Ahli Commercial Bank; Islamic Bank of Bahrain.

In the case of an advance payment to the contractor by the Bahraini agency in question, an advance payment guarantee is required. The above banks are authorized to write such guarantees.

Bahrain is a tax haven. The only corporate income tax in Bahrain is levied on oil, gas, and petrochemical companies. Under Amiri Decree No. 22 of 1979, a 46 percent tax is levied on profits from the sale of crude oil and other natural

hydrocarbons produced from the ground in Bahrain or from finished or semifinished products manufactured in Bahrain from crude oil or other natural hydrocarbons. Certain deductions against taxable income are allowed for reasonable costs of production, expenses, depreciation, obsolescence, exhaustion, and depletion. Other than taxes on petroleum and gas companies, Bahrain has no taxes on income, sales, capital gains, estates, earnings, salaries, emoluments, interest, dividends, payments, or fees. Bahrain has no value-added tax. In addition, there is no form of stamp, transfer, excise, turnover, gross receipts, production, or property taxation.

Aside from the Arab Boycott Office, an institution that does not affect U.S. firms alone, there are no government regulations known to the Embassy that hinder importation of U.S. products. Bahrain's openness to U.S. exports is demonstrated by the robust trade surplus the United States has enjoyed with Bahrain in recent years. The United States registered a $135.1 million surplus in bilateral trade with Bahrain in 1987.

4. Debt Management Policies

The Government of Bahrain follows a policy of strictly limiting its indebtedness to foreign financial institutions. It prefers to finance its official debt through the sale of treasury bills to local banks. Bahrain's credit rating remains strong. The government has no International Monetary Fund or World Bank adjustment programs.

5. Significant Barriers to U.S. Exports

Bahrain does not issue import licenses.

No significant service barriers exist; Bahrain is a regional banking, service, and insurance center. The government aggressively seeks out and encourages foreign investment of all kinds.

The government makes use of pre-qualified bidding with respect to government projects. The practice involves assembling a so-called "short list" of firms the government views as qualified to undertake the project at hand. These firms are discretely asked to submit bids. Although at least one U.S. firm is usually invited to bid, this process may exclude other potentially interested U.S. firms from the bidding.

Bahraini customs procedures are efficient and speedy. Most customs duties are low *ad valorem* rates. The following is a representative sampling of Bahraini customs duties/import duties:

- 5 percent *ad valorem* on foodstuffs and necessities;
- 7 percent on fresh food and vegetables;
- 10 percent on finished and semi-finished goods;

- 20 percent on automobiles;
- 50 percent on cigarettes and tobacco products;
- 125 percent on alcoholic beverages.

6. Export Subsidies Policies

The Government of Bahrain does attempt to subsidize non-oil exports in order to stimulate development of the country's non-oil industrial sector. It has established several industrial development zones and plans to open a new one in the early 1990s in fulfillment of this policy. In addition, it grants customs duty exemptions on raw materials intended for processing in Bahrain and equipment and machinery intended for new industries. It also provides subsidized fuel, water, and electricity for new manufacturing enterprises and allows unrestricted repatriation of both profits and capital.

7. Protection of U.S. Intellectual Property

Bahrain is not a signatory to any major intellectual property conventions. The Government of Bahrain has a rather liberal attitude towards intellectual property by U.S. standards. The sale of cheap, unauthorized video and audio tapes is a big business in Bahrain. Essentially, there is no copyright protection in Bahrain at this time, but changes in the law may be coming. Patents and trademarks are covered by Bahraini law.

Registration of trademarks, patents, and royalties is not a legal requirement in Bahrain. However, Bahrain does have a trademark and patent office. Companies using its services are charged a small fee. According to the Patent, Design and Trademark Law of 1955, amended by a ministerial decree (No. 22 of 1977) and implementing regulations of 1978: (1) a trademark can be registered for a period of five years, renewable without limit for further five year periods; (2) a design can also be registered for a period of five years but the registration is only renewable for two terms of five years; (3) a patent can be registered for 15 years, renewable for one five-year period if the patent is deemed by the patents and trademarks registration office of the Ministry of Commerce and Agriculture to be of special importance and not to have realized revenue commensurate with the expenses involved in its formulation.

For a patent, design or trademark to receive a Bahrain registration, certified copies of corresponding foreign registrations must be submitted to the Bahrain registration office.

There is no copyright law in Bahrain at present, but legislation to provide some protection has been in the works for about a year. Any published material is therefore deemed to be public property. A flourishing trade exists, for instance, in pirated music and video tapes. The home video-cassette market is estimated to consist of 100 percent pirated

product. Earlier this year, Bahrain officials pursued complaints against some pirating establishment under existing trademark legislation.

8. Worker Rights

a. The Right of Association

The Constitution recognizes the right of workers to organize. The Government has encouraged -- and closely controlled -- the formation of elected worker's committees in major companies. These committees now represent over 10 percent of the work force. The workers' committees choose members of a national committee. This body represents Bahraini workers in the International Labor Organization. Expatriate workers, about 60 percent of the work force, are denied these limited association rights. There is no right to strike.

b. The Right to Organize and Bargain Collectively

Workers' representatives are empowered to discuss wages and working conditions with management.

Mina Sulman, Bahrain's major port, provides a free transit zone to facilitate the duty free import/export of equipment and machinery. Another free zone is located in the North Sitra Industrial Estate. The same labor laws, regulations, and practices apply in these zones as are in force elsewhere in Bahrain.

c. Prohibition of Forced or Compulsory Labor

The Government prohibits the use of forced or compulsory labor.

d. Minimum Age for Employment of Children

The minimum age for employment is 14. Juveniles between the ages of 14 and 16 receive special protection under the labor laws. They may not be employed in hazardous conditions or work at night, and may not work over 6 hours per day or on a piecework basis. Child labor laws are enforced.

e. Acceptable Conditions of Work

Bahrain's labor law, enforced by the Ministry of Labor and Social Affairs, establishes acceptable conditions of work for all adult workers, including standards regarding minimum wages, hours of work (maximum 48 hours per week) and occupational safety and health. Expatriate workers (60 percent of the work force) are seriously disadvantaged by the requirement that all foreigners must be sponsored by Bahrainis in order to work. Under this system, sponsors can cancel the residence permit of any person under their sponsorship and blacklist individuals so that they cannot obtain entry or residence visas from another sponsor. Such power contains the inherent potential for exploitation, and foreign workers are

often unwilling to report abuses for fear of forced repatriation. Bahrain's labor law does not recognize the concept of equal pay for equal work. Asian workers are often paid less than Bahrainis or Westerners with the same qualifications, and women are generally paid less than men.

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 a minority ownership share in BAPCO (the Bahrain Petroleum Company). BAPCO is strictly an oil refining concern. It produces exclusively refined petroleum products and processes about 250,000 barrels per day of crude oil from Bahrain and Saudi Arabia. Workers at BAPCO enjoy precisely the same legal rights as all other workers in Bahrain.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		31
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

BANGLADESH

Key Economic Indicators

Millions of U.S. Dollars Unless Otherwise Indicated

	FY85/86	FY86/87	FY87/88(est)
Income, Production, Employment			
Real GDP	15,602	17,598	18,108
Real GDP Growth (pct)	4.9	4.1	2.9
GDP by Sector			
Agriculture	7,317	8,324	N/A
Manufacturing	2,231	2,376	N/A
Services	6,054	6,898	N/A
GDP per capita ($)	151.9	168.9	169.7
Labor Force (millions)	45.2	46.5	47.9
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices			
Money Supply (M2)	4,125	4,684	5,357
Discount Rate	11.25	10.75	10.75
Savings/GDP (pct)	5.3	5.5	4.6
Investment/GDP (pct)	11.5	11.1	11.0
CPI (pct inflation)	10.0	10.4	11.4
WPI (pct inflation)	N/A	8.1	5.8
Exchange Rate	29.91	30.64	31.26
Balance of Payments and Trade			
Exports fob	819	1,074	1,170
Exports to U.S.	172	266	314
Imports cif	-2,364	-2,620	-2,895
Imports from U.S	-159	-173	-193
Foreign Aid	1,306	1,575	1,597
U.S. Aid	173.4	172.2	132.4
External Public Debt	6,914	8,371	8,962
Debt Service	470	567	474
Foreign Reserves	495	752	896
Balance of Payments	257	137	139

Note: We have compared available World Bank/IMF and Bangladesh Bank statistics and attempted to resolve inconsistencies in the data. For purposes of conversion, the average exchange rate for 1985-86 is US$1 equals 29.91 taka, for 1986-87, US$1 equals 30.64 taka, and for 1987-88, US$1 equals 31.26 taka. The Bangladesh fiscal years runs from July 1 through June 30.

1. General Policy Framework

Bangladesh is a densely populated country situated on a low-lying deltaic plain with little topographic or climatic variation. Its overwhelmingly agricultural economy depends

heavily on a semi-tropical monsoon climate. Bangladesh suffers all too frequently from natural disasters such as floods and cyclones. The government wrestles with these disasters and urgent problems of development in one of the poorest countries in the world. A major policy objective -- feeding the rapidly growing population -- results in significant U.S. grain exports to Bangladesh under PL-480 programs and commercial sales.

Since coming to power in 1982, the government of President Ershad has been committed to expanding the role of the private sector, introducing market-oriented reforms, and encouraging foreign investment. The New Industrial Policy of 1982 and the Revised Industrial Policy of 1986, formulated in consultation with the private sector, represent the current government's two major policy initiatives in the areas of privatization and investment. Nevertheless, Bangladesh's limited resources, small domestic market, poor infrastructure development, and uncertain political and legal environments continue to impede the government's efforts.

In an effort to deal with mounting macroeconomic imbalances, the Government of Bangladesh adopted a stabilization program in 1985-86, supported by a standby arrangement from the International Monetary Fund, which was followed in 1986-87 by a three-year arrangement under the International Monetary Fund's Structural Adjustment Facility. The adjustment strategy has focused on industrial and trade liberalization, domestic resources mobilization, and financial sector reform. Since the introduction of these programs, Bangladesh's overall economic performance has improved significantly and exceeded programmed targets on a number of fronts. Bangladesh is highly dependent on foreign grant and concessional aid. Eighty-five percent of its annual development plan is paid through foreign assistance. Aid inflows cover about 90 percent of the fiscal deficit. The balance is financed by domestic financing. One great constraint is inefficiency in tax collection, particularly of income taxes.

Economic targets for 1987-88 were substantially revised downward following the floods of July-September 1987. Real gross domestic product (GDP) growth in 1987-88 is estimated to have risen by about three percent, inflation increased by about 11.4 percent and the external current account deficit widened to 8.1 percent of GDP. In August 1988, Bangladesh was again devastated by floods, this time the worst in living memory. It is too early to assess fully the impact of the 1988 floods, but they are likely to set back Bangladesh's economy significantly. The best informed estimates are for 2.5 percent real GDP growth in 1988-89.

2. Exchange Rate Policies

Since August 13, 1979 the official currency, the taka, has been pegged within margins to a basket of four currencies in which the dollar and pound sterling predominate. Since January 1983 the dollar has been the intervention currency.

There also exists a significant secondary market rate applied to imports of selected goods, the foreign exchange for which is supplied by the remittances of Bangladeshis working abroad. This rate, termed the "Wage Earners Scheme" (WES) rate, is determined by the central bank (Bangladesh Bank) and is adjusted frequently to provide for renewed inflows of foreign exchange into the secondary exchange market. Virtually all exports and almost all non-aid-financed imports are now transacted through the secondary market. The WES rate normally exceeds the pegged rate in practice by about three percent. The gap has narrowed in recent years.

All foreign exchange transactions technically are subject to specific license by the Bangladesh Bank. In practice, the Bangladesh Bank has delegated licensing authority to other agencies for many types of transactions, with the main control point the chief controller of imports and exports, under the Ministry of Commerce. Using the government's projected imports for individual commodity categories, the controller allocates specific import privileges through six-month licenses entered into a "passbook." This represents a foreign exchange allocation, which is routinely issued by the Bangladesh Bank when the passbook is presented, along with a statement from the importer's banker that local resources are available to purchase the foreign exchange. Certain goods or services obtained through barter or other special bilateral arrangements are handled by allotment of specified goods and foreign exchange to specified commercial banks which issue licenses to customers. Commercial banks also have authority to approve small foreign exchange transactions involving business travel, purchase of technical publications, etc., which are routinely endorsed by the Bangladesh Bank. Remittances of workers abroad (WES) and a share (46 to 80 percent) of the earnings of exporters are treated essentially as free foreign exchange. Exchange rate policy has little impact on U.S. exports; however, exchange availability, limited by export earnings and aid, may affect U.S. and other sources of imports.

3. Structural Policies

Customs duties and excise taxes account for the lion's share of total government revenues. Bangladesh's dependence upon custom's duties and excise taxes for one-half of its revenue discourages imports and business activity in general. Tax incentives for new firms locating in Bangladesh, including tax holidays, also favor domestic production over imports.

The government accords national treatment to foreign investors operating in the country. While six categories of goods are reserved for public sector investment (including the defense industry and utilities), all remaining sectors are open to foreign investment. Most investments, however, must receive approval from the Ministry of Industries. Investments which meet national objectives, such as rural development, import substitution, and employment and export generation, are encouraged with tax incentives, including tax holidays, and are granted quick approval. Approval for other foreign

investments can drag on for years. President Ershad recently ordered the formation of a high-powered Board of Investment, to begin operation in January 1989, to streamline the investment approval process.

4. Debt Management Policies

Bangladesh carried an estimated $8.9 billion foreign debt during FY1987-88, a 7.1 percent increase over FY1986-87. Bangladesh's foreign debt is high in relation to gross domestic product (about one-half of GDP). FY1987-88 debt service payments consumed 23.4 percent of merchandise export receipts. From 1982 to 1988, Bangladesh's external debt rose from $4 billion to about $9 billion. During the same period, however, Bangladeshi exports increased by over 52 percent.

Bangladesh currently has a three-year structural adjustment facility (SAF) with the IMF, implemented in FY 1986/87. The strategy stresses industrial and trade liberalization, domestic resources mobilization, and financial sector reform. The government now is seeking to enlarge access to the SAF and to the enhanced SAF -- ESAF -- in the wake of recent floods.

5. Significant Barriers to U.S. Exports

The Ershad government is continuing to liberalize the import regime by relaxing quantitative restrictions, simplifying import procedures, rationalizing tariffs, and transferring additional import financing into the secondary exchange market (SEM or WES). In FY1986-87, the number of tariff rates was reduced from 24 to 11 and the number of rates for sales tax was reduced from 4 to 3. The FY1987-88 budget mandated tariff reductions for most imports in the textile, steel and engineering, chemical, and electronic sectors.

Bangladesh still has to take additional steps to further liberalize its import regime. Recently the government replaced its list of importable items with a list of items banned for import. It continues to raise relatively high shares of government revenue through customs duties and excise taxes. In 1986, custom receipts and excise taxes accounted for more than half of government revenues. Bangladesh has engaged in countertrade deals with Soviet block countries, including the Soviet Union and Bulgaria. Bangladesh completed a countertrade arrangement with Bulgaria in 1987, exchanging some of that country's excess imported European wheat for Bangladeshi products. A similar agreement this year looks possible. This arrangement could have a negative impact on U.S. wheat exports.

The Government of Bangladesh has moved to ease barriers to foreign investment, a fact underscored by the Revised Industrial Policy implemented in 1986. This policy increased the number of sectors open for private investment and liberalized bureaucratic procedures for securing investment approvals. The new Board of Investment, scheduled to begin

operation in 1989, is expected to provide one-stop approval for investment.

Legal protection for foreign investors is provided by the Foreign Private Investment (Protection and Promotion) Act of 1980 which guarantees against expropriation or nationalization. The United States and Bangladesh also signed a bilateral investment treaty in 1986, recently ratified by the U.S. Senate. Bangladesh is expected to ratify the treaty shortly (presidential ratification). While 100 percent foreign-owned investment is permitted in principle, joint ventures are generally preferred and can be negotiated on a case-by-case basis. There are no export performance requirements or local content requirements, but the government encourages investments that do promote such objectives. The U.S. Agency for International Development (USAID) and the Embassy are seeking to interest potential U.S. investors under a variety of programs, including the USAID-financed U.S.-Bangladesh Business Council (formed in 1987) and the January 1988 OPIC-led investors' mission to Bangladesh.

6. Export Subsidies Policies

Bangladesh has one Export Processing Zone (EPZ), established in 1983 and located in the port city of Chittagong. The government plans to set up additional EPZs in Dhaka, adjacent to the airport, by early 1989 and later in the second major port city of Khulna. There are presently 35 industries operating in the Chittagong EPZ, including three U.S. firms, benefiting from duty free imports of capital goods and raw materials and duty free exports. The volume and value are only a small fraction of present-day total exports.

Bangladesh maintains a two-tier exchange rate regime, with an official rate applying to exports and the secondary exchange market to some imports (capital goods can often be imported at the official rate). Since the taka is usually stronger under the official rate than under the secondary market rate, exporters are marginally less competitive internationally than they would be if they could export at a free market exchange rate. The government offers a series of export incentives for companies operating in Bangladesh. Special facilities are available to help exporters meet their finance needs. In addition, export performance benefit, duty drawback, and conditional cash assistance programs exist.

7. Protection of U.S. Intellectual Property

Bangladesh is a party to the Universal Copyright Convention. The Patent and Design Act of 1911, as amended by the Patent and Design Rule of 1933, the Trademark Act of 1940, and the Copyright Ordinance of 1962, governs patents, copyrights and trademarks law in Bangladesh.

Intellectual property infringement is commonplace in the domestic market only, but it is of very small significance, with the possible exception of music tapes and video cassettes.

BANGLADESH

8. Worker Rights

a. The Right of Association

The right of association is found in the Constitution, subject to restrictions imposed by law. Workers in trade associations or unions may draw up their own constitution and rules, elect officers, develop programs, and conduct business without government interference. There are no restrictions on joining confederations or affiliating with international organizations.

Union members need governmental clearance to travel to international labor meetings, but such clearances are usually granted.

The right to strike is not recognized in the law but is an accepted form of protest in Bangladesh. Strikes occurred in 1988. The Essential Services Ordinance of 1958 permits the Government to bar strikes for 3 months in any sector deemed "essential." Labor unions represent only 3 percent of the work force, a reflection of the low level of industrialization. Nevertheless, unions are powerful and important in such sectors as jute, tea, and transportation. Most labor unions and federations are associated with a political party. Union activities are more often in response to the demands of political patrons than in response to the needs of the members. Unions are often involved in politics but generally have little real influence. The Workers-Employees United Council (SKOP), the largest trade union federation, is sympathetic to the opposition. Bangladesh is a member of the ILO.

b. The Right to Organize and Bargain Collectively

The Constitution provides for the right to form labor unions, but the government has the legal right to suspend them. No unions were suspended in 1988. By law, workers have a limited right to collective bargaining. Public sector employees cannot form unions or bargain collectively. Except in the Chittagong Export Processing Zone, where union activity has been suspended since 1985, unions in the private sector can generally bargain collectively without government interference.

There is no formal process of mediation.

In theory, workers have participatory rights in union business, but these rights are often violated in practice by both union leaders and employers. Laws against antiunion discrimination are also frequently violated, and the difficulties of prosecuting a court case against an employer discourage unions' attempts to have them enforced. Workers are frequently fired from their jobs for union activities, and union leaders are sometimes harassed. Antiunion

discrimination is especially prevalent in the garment industry, where the majority of the work force is female.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in Bangladesh. Such labor is barred by the Constitution.

d. Minimum Age for Employment of Children

The Employment of Children Act prohibits the offering of employment to any person under 14 years of age, but the Act is not enforced. Sanctioned by tradition and encouraged by dire economic necessity, child labor is a serious problem. Minimum ages for various types of employment are set by law, but these minimums are seldom enforced. The poverty of the country is such that children are regularly engaged in all available jobs. The Bureau of Labor Statistics estimated the number of child laborers at approximately 3 million in 1986. These children pedaled rickshaws, served as domestic servants, worked as helpers in transport services, carried loads at railway stations and river terminals, labored at construction sites, and were employed in great numbers in agriculture.

e. Acceptable Conditions of Work

Regulations regarding minimum wages, hours of work, and occupational safety and health are not strictly enforced. The Factories Act of 1965 and the Shops and Establishments Act of 1965 limit normal working hours to a maximum of 8 hours per day and 48 hours per week. With overtime, the workweek may not exceed 60 hours. Although the law stipulates that overtime work is to be compensated by double the hourly rate, overtime pay practices do not conform to legal requirements. Safety equipment and precautions are largely unknown. Bangladesh has a small number of safety inspectors, but they are frequently untrained and underpaid.

f. Rights in Sectors with U.S. Investment

U.S. investment in Bangladesh is very small, totaling approximately $30 million. There are three U.S. firms in the chemicals and related products sector. Other firms with American investment are in the food and related products and other manufacturing (largely textiles/garments) sectors.

According to Bangladesh's Ministry of Labor and Manpower, workers in goods-producing firms with U.S. capital investment enjoy "unfettered rights to freedom of association." All the major firms with U.S. investment having more than a few employees in representative offices do have unions and are able to bargain collectively. In 1987, for example, labor leaders for the union in one of the pharmaceutical firms offered stiff resistance to a cost-cutting decision to reduce the unionized work force. Production was disrupted for several days before the matter was settled. Worker layoffs or

the threat of reductions in force can be expected to cause serious management-labor disputes in Bangladesh.

As far as can be determined, the goods-producing firms with U.S. capital investment abide by the labor laws of Bangladesh and the provisions of the 31 conventions of the International Labor Organization ratified by Bangladesh, such as protection of rights of workers, ensuring of fair wages and benefits and prohibition of the use of any form of forced or compulsory labor. As far as can be determined, the minimum age for the employment of children, 15 years of age in Bangladesh, is respected by these firms.

According to both the Bangladesh Government and representatives of the firms themselves, workers in firms with U.S. capital investment are well paid, earning a much higher salary than the minimum wage set for each specific industry. These workers also benefit from adequate overtime pay (double the basic rate, as required by law), and larger than usual year-end bonuses. At one U.S. firm, for example, the workers receive four bonuses a year, each the equivalent of one month's basic salary. In some cases workers in firms with U.S. capital investment enjoy shorter working hours than those put in by workers in comparable indigenous firms. According to the Bangladesh Government, these firms with U.S. capital investment "set an example" with respect to productivity and good quality. Furthermore, the government attributes the success of such firms to their maintenance of good industrial relations and better conditions of service than are found in other companies.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		2
Food & Kindred Products	0	
Chemicals & Allied Products	2	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Billions of Egyptian Pounds (LE) Unless Otherwise Stated

	FY85/86	FY86/87	FY87/88
Income, Production, Employment			
GDP (factor cost 1981-82 prices)	26.8	27.9	N/A
Real GDP Growth Rate (pct)	4.8	4.2	N/A
GDP by Sector			
Agriculture	4.5	4.6	N/A
Industry and Mining	3.8	4.1	N/A
Petroleum	3.9	3.8	N/A
Electricity	0.2	0.2	N/A
Construction	1.2	1.2	N/A
Transport, Communication, Storage	2.0	2.1	N/A
Suez Canal	0.6	0.6	N/A
Trade	3.2	3.4	N/A
Finance and Insurance	1.8	1.9	N/A
Housing	0.5	0.5	N/A
Tourism	0.2	0.2	N/A
Other	4.4	4.7	N/A
Real per capita GDP (LE)	725.8	861.3	N/A
Size of Labor Force (millions)	12.0	13.1	15.2
Unemployment (millions)	2.1	2.3	2.5
Unemployment Rate (pct)	17.5	17.5	16.4
Money and Prices			
Money Supply (millions LE)	15,797	16,592	19,571
Lending Interest Rates (pct)	11-16	11-18	11-18
Annual Gross Domestic Investment Growth Rate (avg 1980-1986 (pct)			-2.8
Consumer Price Index (pct)	20.0	25.6	15.3
Wholesale Price Index (pct)	16.7	14.3	21.4
Exchange Rates ($/Pounds)			Mar88
Central Bank Rate	1.4286	1.4286	1.4286
Commercial Bank Rate	.7342	.7226	.4904
Parallel Market Rate	.5233	.4594	.4456
Balance of Payments and Trade			
Total Exports fob ($ mil)	3,576.5	2,264.4	3,273.9
Total Imports cif ($ mil)	8,823.2	7,323.3	9,179.1
Total Exports to U.S.	123	498	118 (1)
Total Imports from U.S.	1,982	2,210	1,087 (1)
Aid from U.S. ($ millions)(2)	2,587	2,281	2,290
Aid from Other Countries	N/A	N/A	N/A
External Debt ($ billions)	37.7	40.4	43.1
Annual Debt Service Obligation ($ billions)	4.8	2.5	N/A
Net International Reserves	5,052	5,869	N/A
Gold	622	814	N/A

(1) Figures for 1988 are for first half of the year; others are for full calendar year. (2) On an obligation basis.

EGYPT

1. General Policy Framework

The Egyptian economy is a mixed one. Major sectors of the economy such as industry, banking, construction, and insurance were nationalized during the 1950s and 1960s. Although it remained under private ownership, the agricultural sector was subjected to comprehensive controls over marketing and pricing. The government in the 1970s found that this system was generating insufficient economic growth and began to relax some of the government controls and reopen various sectors of the economy for private sector investment (although at the same time it increased subsidies). The government has continued this process of liberalization through the 1980s. It has at the same time remained concerned about the social consequences of economic liberalization and has been cautious in moving to dismantle the basic framework of government controls and subsidies. This has left potential investors still uncertain about their ability to operate successfully. Private sector investment has remained generally small in scale, and the economy, in the past few years deprived of much of the petroleum income that it had come to depend on, has struggled to maintain growth to match that of the population.

Through much of the period following the 1952 Revolution, the Egyptian Government pursued a policy of import substitution as a central element of its economic development program. This policy relieved Egypt of its previous heavy dependence on imports of certain key industrial products such as steel and aluminum, but fell far short of eliminating the demand for imports. The government's system of agricultural price controls had the perverse effect of discouraging domestic production of agricultural commodities and hence exacerbating the demand for imports of such commodities.

Egypt today is a country relatively open to imports, which amount to approximately 20 percent of gross domestic product (GDP). They include food (Egypt is the world's largest importer of wheat), other consumer goods, all kinds of industrial goods, and many raw materials and intermediate products. Following a comprehensive customs reform in mid-1986, import formalities are for most products straightforward. There is an import ban list comprising about two hundred products, primarily luxury foods and other goods produced locally such as automobiles.

U.S. exports to Egypt are healthy, amounting to more than $2 billion per year. Consistent with the close political relationship between the United States and Egypt, U.S. products are welcomed by Egypt and the United States is the largest source of imports to Egypt. Impediments to U.S. exports to Egypt are generally associated more with market forces -- physical distance, currency valuations, lack of strong U.S. exporter interest in the Egyptian market, etc. -- than with government policy. The continuing serious foreign exchange liquidity problems confronting the Egyptian Government have, however, induced it periodically to restrict various categories of imports (on a non-discriminatory basis).

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2. Exchange Rate Policies

The Egyptian Government maintains a multi-tiered exchange rate system for the Egyptian pound (LE) pegged to the U.S. dollar. Since May 1987 the principal exchange rate has been that employed by commercial banks for purchase of foreign exchange from private sources and resale only for imports and to local subsidiaries of foreign companies for remittances. It is fixed daily by an interbank committee in consideration of a variety of market factors. The current commercial bank rate is about LE2.33/$1.00. It has been held relatively steady with respect to the dollar over the past two years.

The government maintains an artificial (LE0.70/$1.00) "central bank rate" applicable to certain key government-controlled exchange flows (petroleum and cotton exports and Suez Canal revenues, imports of "strategic" food commodities resold by the government at subsidized prices). Use of this rate permits the government to conceal a large part of the subsidy that it provides to consumers of the strategic commodities. Application of this rate to foreign oil companies operating in Egypt has the effect of inflating dramatically the foreign exchange cost to them of those operations.

Since the government prohibits purchase of foreign exchange by Egyptians from banks for other than the purposes mentioned above, there is in Egypt a "parallel" market catering to demand not served by the banking system. The exchange rate in this market appears to respond primarily to market forces but also to periodic crackdowns by the police. It has recently been in the range of LE2.45/$1.00.

The government also maintains other exchange rates for special purposes. Most importantly, it has for the past year maintained the rate for import duty valuation at LE1.89/$1.00 in effect reducing the effective tariff rate.

3. Structural Policies

Although there is underway a continuing process of deregulation, many segments of the Egyptian economy remain subject to government controls over some combination of the products to be produced, the prices to be paid for inputs, the price at which output is to be sold, hiring and termination of workers, how much and at what price to export. One effect of these controls has been to depress private sector economic activity and thus, indirectly, demand for imports. On the other hand, the dampening effect of the controls on domestic investment and production has probably also resulted in greater demand for imports.

The broad range of public sector companies generally are required to be responsive to social considerations and hence often behave in ways other than those suggested by market forces. Many of them receive inputs at subsidized prices and sell their products at less than real cost. Public sector and to some extent private sector enterprises often are accorded

protection from import competition. The government has also used its authority for licensing private investment to restrict domestic competition for public sector enterprises, but is growing more tolerant in this area.

Egypt has since 1974 offered a variety of incentives, including tax holidays, for private direct investment in Egypt, particularly in enterprises that will serve priority needs of the Egyptian people.

4. Debt Management Policies

Egypt, along with many other heavily-indebted developing countries, has in the later 1980s found it impossible to service the debts that it incurred during the era of heavy petrodollar recycling of the late 1970s-early 1980s. With about $40 billion in external debt, owed more to other governments than to private creditors, the Egyptian Government has now accumulated multi-billion dollar arrearages. It obtained an estimated $8 billion in debt rescheduling -- 100 percent of arrearages plus principal and interest due over an 18-month period -- from the Paris Club countries in May 1987, based on conclusion of a stand-by arrangement with the International Monetary Fund (IMF). Even with the rescheduling, however, Egypt found itself unable to satisfy current exchange requirements and continued to accumulate arrearages on non-rescheduled debt. International financial markets have begun to discount Egyptian Government debt by large percentages.

Rectification of this situation will be extremely difficult. With petroleum prices continuing to fall, prospects for large increases in foreign exchange earnings look bleak, at least for the short term. It is increasingly apparent that this problem can only be solved through a combination of renewed lending from donors including the IMF and the World Bank, a series of Paris Club debt reschedulings, and vigorous government efforts to rationalize its spending. Pending such arrangements, imports have been and are likely to continue to be constrained.

5. Significant Barriers to U.S. Exports

Egypt licenses imports, but has recently granted licenses liberally. Instead, it is now relying primarily on an import ban list to exclude undesired products, mostly luxury foods and other consumer goods or items produced in Egypt. The ban does not apply in the case of imports for the tourism sector and can be waived in the case of local shortages or other considerations at the discretion of the Ministry of Economy. It has had some negative impact on U.S. exports. For example,

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U.S. exporters saw a drop of some $20 million in sales of luxury foods to Egypt as a result of the establishment of the import ban list.

Branches of foreign banks are prohibited from engaging in local currency operations. Insurance is a state monopoly. There are restrictions on the number of foreign motion pictures that may be imported into Egypt.

Although there are no formal investment barriers, all foreign investments must be approved by the Investment Authority. In practice, the Investment Authority imposes local content requirements, restrictions on the number (percentage) of foreign workers, and minimum domestic equity participation. It has not imposed export performance requirements. The investment law protects the right of investors to repatriate profits, dividends and royalty payments. The recently ratified U.S.-Egypt bilateral investment treaty will provide a further measure of protection to U.S. investors.

In practice, the government buys whenever possible from its own public sector firms. In addition, domestic private sector firms are chosen for government contracts when their price is within the range of the best foreign bid. The government has established a broad range of countertrade arrangements with Eastern European and developing countries and with firms in the west.

Customs practices, cumbersome as they are, do not discriminate against foreign-owned business.

6. Export Subsidies Policies

The government does not specifically subsidize exports. It does provide some rebates on duties paid on imported inputs at the time of re-export of the product. It also provides a variety of subsidies to domestic producers, usually public sector ones, of various products that can have the effect of subsidizing exports. Electricity price subsidies are sizeable and, in some cases -- for example, Egyptian aluminum production -- are decisive in making products competitive in the international marketplace. Another major Egyptian export commodity, textiles, benefits from government control at an artificially low level of the price paid by the processor for raw cotton that it subsidizes them in some areas, the government also obstructs exports in a variety of ways.

Although it has moved recently to eliminate some of these obstacles, there remain large bureaucracies dedicated to assuring that export quality is satisfactory and that export prices are remunerative (in particular, that the exporter is not under-invoicing in order to evade government foreign exchange acquisition restrictions). Exporters currently are required to sell 75 percent of the foreign exchange proceeds of export sales to the banking system, a significant disincentive in a country where the desire to acquire foreign exchange is a major consideration in economic decision-making.

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In sum, to the extent they exist, incentives to export appear to benefit primarily public sector enterprises in specific sectors; disincentives, so long as they remain in existence, appear to afflict public and private sector more or less equally.

7. Protection of U.S. Intellectual Property

Egypt is a party to the Berne copyright and Paris patent conventions. However, Egyptian copyright legislation has not been strongly enforced. An effort is underway within the People's Assembly to enact a stronger and broader law, with enforcement provisions. The main impetus comes from the Egyptian motion picture industry and American firms in the motion picture and computer industries. The government is supportive, if not yet very aggressively, of protection.

Since Egypt is a member of the Berne Union, U.S. accession to the Berne convention in March 1989 will greatly strengthen the protection in Egypt of U.S.-copyrighted materials.

In the Uruguay Round of trade negotiations, the government has linked protection of intellectual property to rights of access by developing countries to technology.

Patents and copyrights registered in Egypt can be protected but the impetus must come from the affected company. Pharmaceutical companies are not able to benefit from the full period of protection since the licensing process is lengthy. In addition chemical products are not patentable.

Infringement of copyright of foreign films, computer software, books, and recorded materials is rampant in Egypt. The accession of the United States to the Berne Convention should assure better protection for U.S. materials.

The major impact of weak Egyptian copyright laws on U.S. exports is felt by the motion picture and book publishing industries. In addition, U.S. computer software firms would probably invest in Egypt to produce Arabic-language materials for the Middle East market if copyright protection in Egypt and in the other Middle East markets were improved.

The Government of Egypt has agreed to hold consultations with the United States on copyright issues.

8. Worker Rights

a. The Right of Association

The law provides for the workers' right to join local committees of workers, but does not permit strikes. About 20 to 25 percent of the work force is unionized. Any establishment employing 50 or more workers must allow them the right to organize a local committee if the workers so desire. These locals are affiliated with national trade unions, organized along sectoral lines, all 23 of which are required to affiliate with the single labor federation, the Egytian Trade Union Federation (ETUF). There have been complaints to the International Labor Organization (ILO) that requiring all national trade unions to join a single federation infringed upon the workers' freedom of association. Thus far, the Government has not given any indication that it will accept

the establishment of more than one federation. The leadership of the Federation asserts that it actively promotes workers' interests and that there is no need for another federation.

ETUF is a member of the Organization of African Trade Union Unity and is seeking readmission to the International Confederation of Arab Trade Unions (from which it was expelled in 1978). ETUF sends observer delegations to International Confederation of Free Trade Unions and World Federation of Trade Unions conferences, but, in an effort to maintain its nonaligned status, has not joined either one.

Relations between ETUF and the Government improved following the retirement under government pressure of former ETUF head Saad Muhammad Ahmad in 1987. Ahmad is currently under investigation for alleged financial improprieties while he was jointly Minister of Manpower and head of the Federation. The trade union movement held national elections in 1987 and elected a new ETUF Council and a new head, Chemical Workers Union President Ahmad Al-Amawy. Al-Amawy has developed good, cooperative relations with the government, but has also been willing to insist on wage increases for workers to compensate for government economic reform policies resulting in price increases for many subsidized commodities. ETUF has accepted the 1986 government decision separating the position of Minister of Manpower from the position of head of the Federation.

The trade union movement's elections are held periodically at all levels. ETUF has a pyramidal structure, with each level electing the leadership of the next level. A council of national union presidents elects the ETUF Council, which in turn elects the President of the Federation from among its ranks. Candidates for union elections are investigated and approved by the Office of the Socialist Prosecutor and GDSSI; those considered political radicals or with criminal records are weeded out in this process. The trade union movement is proud of the relative independence of its election procedures; a large number of union presidents were not reelected in 1987. The person and property of union leaders are not threatened by the Government or nongovernmental antiunion forces.

The Labor Law provides for a system of arbitration to resolve wage and working condition disputes. While the Labor Law and the Labor Unions law are silent on the right to strike, the larger body of Egyptian law in fact restricts workers' right to strike. The Criminal Code provides criminal penalties of up to 2 years in jail for civil servants or public sector employees who strike. Somewhat more severe penalties may be applied to those who incite others to strike.

The strongest antistrike provision is contained in the Law of National Unity, decreed by Sadat following the 1977 bread riots, which prohibits strikes that threaten the national economy. The full implications of this law are not yet clear. In 1987 the State Security Court ruled in the case of a 1986 train conductors' strike that the Government is

obligated as a signatory to the International Covenant on Economic, Social, and Cultural Rights to allow workers the right to strike peacefully. However, a presidential review panel refused to accept the court's decision, and the issue remains unresolved. In August the organizers of a sitdown strike in textile factories in the industrial center of Al-Mahalla Al-Kubra were arrested under the same law, and at year's end were awaiting trial.

b. The Right to Organize and Bargain Collectively

The law provides for the workers' right to organize. Collective bargaining is permitted in the private sector (including in export processing zones), but not in the public sector w ere most union members are employed. For the most part, private sector wages and benefits are higher than those in the public sector.

Trade union leaders note that there is a distinction between the unions' function in negotiating with the public sector and the private sector. Public sector wages and benefits are set by law at the national level. Trade unionists point to the constitutional provision that half the members of the People's Assembly must be workers and farmers, and note that the struggle to protect workers' interests in the public sector takes place in the legislature. ETUF also says that it holds regular private discussions with senior government officials, in which the Federation attempts to promote the interests of the workers. Working conditions are discussed between union representatives and management in public sector companies.

c. Prohibition of Forced or Compulsory Labor

The Constitution prohibits forced labor. There are no reports of forced or compulsory labor.

d. Minimum Age for Employment of Children

The minimum age for employment is 12 (which is also the age at which a child completes compulsory education). The law permits children between the ages of 12 and 16 to work up to 6 hours a day with 1 hour of rest, but prohibits them from working after 10 p.m. or engaging in certain forms of dangerous or heavy labor, such as mining. There is considerable evidence, however, that in practice underage children continue to perform full-time jobs, particularly in rural areas. Growing numbers of urban children also are working, as families are forced by economic necessity to increase their sources of income. Newspaper articles in both the progovernment and opposition press have charged that several million children may be working fulltime in violation of the labor law. Informal private sector workshops and cottage industries appear to be the main urban users of child labor. Representatives of both government and labor argue that such unregulated industries cannot be supervised. It is also the case, however, that larger private textile factories employ large numbers of young girls, who may work up to 12-hour shifts. There is no evidence that any consistent attempt is

made to enforce the law regarding child labor.

e. Acceptable Conditions of Work

Employers are required by law to provide acceptable terms and conditions of employment for their workers. The minimum wage is part of a social contract which includes generous government subsidies of foodstuffs and other basic necessities. The regular workweek is fixed at 48 hours for factory workers. Many workers increase their incomes by working overtime.

Employers are legally required to meet worker safety and health norms, which are modeled on the ILO's suggested standards. There are special provisions for women workers, including generous maternity leave. Employers who violate wage, hour, and safety and health provisions face civil and criminal penalties. Labor inspectors enforce these provisions with varying degrees of success. Employers are seldom prosecuted, but reliable sources confirm that the courts occasionally impose fines on offending companies. The worst violators of the legal provisions on conditions of labor are small workshop owners in the informal sector whose operations are not subject to supervision or inspection.

f. Rights in Sectors with U.S. Investment

Worker rights conditions are similar throughout the sectors of petroleum, food and related products, primary and fabricated metals, nonelectric machinery, electric and electronic equipment, and transportation equipment. Public sector industries are unionized, and workers' salaries and benefits are set by law. The labor law permits the right of association and organization, prohibits forced labor, bans child labor under the age of 12, regulates the conditions under which children ages 12 to 16 may work, and sets standards with regard to minimum wages, hours, and occupational safety and health.

Collective bargaining is permitted between unions and private sector companies, but the percentage of union members in private sector companies is much lower than in the public sector, largely because wages and benefits in the private sector generally are superior to the public and many workers do not see union membership as advantageous.

The biggest problem area in terms of worker rights is in the unregulated informal sector. Small workshops and cottage industries often violate all aspects of worker rights except for compulsory or forced labor, which does not appear to occur in Egypt. The private textile industry may in some cases violate regulations concerning child employment and acceptable working conditions. In general, however, U.S. capital is not invested in the informal sector.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		1,400
Total Manufacturing		41
Food & Kindred Products-	(D)	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	5	
Machinery, except Electrical	1	
Electric & Electronic Equipment	5	
Transportation Equipment	7	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

INDIA

Key Economic Indicators

Billions of Rupees Unless Otherwise Indicated

	FY86/87	FY87/88	FY88/89 (estimates)
Income, Production, Employment			
GNP (constant prices 1980-81)	1844.5	1896.2	2085.8
Real GNP Growth (pct)	4.4	2.8	10.0
GNP by Sector (pct)			
Agriculture	32.0	31.0	34.0
Manufacturing	23.5	24.0	23.0
Services	44.5	45.0	43.0
Real per capita Income (Rs)	2395.5	2414.3	2603.7
Labor Force (millions)	303.2	311.1	319.2
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	511.8	576.5	650.0
Commercial Interest Rate (pct)	16.5	16.5	16.5
Gross Savings Rate (pct)	21.7	21.0	22.0
Investment Rate (pct)	23.4	23.0	23.4
CPI (1960 = 100)	674.0	736.0	788.0
Wholesale Price Index (1970-71 = 100)	376.8	405.4	431.0
Average Exchange Rate (Rs/$)	12.8	13.0	14.5
Parallel Exchange Rate (Rs/$)	14.0	14.0	16.5
Balance of Payments and Trade			
Total Exports fob	133.2	166.6	211.4
Exports to U.S.	31.6	35.9	45.7
Total Imports cif	226.7	247.1	309.8
Imports from U.S.	19.7	19.0	27.6
Aid from U.S. (except Title II)	0.9	1.5	1.0
Aid from Other Countries	15.9	19.6	24.8
External Public Debt	606.7	679.9	829.4
Debt Service	58.4	66.4	78.5
Foreign Exchange Reserves	86.1	83.1	82.1
Gold	2.7	2.7	2.7
Overall Balance of Payments	0.9	-4.4	-10.6

Notes:

India's fiscal year is April 1 - March 31.

India's official gold holding is 10.449 million fine ounces (one ounce equals 31.11 grams) and is valued at a notional price of Rupees 84.39 per 10 grams.

Sources: Government of India Central Statistical Organization, Economic Survey; Reserve Bank of India Bulletins; Budget documents; U.S. Department of Commerce; World Bank

INDIA

1. General Policy Framework

With a population of over 800 million, India has one of the lowest per capita incomes in the world. Agriculture is the dominant sector, employing about 70 percent of the labor force, while contributing one-third of gross national product (GNP). Since 1950 India has employed a central planning strategy designed to meet the national goals of growth, social justice and self reliance. This approach has led to a key role for the central government as promoter, owner and regulator of industry. The country has a diversified industrial structure producing a full range of manufactured goods, including consumer and heavy capital goods. The public sector concentrates in basic industries such as steel, power, energy, and services.

During its first three decades as a nation, a policy of import substitution and extensive licensing controls, both on production and imports, isolated the Indian market from the rest of the trading world. Over the past five years the government has been gradually liberalizing some controls, although it still maintains a policy of import substitution. Controls have been relaxed on such areas as industrial licensing, foreign trade and taxation. A strong and growing private sector is responding favorably. However, the Indian economy has yet to prove itself able to provide sufficient employment for the large, growing labor force. Unemployment, inadequate infrastructure, the high cost of industrial products, a high population growth rate and limited foreign exchange reserves are the major economic problems. Balance of payments constraints, owing to a chronic large current account deficit and rising debt service payments, will continue, despite recent improvements in export growth.

India has resorted to large scale deficit financing to meet its revenue needs. The deficit amounted to over seven percent of GNP in 1987-88 and is projected to be of the same order in 1988-89. About 90 percent of the deficit is financed through borrowing from domestic financial institutions, printing money and sale of government bonds. Multilateral and bilateral financing account for the remaining over 10 percent. Rising expenditures on interest payments on internal and external loans, defense, and subsidies on food and fertilizers push up spending. Incentives for promoting domestic private investment and economic growth include: (a) complete income tax exemption on export profits; (b) reintroduction of an investment allowance of 20 percent for certain high priority industries; (c) tax incentives to promote equity investment; and (e) reduced industrial licensing restrictions.

Adjustment in reserve requirements and administrative limits on the volume of bills are the two major tools used to control the money supply. Government budget deficits influence the growth in money supply; foreign exchange flows are of lesser significance.

INDIA

2. Exchange Rate Policies

India has an extensive and complex exchange control system covering virtually all conceivable transactions, including: (a) foreign travel by Indian nationals; (b) foreign trade; (c) foreign investments in India; and (d) employment of foreign nationals.

Since September 1975 the Indian rupee has been linked to a weighted basket of major currencies with the British pound as the intervention currency. The actual currencies and their relative weights are kept secret, but reportedly include the U.S. dollar, the West German deutschemark, the Japanese yen, the British pound and the French franc -- the currencies of India's major trading partners. Effective January 1979, the band in which the rupee fluctuates was widened from two and one-quarter percent to five percent. In recent years the rupee has gradually depreciated vis-a-vis most international currencies. With respect to the dollar, the exchange rate remained fairly constant at approximately rupees 13 to the dollar during 1986-1987, but has depreciated steadily since April 1988 to approximately 14.9 rupees to the dollar as of mid-November 1988. India's 15 percent tax on foreign exchange released for travel has the effect of creating a dual currency regime. This tax has been in place since October 15, 1987 under the foreign exchange conservation (travel) tax rules of 1987.

3. Structural Policies

The government regulates prices of most essential items, including foodgrains, energy, petroleum and fertilizers. It announces procurement prices of foodgrains and other crops to influence production before the sowing season. Industrial prices are also controlled. A dual pricing system (where a certain proportion of total production must be supplied to consumers at a fixed price, while the manufacturer can sell the remainder in the free market) also exists for commodities such as sugar and cement. Although essential items are supplied from specified "fair price" shops, the same items are also available in the free market at higher prices. Subsidies on foodgrains and fertilizers have been increased every year and now account for ten percent of current central government expenditures. Serious shortages in certain commodities which develop occasionally, as happened in 1987 because of a drought, and can have a marginal impact on U.S. exports such as grain.

Indirect taxes are a mainstay of the Indian system, providing about 85 percent of total tax collection. High excise duties are a factor in high production costs. The corporate tax rates are 50-55 percent for Indian companies and 65 percent for foreign companies. The administration of the tax system is complex and contains numerous provisions for exemptions and rebates. The picture is further complicated by state governments which also levy a variety of different taxes, even including octroi within state borders. To promote savings, the limit on tax-free interest income from banks and

dividends for individual tax payers was increased from rupees 12,000 to rupees 13,000 per year in 1988. Export profits are completely tax exempt. Import duties contribute a significant portion of government revenue. Consequently, India maintains some of the highest tariff rates in the world. The Government of India has lowered many duties on capital goods and semi-manufactured inputs in its effort to upgrade production technology and the quality of Indian products. However, these decreases have been selective. Customs duties on raw materials and machinery and equipment range generally between 40 and 100 percent. Duties reach 300 percent for many locally produced items.

The Indian Government has begun a gradual move away from the in-depth regulation which was long its hallmark. However, the economy remains highly regulated and barriers to increased U.S. exports still exist. India's three-year import/export policy is voluminous, highly complex and difficult to interpret. The majority of items may only be imported by actual end users and India still restricts severely the import of consumer and luxury items. Foreign investment policy limits equity participation to 40 percent of total equity except in the case of certain high technology ventures or export units. The foreign contribution must be in the form of cash and may not be linked to import of machinery and equipment. Government guidelines also restrict royalty payments. The government approves all joint ventures and frequently imposes export commitments, requires technology transfer as a condition for approval and requires domestic sourcing of most parts and components after a grace period. As prices in the domestic market are often higher than the international market, some joint ventures proposals become uneconomic under these conditions.

Parastatal enterprises in the country produce most of the basic goods such as coal, petroleum, power and steel at prices fixed by the government. In addition to occasional shortages, the quality of the output from the parastatals is often inferior. Requirements for local sourcing of these materials act as a damper on U.S. exports.

4. Debt Management Policies

India has maintained a good international credit rating despite chronic high trade deficits. The government traditionally followed a conservative borrowing policy which relied heavily on soft development loans for much of its financial needs. The past five years have seen the government increasingly willing to allow the economy to assume more commercial debt to help meet its financial needs. With average interest rates rising as commercial and less concessional debt has increased, the debt servicing burden has risen steadily. In addition to promoting export growth to help pay for its import and development needs, India has encouraged non resident Indians to deposit overseas funds in local Indian accounts, in either rupees or foreign currencies.

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India's total outstanding debt has risen sharply from about $31.6 billion in 1983-84 to $57 billion in 1988-89 (including foreign currency deposits of Indians residing abroad). Of this, multilateral medium- and long-term debt accounts for 35 percent, bilateral debt for some 24 percent, publicly held locally guaranteed commercial debt 12 percent and private nonguaranteed commercial debt approximately 5.5 percent. Debt service in 1987-88, as a proportion of current receipts, was approximately 29 percent.

India's principal official creditors include the IBRD (World Bank), the International Monetary Fund (IMF), the Asian Development Bank (ADB), and a host of bilateral donors led by Japan and the United States. India also borrows from private commercial banks, generally on a public guarantee basis. The IBRD plays a coordinating role in mobilizing external assistance from bilateral and other multilateral sources at its annual aid India consortium meetings. India entered into an extended financing arrangement with the IMF for SDR5,000 million in 1981, but limited its purchases under the arrangement to SDR3,900 million (which is currently being repaid). India's relationship with the ADB is of recent origin. India has not rescheduled either official or private debt, and, on balance, currently commands one of the developing world's strongest credit ratings. There are indications in the past year of growing concern in financial circles that the debt burden will be increasingly difficult to manage in the future without more rapid export growth.

5. Significant Barriers to U.S. Exports

India employs an extensive import licensing regime which severely restricts imports of many U.S. products which would be competitive in a more open system. The policy permits few items to be imported freely and most imports are restricted to actual users. The restrictions on consumer goods and luxury items are prohibitive. Imports of capital goods and inputs have been somewhat eased over the past three years by creating a so-called open general licensing scheme.

India has direct barriers which prohibit the provision of services. The entry of new banks into India, either foreign or domestic, is strictly controlled. Life insurance and general insurance are a government monopoly. Foreign insurance companies are permitted to compete only in maritime and aviation coverage and reinsurance. India does not allow foreign nationals to practice before the courts, nor to hold stock exchange membership. Other Indian Government restrictions include extensive exchange control regulations, limits on foreign equity and restrictions on entry of personnel and establishment of residence.

The government actively exercises its right to approve most foreign and domestic direct investment. Approval is contingent on meeting government priorities, which include improving the industrial base through the transfer of contemporary technology and appropriate geographic distribution. Indian law limits foreign equity investments

generally to 40 percent in most joint ventures. A necessary element for approval in many joint ventures is an export commitment. Requirements for sourcing of raw material and components domestically also affect both U.S. exports and investment. Government guidelines suggest that "collaboration" agreements place a cap of eight percent on combined royalty and lump sum payments. There are no instances of forced disinvestments, but foreign companies have divested capital in response to government policy decisions. There are no restrictions on repatriation of profits or capital. However, the RBI requires large amounts to be repatriated in phases. Nonresidents are not allowed to own land except with RBI permission. Foreign participation in trading activities is not permitted.

6. Export Subsidies Policies

The Indian Government has instituted a policy of export promotion which includes a range of export subsidies totalling some rupees 10.9 billion in FY1988-89. The most popular subsidies are the Cash Compensatory Scheme (CCS) and duty draw backs on imported inputs. Exporters purchase raw materials such as steel, rubber and certain chemicals at international prices, under the international price reimbursment scheme. As a special case, firms which export 25 percent of their production receive diesel oil at the international price. A number of administrative procedures which reduce the amount of time needed to process imports and exports, and access to imported inputs, are also available to exporters.

7. Protection of U.S. Intellectual Property

Although India is a signatory to the Berne copyright convention, its intellectual property regime is weak. India holds that some inventors deserve some form of reward for their invention, but believes that others do not.

In 1970 India revamped its patent laws. As a result, it provides product patent protection for some products but not for others. Products not intended for use, or capable of being used, as food, medicine, or drugs, or substances prepared or produced by chemical processes, may be protected by patents for only 14 years. Thus foodstuffs, pharmaceuticals, chemicals, veterinary products, pesticides, agrichemical products, alloys, optical glass, semiconductors and intermetallic compounds are excluded from patent protection. The processes for producing these products may be protected by patents only for the shorter of either five years from the time of patent issue or seven years from the time of filing.

Inventions related to atomic energy, scientific principles, methods of agriculture, horticulture, or a process for the treatment of human beings, animals or plants, including biotechnology or environmental pollution, control are unpatentable. Indian law provides for compulsory licensing and licenses of right, although these are rarely invoked. The

large Indian drug manufacturing industry benefits from the prohibition against product patents for pharmaceuticals, and can be very quick to enter into unauthorized production of new drugs which are introduced internationally.

Piracy of books, movies, music and software remains a significant problem for both Indian producers and international copyright holders. The U.S. motion picture industry estimates losses due to piracy and unauthorized public performance of their product between $10 - $15 million annually, but rising rapidly. Copyright protection laws are adequate by international standards, but the laws have not yet been matched by a commitment of resources on the part of the state governments to enforce the laws. The Indian legal process is lengthy, but the courts have handed down decisions that are consistent with good intellectual property rights protection. Computer software is covered and the law provides for criminal penalties for infringement. Enforcement again is a serious problem, as state police resources frequently are inadequate.

The Indian legal system has recently made a number of positive findings on trademark infringement cases, upholding owner's rights.

The government originally refused to discuss intellectual property rights issues in the ongoing Uruguay Round talks of the General Agreement on Tariffs and Trade (GATT). Although it now stands ready to discuss trade-related aspects, particularly border enforcement for piracy and counterfeiting, it strongly opposes any suggestion that the GATT has authority to discuss specific norms for the protection of intellectual property.

8. Worker Rights

a. The Right of Association

Indian workers and employers have the full constitutional right of association as defined by the International Labor Organization (ILO). Confederations of both employer organizations and trade unions exist. Trade unions have the legally protected right to strike. Unions represent less than 25 percent of the total of industrial workers but about 50 percent of industrial workers in the "modern" sector. Most Indian workers (estimated at over 70 percent) are in the agricultural sector, traditionally unorganized, although recently trade unions have begun organizing efforts in that sector as well. Most Indian trade unions have some form of ties to a political party, national or local. Nevertheless, trade unions are usually adamant about preserving their formal independence from political parties, and in practice they have been known to differ from their respective political parties on labor-related issues. Major trade union organizations are affiliated with recognized international confederations, such as the International Confederation of Free Trade Unions, and regularly participate in conferences of the ILO. The ILO maintains an office in New Delhi and on occasion complaints

are filed there -- often by Communist unions -- alleging violations of ILO standards. The government cooperates in the investigation of such complaints.

Workers enjoy the right to strike in principle but, under the Essential Services Maintenance Act, the government can ban strikes and require conciliation or arbitration in specified essential industries. Legal mechanisms exist for challenging the assertion that a given dispute falls within the scope of this Act.

b. The Right to Organize and Bargain Collectively

The right to organize (including protection against antiunion discrimination) and to bargain collectively has existed in Indian law for decades. Trade unions carry out these activities independently and without government or, in general, employer attempts to interfere. Police and judicial authorities are generally quick to protect peaceful union activities.

In addition to the availability of normal civil and criminal courts, a system of specialized labor courts exists to hear and adjudicate labor-related complaints. New legislation seeking to modernize and streamline the bargaining process and the internal organization of unions was introduced in the Parliament in 1988 but, pending consultations with trade union and employer organizations, it was not acted upon by year's end.

Collective bargaining is the normal means of reaching industrial relations agreements and settling disputes, and trade unions are usually vigorous in defending worker interests in this process. Where collective bargaining fails to establish locally equitable wage levels, the Government may set up tripartite boards, i.e., including trade union representation, to determine them. Export processing zones exist at several locations in India but are not particularly active at the present time. Physical access to such zones is ordinarily limited, even to union organizers, and unions do not appear to be active within them.

c. Prohibition of Forced or Compulsory Labor

Forced labor is prohibited by the Indian Constitution, and legislation passed in 1976 specifically bans the practice of "bonded labor." A Supreme Court decision has defined "forced labor" as work at less than the minimum wage (minimum wages are usually set by the states, not the central government). Under this unique definition, "forced labor" is widespread throughout India, particularly in rural areas. "Bonded labor," although illegal and actively opposed by the government, also occurs among significant numbers of agricultural and construction workers. It is the result of a private, contractual relationship whereby a worker incurs or inherits debts to a contractor and then must work off the debt, plus extensive interest. Since most of these workers are illiterate, these bonds may continue indefinitely

(especially if the contractor lends them subsequent small amounts "on account").

The government estimates that, based on reports from the states as of March 31, 1988 there were 235,670 bonded workers in the country, of whom about 60,000 had been "rehabilitated" by government authorities. The Gandhi Peace Foundation, however, estimates the number at 10 times the government figure. Private and political critics say that government efforts to free workers from their bonds are inadequate and rarely lasting. Private social organizations, such as the Council for Advancement of Peoples' Action and Rural Technology (CAPART), and some trade unions are active in identifying cases of bondage and pursuing them with relevant (usually state) officials. Even with better coordination and greatly increased resources to overcome the complicated jurisdictional division between the state governments and the central government, the eradication of bonded labor is likely to be slow.

d. Minimum Age for Employment of Children

It has been estimated that one-quarter of the world's child labor is attributable to India, where poverty and the lack of compulsory education make it an especially serious problem. According to a Labor Ministry survey, 1 out of 4 Indian children between the ages of 5 and 15 is working. Government statistics put the total at 17.5 million in 1985

In 1986 legislation passed both houses of Parliament to ban the employment of children in hazardous occupations and regulate their employment in others, and in 1987 the Labor Ministry announced a crackdown in 10 of the most blatantly abused sectors. In 1988 the Parliament's Public Accounts Committee requested the Government to consult with outside experts to set up educational programs for child workers and to change parental attitudes, to carry out "exemplary punishment" of erring employers, and to harmonize the various existing legislative controls on the practice. A Small Child Labor Division within the Labor Ministry has been created. Nevertheless, progress has been slow. Some employers of child labor have been openly defiant about continuation of the practice, and resisted attempts by the Labor Ministry at enforcement. As in the case of bonded labor, the central Government often points to the division of jurisdiction between the state governments and the central government in dealing with the practice, and urges private organizations (including trade unions) to do more. Although almost all child labor abuses occur in sectors outside the traditional reach of labor organizations, trade unions have recently become more active in this field, often concentrating on "consciousness-raising" among women workers who work alongside their children. Despite all these efforts, enforcement of existing law appears inadequate to cope with the dimensions of the problem.

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e. Acceptable Conditions of Work

The Factories Act establishes an 8-hour workday, a 48-hour workweek, and various standards for working conditions. These standards are generally enforced and accepted (indeed, improved upon by various enlightened employers and aggressive unions) in the modern industrial sectors, but are less often observed in older, smaller, and less economically robust industries.

Occupational safety and health measures also vary widely, although this is an area in which both government and trade unions have become more active. Governmental resources devoted to inspection and enforcement of standards are generally recognized to be inadequate. While the basic wage varies according to the state and sector of industry, most "organized" workers receive much more than the minimum wage, especially when legislatively mandated bonuses and other benefits are included.

f. Rights in Sectors with U.S. Investment

U.S. capital investment in the goods producing sectors in India is extremely limited. Conditions of work at U.S. firms operating in these sectors meet or exceed local standards.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		-14
Total Manufacturing		416
Food & Kindred Products	1	
Chemicals & Allied Products	184	
Metals, Primary & Fabricated	60	
Machinery, except Electrical	87	
Electric & Electronic Equipment	35	
Transportation Equipment	9	
Other Manufacturing	42	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Iranian Rials Unless Otherwise Stated

	1986	1987	1988
Income, Production, and Employment			
Real GDP (mils 1980 rials)	8,946.62	9,146.13	8,973.57
Real GDP Growth Rate (pct)	-1.08	2.0	-1.89
GDP by Sector			
Manufacturing			
Agriculture			
Petroleum	10.0		
Income per capita			
Labor Force (millions)	25	25.8(est)	
Money and Prices			
Money Supply(M1) (bils rials)	5.34	5.78	6.14
Commercial Interest Rates			
Savings Rate			
Investment Rate			
Consumer Price Index			
Wholesale Price Index			
Exchange Rate			
Official			
Parallel			
Balance of Payments and Trade ($ millions)			
Total Exports fob	8.102	10.900	N/A
Total Exports to U.S.	556	1.592	N/A
Total Imports cif	9.527	8.981	N/A
Total Imports from U.S.	38	59	N/A
Aid from Other Countries			
External Public Debt	7.5		
Annual Debt Service Payments Paid			
Gold and ForEx Reserves	5.3		
Trade Balance	-1.85	1.32	-0.36
Current Account	-2.97	-0.61	-1.44

1. General Policy Framework

The Iranian economy was badly damaged by an 8-year war with Iraq, a conflict halted by a ceasefire in the summer of 1988. The industrial and petroleum infrastructure suffered severely; most Iranian cities were damaged by the fighting, leaving millions homeless and creating serious social and economic disruptions. Iranian authorities are currently debating various strategies for reconstruction of the economy and infrastructure.

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However, any U.S. role in Iran is complicated by the fact that diplomatic relations remain ruptured. Furthermore, until the regime reaches a consensus on the course of economic policy and the role of foreign firms and capital in the reconstruction process, participation by the U.S. private sector will be difficult. Prior to the ceasefire declaration, zero economic growth, high inflation, and a worsening foreign exchange position were predicted. Now with Iran mending its diplomatic fences -- notably with France and the United Kingdom -- renewed vigor in the foreign trade sector is a possibility, although Iran's current shortage of hard currency dampens near-term prospects. Changes in Iran's economic policies are likely to come gradually. In the short run firms interested in doing business with Iran may have to be willing to accept deferred payment or oil barter arrangements.

The Iranian Government runs a deficit, believed to have been increasing steadily over the last several years. Some reports suggest the government financial deficit now amounts to almost half its annual expenditures.

2. Exchange Rate Policies

Iran has attempted to conserve its deteriorating foreign exchange position in a number of ways, including import controls and restrictions on private sector companies trading foreign currencies among themselves. The government has also cut back imports over the past few years, but further reductions would cut deeply into already declining living standards and would hurt manufacturing industries, which suffer from lack of spare parts. The foreign exchange squeeze could ease slightly if the price of oil on the international market rises somewhat. However, not much improvement in oil prices is expected over the short-term because of high worldwide stocks and typically slack import demand during the winter months resulting from pre-season stock-piling. It is probable that prices will not climb appreciably until mid-1989, and then the incentive to cheat among Organization of Petroleum Exporting Countries (OPEC) partners would have to be addressed.

3. Structural Policies

The Iranian Government has initiated price controls on some commodities. However, reportedly, prices of kerosene, rice, and meat have been allowed to increase over the last year. Rationing of cooking oil and rice continues due to short supply.

Rationing of certain commodities has been necessary during the war with Iraq. A socio-economic restructuring has taken place with heavy industry being geared toward war production. With an end tothe fighting, Iranian policy makers are turning their attention to rebuilding the wartorn economy.

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4. Debt Management Policies

One of the tenets of the Iranian regime has been autarchy. Its aversion to borrowing has left machinery in the manufacturing and petroleum sectors in severe disrepair. Oil production has fallen as a consequence. Formal external debt is believed to be low, although substantial trade-related short-term (up to one year) debt has built up.

5. Significant Barriers to U.S. Exports

Formal diplomatic relations between the United States and Iran do not exist, although U.S. interests in Iran are represented by Switzerland. A U.S. business presence in Iran is restricted by the current state of political relations. Moreover, U.S. export restrictions and the Iranian foreign exchange shortage are major deterrents for trade with the United States at the present time. Nevertheless, there are some indications, at least in the private sector, that renewed trade with the United States would be desirable; U.S. exports to Iran have been climbing steadily during last several years but still total less than $100 million.

U.S. restrictions prevent the export of U.S. munitions list items, military and dual use items, crime control and detection devices, chemical weapons precursors, nuclear and missile techology, and equipment used to manufacture military equipment. In addition, Iranian exports to the United States were secretly restricted by order the President of Iran on October 29, 1988. U.S. sanctions can be considered the most significant barrier to the export of U.S. goods and services to Iran.

6. Export Subsidies Policies

In a countervailing duty investigation on Iranian pistachios, the U.S. pistachio industry alleged that a foreign exchange subsidy was available to exporters in Iran. Although countervailing duties were imposed, the U.S. Department of Commerce was never able to verify the existence of this program because of lack of cooperation from the Iranian authorities.

7. Protection of U.S. Intellectual Property

International copyright laws are not observed in Iran. Although the country is a signatory of the Paris Convention on patents, patent protection is below the level of protection in the United States.

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8. Worker rights

a. The Right of Association

There were until recently no legal labor unions, although some unauthorized unions had been organized and were active. However, a new national labor union, the Islamic Union, reportedly was created in late 1985 under a law enacted by the Parliament. All economic concerns with a minimum of 50 employees are permitted to have a branch of the new union, whose proclaimed goal is to protect workers' interests and further their professional development. Nominally independent, it is in fact controlled by the Labor Ministry. Union employees have little real control over its operations.

It is also believed that there are officially sanctioned "Islamic workers councils" in some factories. These too, however, are more instruments of government control than bodies created and controlled by workers to advance their own interests, although they have frequently been able to block layoffs or firings of workers.

b. The Right to Organize and Bargain Collectively

In practice the right of workers to organize independently and bargain collectively is extremely limited.

It is not known whetner labor legislation and practice are uniform throughout the country, including the export processing zones.

c. Prohibition of Forced or Compulsory Labor

Information as to whether forced or compulsory labor is used in Iran is unavailable.

d. Minimum Age for Employment of Children

Iranian labor law, which exempts agriculture, domestic service, family businesses, and, to some extent, other small businesses, forbids employment of minors under 12 years and places special restrictions on the employment of minors under 18. In addition, women and minors may not be used for hard labor or, in general, for night work.

e. Acceptable Conditions of Work

The labor law establishes a 6-day workweek of 48 hours maximum (except for overtime at premium rates), with 1 day of rest (normally Friday) per week as well as at least 12 days per year of leave with pay and a number of paid public holidays. There are also legal provisions with respect to minimum wages and health and safety in work places.

Given the large segments of the economy exempted from the labor law, the state's still unresolved administrative disorganization resulting from the revolution, the effects of the war with Iraq, and the general lack of labor unions which are both legal and effective, it is unclear to what extent the provisions of Iran's labor law actually affect most of the labor force.

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f. Rights in Sectors with U.S. Investment

No information is available on worker rights in sectors with U.S. investment.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category		Amount
Petroleum		35
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		-3
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		32

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

IRAQ

Key Economic Indicators

In Millions of Iraqi Dinars

	1986	1987	1988 (est)
Income, Production, and Employment			
National Income	11,559	13,628	14,309 (1)
Income per capita	718	818	877 (1)
Gross Domestic Product	14,219	15,556	16,334 (1)
GDP Growth Rate	N/A	0,09	0,14 (1)
Agricultural Sector Output	2,186	3,065	3,218 (1)
Industrial Sector Output	1,227	2,859	3,002 (1)
Labor Force	N/A	N/A	N/A
Unemployment Rate	0	0	0
Money and Prices			
Money Supply	N/A	N/A	N/A
Commercial Interest Rate (pct)	9	9	9
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index (1979 = 100)	201.6	229.8	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Official	$3.20	$3.20	$3.20
Unofficial	$0.56	$0.42	$0.60
Balance of Payments and Trade			
Total Exports fob	2,386	3,688	3,872 (1)
Total Export to U.S	148	164	180 (1)
Total Imports c&f	2,765	2,348	2,465 (1)
Total Imports from U.S	165	213	381 (1)
Aid from U.S	Nil	Nil	Nil
Aid from Other Countries	N/A	N/A	N/A
External Public Debt (est)	15,625 (1)	18,125 (1)	20,313 (1)
Annual Debt Service Payments	1,8 (2)	1,9	2,0
Gold & ForEx Reserves	N/A	N/A	N/A
Balance of Payments	N/A	N/A	N/A

Notes:
(1) Estimates.
(2) Interest payment on non-Arab debts.

1. General Policy Framework

Iraq has a centrally planned, command economy. With the exception of some consumer goods, imports and exports are controlled and administered by state establishments. Due to the realization that statist economic policies had failed to generate adequate economic growth and foreign exchange earnings, the Iraqi Government has embarked on a limited economic liberalization program designed to improve efficiency in

state-run productive enterprises and to encourage increased private sector activity. In particular, the state is in the process of privatizing trade in consumer goods (both at the import and retail levels), agricultural production, some light industry, and tourism. Through tax incentives and tax holidays, it is attempting to stimulate foreign Arab and domestic investment in light industry. While encouragement of the private sector is a positive development toward a more liberal economy, official pronouncements make clear that these are primarily pragmatic measures rather than a shift in Ba'ath Party philosophy.

The Iraqi Government does not provide data on its budget or on its fiscal and monetary operations. It is apparent, however, that during Iraq's nearly eight-year war with Iran, the fiscal deficit resulting from military spending of an estimated $5 billion a year has been financed through borrowing from friendly Arab states and through expanding the money supply with consequent high inflation. The government has not turned to the IMF or other multilateral financial institutions for assistance, nor does it provide data to these institutions which would allow commercial banks to assess fully Iraq's credit worthiness.

The Government of Iraq recently approved Iraq's first foreign investment law. The law is designed to expand Arab foreign investment in Iraq and to foster regional economic coordination and integration. Local media reports indicate that the government is placing particular emphasis on investment in industrial, agricultural, tourism, construction and engineering projects. Non-Arab foreign investment remains prohibited.

Arab foreign investment in the past had been largely subject to the same regulations and provisions as local investment. However, foreign Arab investment was confined to specific areas prescribed by the Iraqi Government's development plan. All of these limitations have now been removed and the new law provides several other preferential conditions.

The principal incentive is guarantees against nationalization as well as against any future legislation which might prejudice investment rights under the law. During the first five years, investment is exempt from income taxes and repatriation of profits is permitted up to 20 percent per year of the original investment capital. In addition, Arab foreign investment is exempted from a number of duties, fees and taxes that apply to Iraqi investment. With this important, if limited, development in economic liberalization, an important step has been taken toward a wider opening of the economy. For example, at a recent meeting between Federal Republic of Germany and Iraqi trade representatives, the Iraqi Trade Minister said that his government is considering the possibility of setting up an industrial free zone in southern Iraq in which non-Arab foreign investment would be permitted.

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2. Exchange Rate Policies

The Iraqi Government maintains a constant exchange rate of ID1.00/$3.20. There are no legal parallel market rates and the dinar may not be transferred legally into or out of Iraq. In the domestic black market and in trading abroad of the dinar, its value has fluctuated from a low of ID1.00/$0.79 in May 1988 to a high of ID1.00/$2.70 following the announcement of a ceasefire in the war between Iraq and Iran in August 1988. As of October 1988 the free market value of the dinar hovered around ID1.00/$1.50.

3. Structural Policies

The state controls all exports and imports. Tight control is exercised over private sector commerce (around ten percent of imports) through an import licensing system. However, new regulations were issued in 1988 allowing the private sector to import consumer and capital goods provided no transfer of currency is required. All tenders issued by the Iraqi public sector require deferred payment terms of at least twenty-four months. A general customs tariff exists with quantitative, but mostly ad valorem duties. In some cases, import duties of up to 300 percent are levied. Some essential items, however, can be imported free of duty. Preferential tariffs exist within the framework of the Arab Common Market. Import prohibitions are enforced to protect local industries and to implement the Israel boycott.

Iraq has a graduated personal and corporate income tax structure. Rates are from: (1) five percent on personal incomes of $10,000 up to 75 percent on personal incomes of over $235,000; (2) ten percent on industrial company income of $16,000 to 55 percent on income over $235,000; and (3) ten percent on corporate income of $48,000 to 50 percent on income over $272,000. The income tax of mixed-sector companies is a fixed rate of 30 percent. Production taxes range between 5 and 30 percent. In an effort to stimulate industrial development, the government announced new legislation (effective January 1, 1989) which provides a ten-year tax holiday for privately held industrial companies.

4. Debt Management Policies

Iraq owes an estimated $31 billion to non-Arab creditors for non-military imports and services and has received an estimated additional $30 to $50 billion in assistance from Arab states during the war. There are no data available on military debt. The non-Arab debt is short-and medium-term debt with approximately $14 billion due by the end of 1992. The bulk of the non-Arab debt is owed to France, Italy, the United Kingdom, the Federal Republic of Germany, Japan and Turkey. Iraq continues to reschedule its short-term debt on a bilateral basis, and barters oil for debt reduction. At present, there is no indication that it attempts to reschedule debt multilaterally. There is no official information on the conditions and status of Arab financial assistance provided in

the context of the Iran-Iraq war.

In early 1987 only the United Kingdom among European Communities (EC) countries continued to provide Iraq with export credits, although at that time half of the 250 million pound lines of credit available for 1985-86 remained unused and a new 50 million pound credit for pharmaceuticals and medical equipment had not been drawn down. These credit facilities were, however, utilized during the year and further lines of credit amounting to 175 million pounds were agreed in September 1987. In November 1988 the United Kingdom announced 340 million pounds in credit guarantees for 1989.

France and the Federal Republic of Germany signed an agreement for the rescheduling of their short-term debts, guaranteed by their export credit agencies, COFACE and HERMES respectively, in July and November 1988.

An important factor influencing market share of Iraq's major trading partners has been the readiness of suppliers and contractors to offer their clients credit. Turkey maintained its short-term credit arrangement for foodstuffs and industrial goods in 1988 and became Iraq's largest supplier. The United States increased its Commodity Credit Corporation (CCC) Credit Guarantee Program for agricultural commodity exports, which represented approximately 80 percent of total U.S. exports to the country. Yugoslav companies continued to take advantage of substantial government-to-government credit arrangements. Brazil, an important customer for Iraqi crude oil involved in major construction projects and supply contracts, signed a sizeable two-year oil countertrade deal (worth $1.2 billion) in December 1987. The Soviet Union remains the largest supplier of arms to Iraq. Civil exports increased by 34 percent, to $550 million, and included machine tools, equipment for the oil and gas industries, power generation machinery and trucks.

Japan has lost its lead position in the Iraqi market in the absence of credit guarantees from the government, but Japanese groups still provide very limited in-house credits. Following a stalemate in the 1987 financial negotiations, Japan is still owed substantial amounts by Iraq. In addition to rescheduled project debt, in 1988 Japan agreed to reschedule letters of credit due in 1988 and 1989 (and formerly rescheduled from 1987 and 1988) to 1990 and 1991.

5. Significant Barriers to U.S. Exports

Iraqi adherence to the Arab Boycott of Israel theoretically limits export and project opportunities for U.S. companies. However, the government is selective in its application of the Boycott and will remove Boycott language from tenders and letters of credit when U.S. suppliers are needed. All business done under U.S. Government credit facilities is exempt from boycott requirements.

All imports into Iraq require an import license and may be subject to quota limitations. Licenses are generally valid for twelve months, but may be renewed if the goods ordered have not

been shipped and a letter of credit was issued prior to expiration of the license. The primary purpose of import licensing is to control the outflow of hard currency.

Iraq operates two government-owned commercial banks. Iraq does not accept price quotes which include insurance. Suppliers must obtain insurance from the Iraqi National Insurance Company. This insurance is commonly viewed as a cost of doing business in Iraq as experience has shown that supplier claims are often dismissed.

Non-Arab foreign investment is prohibited in Iraq. There is, however, some indication that this may gradually change. In an effort to attract foreign investment, the government recently encouraged Iraqi expatriates to repatriate their capital. The question of whether this would apply to Iraqis who have assumed citizenship in a non-Arab country has not been addressed officially, although government officials have stated informally that this will be the case.

6. Protection of Intellectual Property

Iraq is a signatory of the Paris Convention for the Protection of Industrial Property. Iraqi law provides for patent registration and patents of importation which are granted for the unexpired term of the basic foreign patent covering the invention for a maximum of 15 years. If the patented item is not exploited within three years, the license can be transferred by government authorities. Trademarks can also be registered, but failure to use a registered trademark for two consecutive years may lead to cancellation by a court decision. Registration lasts for 15 years. Iraqi law number 67 (1967) provides that any names, signatures, words, letters, figures and designs used in patents, commercial notices and trademarks shall be in Arabic.

Iraq is not a signatory to the principal copyright conventions. Copyright laws on books, audio cassettes, records and computer software are generally not enforced and pirated items are openly sold on the local market. Reverse engineering and adaptation of equipment and technologies was apparent at a 1988 display of local military and civilian industrial production sponsored by the Iraqi Ministry of Industry. Western suppliers of computer technology have indicated that computer software copyrights are not being respected. Iraq claims local production of transistors, integrated circuits, solar cells and other electronic components, and, if this is so, there is no evidence that licenses have been acquired from the original suppliers (e.g., France) of the technology.

7. Export Subsidies Policies

In 1987 crude oil accounted for 97 percent of Iraqi exports to the United States and 96 percent of export value worldwide. With the exception of dates, Iraq is a net importer of agricultural products. Iraqi industrial development has not reached an export oriented phase yet. Rather, Iraq is

attempting to reduce its dependence on foreign manufactured goods through a policy of import substitution.

However, the Iraqi Government does provide tax breaks and other incentives to domestic producers which enhance the competitiveness of Iraqi goods in the international market. Effective January 1, 1989, a ten-year tax holiday will begin for industrial enterprises. Industrial facilities receive preferential utility rates. A dual exchange rate system exists to stimulate exports. Export earnings are converted to dinars at the rate of $1.00/ID 1.000 rather than $1.00/ID 0.313 at the official exchange rate of $3.20/ID 1.000.

Exporters are permitted to retain forty percent of export earnings in foreign currency to import foreign goods, while all other Iraqi citizens are required to convert foreign currency into Iraqi dinars.

8. Worker Rights

a. The Right of Association

Industrial workers do not constitute a significant part of the total work force, whose principal components are agricultural workers, shopkeepers, and government employees. Under the Trade Union Organization Law of June 2, 1987, a new single trade union structure was prescribed for organized labor. Workers in private and mixed enterprises and in cooperatives -- but not public employees or workers in state enterprises -- have the voluntary right to join a local trade union committee. The trade union committees form trade unions which in turn are part of provincial trade union federations. At the top is an umbrella organization, the Iraqi General Federation of Trade Unions, which is organically linked to the Ba'ath Party and required to promote party principles and policies among union members. The General Federation is affiliated to the International Confederation of Arab Trade Unions and to the Soviet-controlled World Federation of Trade Unions. It is also active in the tripartite Arab Labor Organization which is currently headquartered in Baghdad.

Although workers legally have the right to strike, after providing notice to the Labor Ministry, no strikes have been reported for almost 20 years.

b. The Right to Organize and Bargain Collectively

Even before the abolition of the Labor Federation, the right to bargain collectively was not recognized. Labor legislation and practice is uniform throughout the country. There are no export processing zones in Iraq.

c. Prohibition of Forced or Compulsory Labor

The Popular Army, the militia of the Ba'ath Party, employs press-gang methods to draft recruits. It sets up roadblocks and inducts eligible men on the spot; they are sometimes not allowed to contact their families for weeks

afterwards. Popular Army personnel perform duties in rear areas, freeing regular army personnel for front line duty; they also perform many functions, such as reconstruction work, which would normally be done by the civilian labor force. However, on October 30 the government announced that the Popular Army would cease recruiting drives and begin to release Popular Army inductees who were currently in training camps. There has been no evidence of recruiting into the Popular Army since this announcement, and measures are under way to significantly reduce its size.

d. Minimum Age for Employment of Children

Children are frequently encouraged to work as necessary to support the family, a common social practice in the Middle East. The employment of children is forbidden in all enterprises other than small-scale family enterprises.

e. Acceptable Conditions of Work

The workweek in urban areas is 6 days, 7 to 8 hours a day, for workers in the private sector. Hours for government employees are set by the head of the ministry for which the employee works. Many government employees routinely work longer than 8 hours a day, some of them as much as 12 hours per day. Wages are set by the Government for public sector workers (i.e., the bulk of the employed) and do not adhere to any fixed per hour or per day rate; salaries are generally deemed low but adequate. Wages in the small private sector are set by supply and demand. Occupational safety programs are in effect in state-run enterprises, and inspectors make irregular visits to private establishments; enforcement varies widely. A new government decree to extend occupational safety and health protection was issued and subsequently withdrawn in December 1988, reportedly leading to the dismissal of the Labor Minister.

f. Rights in Sectors with U.S. Investment

There is no U.S. investment in Iraq. As noted above, non-Arab foreign investment is not allowed by the Iraqi Government.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		(*)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(*)

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Israeli Shekels Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, and Employment (billions)			
Nominal GDP	43.7	55.3	N/A
Real GDP(1)	43.7	45.9	46.8
Real GDP Growth Rate (pct)	3.3	5.2	2.0
Nominal per capita Income (thousands)	6.468	8.302	N/A
Real per capita Income (thousands)(1)	6.468	6.950	N/A
Population (millions)	4.33	4.4	4.48
Civilian Labor Force (millions)	1.48	1.49	1.51
Unemployment Rate (pct)	7.1	6.2	6.5
Money and Prices (millions)			
Money Supply (M1)	2181	2977	N/A
Commercial Interest Rate (monthly average)(2)	3.98	4.37	3.38
Gross Savings Rate (pct)	20.8	20.3	23.0
Investment Rate	N/A	N/A	N/A
CPI Growth (pct)	19.7	16.1	18.0
WPI Growth (pct)	14.3	20.6	N/A
Exchange Rate (shekel/$1)	1.48	1.59	1.60
Balance of Payments and Trade ($ millions)			
Total Exports	6914.2	8220.8	N/A
Exports to U.S.	2347.4	2728.7	N/A
Total Imports	9275.4	11437.6	N/A
Imports from U.S.	1788.8	1930.8	N/A
Aid from U.S. (billions of $)	3.65	3.04	3.01
External Public Debt (bils $)	24.8	26.3	25.9(3)
Annual Debt Service (bils $)	4.2	N/A	N/A
ForEx Reserves (yr-end)(c)	4.7	5.3	5.0

Notes:
(1) In constant 1986 shekels.
(2) Through May 1988.
(3) Through October 1988.

1. General Policy Framework

In June 1985 the Israeli Government enacted an economic stabilization program to rescue the economy from inflation which had reached an annual rate of over 440 percent and to create the conditions necessary for renewed economic growth. The stabilization program was successful in bringing inflation down within a few months to an annual range of about 15 to 20

percent; no progress has been made in reducing inflation further. Only limited success has been achieved thus far in the program's second goal of restructuring the economy in ways which will promote growth.

For FY1988-89, the Israeli Government budget is new Israeli shekels (NIS) 52.2 billion ($31.1 billion), larger in real terms than the 1987-88 budget. The budget deficit was projected to reach NIS 1.4 billion ($875 million), two percent of forecast expenditures. However, poor climatic conditions that required special assistance to agriculture, higher international prices that led to larger subsidies on basic commodities, and additional police and military expenditures due to the Palestinian uprising have pushed expenditures to a level that could bring the budget deficit to NIS 2 billion ($1.2 billion) by the end of the fiscal year. The Minister of Finance has already reduced subsidies on several basic commodities and has expressed the hope that subsidies can be further reduced and across the board cuts in ministry allocations carried out to reduce the deficit by NIS 300 million ($180 million).

The basic thrust of central bank monetary policy in 1988 has been to expand the money supply in order to help reduce short-term interest rates. The effective prime interest rate is currently about 2.25 percent per month, while the average interest rate is around 3 percent. Reduced government borrowing has helped to reduce interest rate pressure. Expectations of a shekel devaluation led investors to seek foreign currency linked assets; as the end of 1988 approached businessmen changed the composition of debt portfolios by borrowing shekels to pay dollar liabilities.

2. Exchange Rate Policies

Since June 1985 the Israeli shekel has been held at an extremely steady value. Its value has been linked to a basket of currencies including the dollar, pound, deutschemark, French franc, and yen. Since the start of the stabilization program, the shekel was devalued in January 1987 and in late 1988. As of January 1989, shekels $1.81 equals $1.00!

3. Structural Policies

Israel's trade policy objectives are to broaden the market for its exports and to obtain freer access to needed foreign inputs. In an effort to do this, Israel has entered a Free Trade Area (FTA) Agreement with the United States, which will eventually eliminate all tariffs and many nontariff barriers to trade between the two countries in all products. Israel also is a party to an FTA Agreement with the European Community (EC) covering manufactured goods, and participates in the Mediterranean preference system of the EC for agriculture products, reciprocated by some duty reductions for several EC agricultural products.

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Over the past two years the government has reduced income tax rates on individuals and corporations from 60 to 48 percent, raised the tax threshold, abolished the surtax on higher income groups, and reduced some import tariffs and purchase taxes in keeping with Israel's trade accords with the EC and the United States.

Through capital market reforms, the government has reduced official borrowing and thereby released resources for the business sector. These reforms included assisting the flotation of private sector bonds, changing tax and other rules to eliminate discrimination between the government and the business sector on capital resources, and encouraging competition within the private sector.

4. Debt Management Policies

External debt was $25.9 billion at the end of June 1988, an increase of less than one percent from the $25.8 billion level at the end of June 1987. The distribution of total foreign debt by sectors is as follows: $16.3 billion owed by the government sector; $4.7 billion by the nonfinancial private sector; and $5.0 billion by the banking sector. Of total government debt, $10.3 billion is credit from the U.S. Government. Most external debt (86.5 percent) is denominated in U.S. dollars, while 9.6 percent is in West German Marks.

The distribution of Israel's external debt according to period of repayment is as follows: 14.4 percent short-term (less than a year), 15.8 percent medium-term (less than three years), and 69.8 percent long-term (over three years). At the end of 1987, total foreign debt was equal to 76 percent of gross domestic product. This represents an improvement over the start of the debt crisis in 1982 when the corresponding ratio was 85 percent. Net debt service was equal to 25 percent of total exports in 1987.

5. Significant Barriers to U.S. Exports

Most basic food commodities, raw materials, and machinery for industry and agriculture enter Israel duty free. Where there are duties, they can be as high as 80 percent on agricultural items competing with local products, but tariffs are generally less than 20 percent. Beginning January 1, 1989 under the Israeli-EC Free Trade Area Agreement, manufactured goods from the European Community enter duty free. Duties on most products imported from the United States have been eliminated or reduced under the United States-Israel Free Trade Area Agreement.

Israel applies taxes and surcharges on imports. A two percent import levy, the "Peace of Galilee" tax, was imposed in 1982 and has been extended indefinitely. A value added tax (VAT) of 15 percent is charged on most goods and services sold in Israel, including imports. A variable purchase tax is levied primarily on luxury and consumer items and is imposed at the stage of first sale or at importation. The purchase tax is applied to the wholesale price of both the imported and the domestic product, but the method of computing the wholesale

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price differs for imports and domestic goods depending on the size of the importing firm. The purchase tax ranges from 5 to 210 percent (the 210 percent is on large automobiles.)

Quantitative restrictions are not a major barrier to exporting to Israel. Plywood is the only product on which the United States agreed to quantitative restriction in its FTA with Israel. Many products are required to meet standards of one kind or another, usually to protect the public health, safety, or the environment or to conserve scarce resources and to assure compliance with kashrut (dietary laws). A few items cannot be imported.

Israel maintains a 37-page list of items which require a license before they can be imported. Under the United States-Israeli FTA, Israel liberalized its licensing system for American products. It dropped the licensing requirement for many U.S. products when the agreement took effect and grants licenses automatically for the following categories: starches, lemonade, some books, wool woven fabrics, cotton yarn and woven fabrics, some man-made fibers and articles, some garments, some iron and steel products, and tractors. There have been instances in which Israel has effectively refused licenses to importers of U.S. products.

Israel subsidizes basic foodstuffs, public transportation, and water and guarantees a minimum price on certain agricultural products.

Some Israeli products have been determined to be selling in the United States for less than fair value. Antidumping duties have been applied to industrial phosphoric acid, oil country tubular goods, and cut roses.

Israel applies the Brussels Definition of Value (BDV) when assessing the value of imports. The BDV tolerates such practices as arbitrary uplifts of invoice prices. Israel uses such an uplift to determine the import price of products on which it charges the purchase tax. The price of the import (CIF value plus customs duty) plus any arbitrary uplift is raised by the TAMA (acronym for the Hebrew words "additional rate of increase"), according to a formula which accounts for the expenditures and profits of the importer and the wholesaler. The United States and Israel have recently held discussions concerning the uplift and TAMA practices. The uplift practice is still under review. Agreement was reached to limit the use of TAMA to small importers (defined as those importing from all sources less than $750,000 worth of goods in 1989, sliding down to $50,000 in 1995). Until January 1, 1995 the large firms will have the option of using TAMA or actual wholesale price. After 1995 only actual wholesale price will be used for the larger firms.

Israel encourages foreign investment with a system of incentives favoring the development of export industries and underdeveloped areas outside the industrial coastal region. The incentives include: cash grants; low-interest loans; cost-sharing for research and development; low-cost rentals and leasing for industrial buildings, machinery, and equipment; tax reductions; and accelerated depreciation.

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There are no restrictions on foreign ownership, except that the foreign entity must be registered in Israel. Residents of foreign countries may own property in Israel if they receive necessary approval, which is normally not an obstacle. Subsurface mineral resources remain the property of the government, which is authorized to license exploration and exploitation rights for specified periods in specified areas.

Israel acceded to the Government Procurement Code in 1983. Its implementation of the Code has been weak, particularly in the area of publishing code-covered notices. Only eight tenders were announced in 1985 and again in 1986. In addition, the announcements are not published in time for U.S. firms to bid. Under the United States-Israel FTA, the threshold on contracts on which U.S. companies can compete was lowered to $50,000 (from SDR150,000 or $171,000 in 1987). The United States and Israel signed a Memorandum of Understanding on military procurement in early 1988. The procedures which define exactly how it will operate are still being worked out.

In Israel, the designation "standard" is restricted by the standards act to a document prepared by the standards institute of Israel according to procedures outlined in "rules for the preparation of Israeli standards." In theory, a standard is prepared by the responsible ministry in collaboration with all interested parties to achieve the best balance between technical and economic requirements and between the interests of manufacturers and the consumers. However, in some cases, the standards are written in such a way that only domestic products meet the requirements. Both Israeli importers of U.S. products and U.S. manufacturers have complained that such standards limit U.S. exports. Some cases have been resolved, but incidents of Israel's restriction of imports through application of such standards are still reported. Many Israeli standards have become mandatory for imported articles only, whereas for some domestically produced products it is voluntary. The Israelis have given their assurances that this practice will be phased out by 1991.

The law for the encouragement of capital investment (1959), the encouragement of industry law (1969), and the encouragement of capital research and development law (1984) govern domestic and foreign investment in Israel. The Investment Authority screens all investments seeking government incentives. Although Israeli policy favors industries producing for export or import substitution and science-based industries, this policy is not a major barrier to investment in or trade with Israel. Israel's small market, its recent economic problems, the Arab boycott, and a tendency to change its laws frequently and apply them retroactively have been the major disincentives to foreign investment in Israel.

Trade in services in Israel is strictly regulated, but restrictions are primarily for security (in the case of telecommunications) and balance of payments reasons or to prevent capital flight. The telecommunications company is government-owned. The United States and Israel are holding talks under the FTA to liberalize trade in services.

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Many of Israel's largest companies are owned by the government or are part of Koor Industries, Inc., a holding company owned by the General Federation of Labor (the Histadrut). Government-owned companies include Israel Aircraft Industries, the Dead Sea Works, Haifa Chemicals, and the petroleum refining and utilities companies. Koor Industries owns companies in many manufacturing sectors, in export/import, and in every aspect of wholesale and retail trade. The Histadrut also owns one of Israel's largest commercial banks, Bank Hapoalim.

The Israeli Government requires offsets for purchases by government departments, wholly-owned government companies, and government entities. The seller or supplier must make a best effort to achieve "industrial cooperation" with Israel by investment, co-development, co-production, subcontracting, or purchasing from Israeli industry. The latter is preferred. No penalty is imposed for failure to fulfill the industrial cooperation agreements, but the foreign company that does not do so usually does not get another contract. Israeli agencies and companies subject to the offset requirement must obtain clearance from the Israel Cooperation Authority (ICA) on orders exceeding $25,000. Israel agreed to waive the offset requirement for code-covered purchases when it signed the Government Procurement Code. Under the United States-Israel FTA, Israel relaxed offset requirements on civilian purchases from U.S. companies. The requirements are limited to contracts of $500,000 and above, and the volume of annual government procurement subject to an offset requirement was reduced to 20 percent from 40 percent.

6. Export Subsidies Policies

In 1985 Israel signed the Subsidies Code. Israel provides export credits, but they must now be denominated in U.S. dollars and are charged an interest rate of 2 percent over LIBOR. An exchange rate insurance scheme currently benefits exports by an average of 12 percent on the FOB value of merchandise. The exchange rate insurance scheme and Israeli Government loans and grants to encourage investment have resulted in U.S. countervailing duty orders on imports of Israeli cut roses, oil, tubular goods, and industrial phosphoric acid.

7. Protection of U.S. Intellectual Property

Israel has laws governing the protection of patents, trademarks, and copyrights, and it is a member of the Paris Convention for the protection of industrial property, the Universal Copyright Convention, and the Berne Copyright Convention.

There have been complaints of Israeli violations of intellectual property rights with respect to music and video cassettes and infringement by Israeli companies of U.S. software copyrights. The Israeli companies are annoyed by the software complaints and feel the charges are merely harassment.

Some of these complaints are under investigation. A U.S. corporation has recently brought suit againt several Israeli firms for software copyright infringement. The Israeli Government has taken some steps to control copyright infringement of U.S. movies and videos.

The U.S. motion picture industry claims the most widespread and harmful form of infringing copyright activity in Israel is pirate cable systems, which have been installed in housing blocks throughout the country.

8. Worker Rights

a. The Right of Association

Israeli workers and employers have freely established organizations of their own choosing. Israel has a powerful free trade union movement, the General Federation of Labor in Israel (Histradrut), and a much smaller rival federation. About 80 percent of employed Israelis (including 70 percent of employed Arab Israelis) are members of Histadrut trade unions or covered by its collective bargaining agreements.

Aside from its trade union role, Histadrut owns and operates a quarter of Israel's industry and business, much of the health care, vocational training, and child care systems, and most of the health insurance and pension systems. It also includes the largest women's organization. About 60 percent of adult Israelis (55 percent of adult Israeli Arabs) are Histadrut members.

Histadrut members democratically elect their national and local officers and those of its affiliated trade unions and women's organization, choosing between political party lists. Plant or enterprise committee members are elected individually. Histadrut generally provides very effective representation, despite its role as an employer and its ties to the Labor Party, which has participated in most Israeli governments.

Histadrut participates in the meetings of the International Labor Organization (ILO), to which Israel belongs. Histadrut is affiliated to the International Confederation of Free Trade Unions, and its individual member unions are affiliated to many of the Western international trade secretariats. Histadrut officials also have some contacts with the Soviet-controlled World Federation of Trade Unions.

Palestinian residents of Jerusalem have the same rights of labor association as Israelis.

About 100,000 Palestinian workers living in the West Bank and Gaza work in Israel. They and a few thousand foreigners working temporarily in Israel may not join Histadrut or other independent unions, but, if employed in the organized sector, they are entitled to union representation by Histadrut and are covered by current collective bargaining agreements at their workplace. A one percent union agency fee is deducted from

the wages of those hired legally through the Israeli employment service. They are not eligible to vote or run for office in the elections of Histadrut or its national unions, but they can vote for and serve on plant or enterprise workers' committees. Indeed, Histadrut asks them to choose one or more committee members (proportionate to their number) wherever there are 20 of them, or at least 10 percent of the work force. (There are about 5,000 to 6,000 of these committees with 3 to 11 members at most workplaces, 30 to 70 members at multiplant enterprises, conglomerates, or large public sector bargaining units.)

The right to strike is exercised frequently. There is a legal obligation to give 15 days' notice prior to a strike or lockout, unless otherwise specified in the collective bargaining agreement. Strikes often erupt without prior notice of Histadrut authorization, although Histadrut tries to maintain discipline with a central strike fund. The government may, and occasionally does, appeal to labor courts for back-to-back work orders to restore essential public services while negotiations continue, but these orders are temporary and not always granted. Labor courts include employer and employee representatives.

b. The Right to Organize and Bargain Collectively

The right of Israelis to organize and bargain collectively is enshrined in law and freely exercised. The majority union (generally Histadrut) is the exclusive bargaining agent.

Palestinian residents of Jerusalem have the same rights under Israeli law. Nonresident workers, mostly Palestinians from the West Bank and Gaza, may not organize and bargain collectively on their own, but they are entitled to the protection of collective bargaining agreements and representation by the bargaining agent. However, a sizable minority work in the unorganized sector, without this protection, mostly in seasonal agriculture and small construction sites, restaurants, and garages.

The labor legislation is applied uniformly throughout the country. There are no export processing zones in Israel.

c. Prohibition of Forced or Compulsory Labor

Israeli citizens are not subject to forced or compulsory labor.

d. Minimum Age for Employment of Children

By law, children under age 15 may not be employed. Those aged 15 may not be employed if subject to compulsory education, except during vacations, or in apprenticeships, or with a permit from the Labor Minister under special conditions. The Minister may also allow an artistic performance by a child under age 15, with safeguards. Employment of children aged 16 to 18 is restricted to ensure time for rest and education. A labor inspection service enforces these provisions, but

enforcement may be lax in seasonal agriculture and at small construction sites, where labor contractors from the West Bank and Gaza bring work crews, and in small garages and restaurants. Israeli labor exchanges in the West Bank and Gaza do not permit those under 17 to be employed legally in Israel.

e. Acceptable Conditions of Work

Most wages and salaries are established in collective bargaining agreements. The Labor Minister frequently uses the 1957 Collective Agreements Law to extend private sector wage settlements to the public sector and sectoral wage settlements to other, uncovered enterprises. Along with union representation, the Labor Inspection Service enforces labor, health, and safety standards in the workplace.

By law, maximum hours of work are 47 per week, 8 per day, 7 the day before the weekly rest, which must be at least 36 consecutive hours and should include the Sabbath (Saturday for Jews, Sunday for Christians, Friday for Muslims). Exceptions may be approved by the Labor Ministry but not to exceed 10 hours per day, or an average of 47 hours per week. By national collective agreements, the public sector moves to a 5-day, 42 1/2-hour week in April 1989, while the private sector established a maximum 45-hour week in August 1988 and an April 1990 deadline for all firms to institute the 5-day week. The normal weekly rest, Friday noon to Sunday morning, is changing to Thursday evening to Sunday morning. Those needed at work then receive equivalent rest periods on other days. Labor law provides 14 to 18 days' paid vacation per year, depending on length of service, and many paid holidays.

Palestinian residents of Jerusalem have the same rights under Israeli law and union contract and are entitled to the same working conditions as Israelis.

About half the West Bank and Gaza Palestinians working in Israel find employment legally through Israeli Employment Service labor exchanges in West Bank and Gaza towns. Employers pay wages and social contributions for these workers to the Service. It deducts taxes, employee social contributions, and a one percent union fee, and pays the balance to the workers. The same percentage is deducted from the pay of West Bank and Gaza Palestinians working legally in Israel as is deducted from the pay of Israeli workers for social contributions, and they receive equivalent pensions. However, they do not receive the same benefits from the National Insurance Institute (NII - similar to U.S. social security), because many NII benefits require residence in Israel. Thus, only 1.2 percent of the pay of the workers from the West Bank and Gaza goes to the NII, compared to 5.35 percent for an Israeli. The other 4.15 percent is an equalization deduction to keep labor costs

equivalent. It goes to a special Finance Ministry fund to be used only for social and development costs in the West Bank and Gaza. Palestinians estimate that this amounts to hundreds of millions of dollars since 1970 and complain that the Government of Israel has not accounted for whether or how the money has been spent in the territories. The Government of Israel says that these and other expenditures in the territories are accounted for internally, in the budget for the territories, but not made public.

Nonresident Palestinian workers in Israel are covered by Histadrut contracts if they work in organized firms. Those hired legally receive a pension through the Labor Ministry at age 65 after at least 10 years' employment in Israel, based one earnings and years worked (the conditions and benefits granted to Israelis.) Legal nonresident Palestinian workers are also entitled to sick leave, severance pay, and paid vacations of 14 to 28 days per year, under law or Histadrut contract. The NII provides them workers' compensation (including disability, dependent, and survivor pensions) for occupational injury or illness and employer bankruptcy insurance. These workers are also entitled to maternity benefits (free hospital care and a small lump sum payment for female workers or workers' wives, plus 12 weeks' paid maternity leave for the former) but only for births in hospitals in Israel.

Nonresidents are ineligible for NII old-age, survivors, and disability pensions (smaller, flat rate pensions) received by most Israeli retirees in addition to their Histadrut pensions (like U.S.social security pensions), unemployment compensation, or insurance for long-term care or injury in nonoccupational accidents. They are also ineligible for NII children's allowances, funded only by employer contributions, and for NII-administered welfare programs funded by Israeli taxpayers through the budget (income support benefits for widows, orphans, mothers of dependent children, victims of disaster, those incapable of working, etc.)

The 1988 report of the ILO Director General reviewed the situation of nonresident Palestinian workers in Israel and reiterated the recommendations that there be full application in practice of the principle of equal treatment for these workers with respect to working conditions and social security treatment. Histadrut has been unsuccessful in ensuring that West Bankers and Gazans working in Israel receive their full legal rights and benefits and in persuading many to present claims, despite Arabic-language broadcasts, pamphlets, and workplace posters explaining rights, benefits, and procedures. In 1988 Histadrut began to hold seminars on this subject for these workers and for Arab employees of Israel's West Bank and Gaza labor exchanges. Histadrut has succeeded in reinstating only a small percentage of nonresident Palestinian workers dismissed for absences during the uprising. It has been more successful in helping them get severance pay.

About half the West Bankers and Gazans who work in Israel come illegally, with labor contractors or individually, evading taxes and social contributions (which their employers also

evade), but losing social benefits. In unorganized enterprises, their wages and working conditions are often below Israeli legal standards, particularly in seasonal agriculture and small restaurants, garages, and construction sites. In 1988 the Labor Ministry began enforcing the requirement that they be hired through labor exchanges. Labor Ministry inspectors detected about 12,000 illegal workers from the West Bank and Gaza and over 4,000 employers hiring them illegally, and filed criminal court complaints against the employers. The Civil Administration assesses small fines against the illegal workers. In January the Labor Ministry instituted fines of about $280 per worker against employers as a quick and efficient alternative to long and difficult criminal cases.

Most workers from the West Bank and Gaza are required to return home each night. Since the uprising began in December 1987, an increasing number stay overnight in Israel during the week, often on the employer's premises. Israeli Government policy is now to grant permits to sleep in Israel to all who seek them, and the number of permits has more than doubled to about 6,000, according to the Employment Service. The Labor Ministry inspects employers to ensure decent accommodations before issuing permits to them for their West Bank employees to sleep on the premises. Many of those who work illegally also stay overnight illegally in Israel, often in unsatisfactory quarters. Labor Ministry inspectors recently took action against some workers staying overnight without permission.

f. Rights in Sectors with U.S. Investment

In the electric and electronic equipment sector (computers, electronic components and software) where most U.S. investment is concentrated, the degree of union organization and collective bargaining is much less than in other sectors. Although most or at least many employees tend to be individual members of the Histadrut and its health maintenance organization, employers offer more favorable individual contracts, providing higher pay than in the union sector, in order to maintain management flexibility and avoid collective bargaining. Thus, although the other four worker rights spelled out in statute are fully exercised, the right to organize and bargain collectively exists, but is not exercised in many firms.

ISRAEL

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		201
Food & Kindred Products	0	
Chemicals & Allied Products	32	
Metals, Primary & Fabricated	2	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	139	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

JORDAN

Key Economic Indicators

Millions of Jordanian Dinars Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GNP Growth Rate (pct)	0.2	-2.4	N/A
Nominal GDP	1,401	1,447	1,483
Agriculture	111	127	N/A
Mining	64	66	N/A
Manufacturing	178	187	N/A
Water, Electricity	42	45	N/A
Construction	113	101	N/A
Trade	232	236	N/A
Transport and Communications	157	161	N/A
Business Services	167	172	N/A
Government Services	296	309	N/A
Private Health, Education, Other Services	41	43	N/A
Real per capita GNP (1986 JD)	686	647	600
Domestic Labor Force (ooos) (including foreigners)	535	556	N/A
Unemployment Rate (pct)	8.0	8.3	9.0
Money and Prices			
Money Supply (M1)	897	980	1,140
Commercial Interest Rates			
Savings Rate (pct GNP)	12.0	7.0	N/A
Investment Rate (pct GNP)	25.0	24.0	N/A
CPI (1980 = 100)	130.0	129.6	137.4
Wholesale Price Index (1980 = 100)	138.2	139.1	N/A
Exchange Rate (avg $/JD)	2.91	3.04	2.46
Balance of Payments and Trade			
Total Exports(1)	226	249	N/A
Exports to U.S.	0.3	0.9	N/A
Total Imports	850	916	N/A
Imports from U.S.	93	76	N/A
U.S. Grant Assistance	4	18	37
All Other Grant Assistance	217	185	N/A
External Public Debt	1,167	1,209	N/A
Debt Service Payments	149	191	N/A
Gold & Forex Reserves	224	206	N/A
Overall Balance of Payments	18	-36	N/A

(1) Excluding re-exports.

JORDAN

1. General Policy Framework

From 1974 through the early 1980s, Jordan's annual GNP growth averaged 10 to 12 percent, fueled by the secondary benefits of the regional oil boom in the form of worker remittances, cash aid from Arab oil-producing countries, and expanded regional export markets. However, the "reverse oil shock" of the mid-1980s brought GNP growth to a near stand-still, as foreign reserves eroded and then fell precipitously. Although Jordan has narrowed its trade gap steadily in recent years, the country still remains highly dependent on financial flows from the Gulf, importing nearly three times in value what it exports. Foreign grant aid, largely representing Arab aid under the Baghdad subsidy agreement, has fallen by more than half from $1.2 billion in the peak year 1981 to $588 million in 1987. Similarly, expatriate remittances have stagnated, registering a 20 percent drop in 1987 to $938 million. As a result of these developments, Jordan in recent years had to borrow in the international money market and draw down reserves. In October 1988 the government announced a series of austerity measures designed to cut imports, conserve foreign exchange and reduce both the budget and external deficits.

Beginning in 1985 the government's fiscal policy stance was purposefully and explicitly expansionary, designed to offset the contractionary effects of the recession among neighboring Arab oil-producing states. The government deficit has as a consequence risen, and in 1986 and 1987 equalled 13 percent of gross domestic product (GDP). A deficit of similar size is expected in 1988. A major contributor to the rise in government expenditures has been a near doubling in capital expenditures (including principal payments on debt) from JD233 million in 1984 to JD452 million in the 1988 budget. Foreign grant budget support has also fallen steeply from levels close to JD200 million in the early 1980s to JD134 million in 1987. These developments more than offset the improving performance in the government's current expenditures, where domestic revenues have come to cover increasing portions of current expenditures, and subsidies and transfers have fallen. For 1989 the government has pledged to reduce the budget deficit, abandoning counterrecessionary spending.

In the past two years, the government deficit has increasingly been financed domestically and has been the chief cause of rapid money supply growth. In 1988 ceilings on deposit rates of interest were lifted, maximum lending rates raised and ceilings on commissions removed, effectively liberalizing controls on interest rates. Adjustment of reserve ratios has been used to control credit expansion, but the freeing of interest rates will eventually force some reliance on open market operations as an instrument of monetary control. In view of these developments, the prospect for growth in the economy and the demand for U.S. exports will be less bright than in prior years. However, government encouragement of private investment and the fact that the recent import bans noted below cover only consumer durables should help sustain the level of U.S. exports, which are

concentrated in agricultural commodities, raw materials, spare parts and capital goods.

2. Exchange Rate Policies

For years, the Jordanian dinar (JD) was tied around a band to an SDR basket. The institutional framework consisted of a formal banking system and a parallel market centered among moneychangers and the foreign exchange units of commercial banks. Beginning in 1987 the central bank shifted the weight of the currency basket toward the U.S. dollar. Nevertheless, in trade-weighted terms, the dinar continued to be "overvalued" compared to regional currencies. The policy of the central bank was oriented toward maintaining a stable rate in order to encourage savings and remittance flows from expatriates in the Gulf. To support this "flexible" fixed rate regime, the central bank provided the formal banking system any shortfall foreign exchange to cover import letters of credit and other authorized transactions.

In mid-1988, the fixed rate foreign exchange regime came under pressure. In October the central bank announced that the rate would be determined under the conditions of market demand and supply by means of a "managed floating" rate system. Under this new regime, commercial banks must now obtain all their foreign exchange needs from the market and can no longer draw on official resources as a matter of course. The central bank has indicated that it will intervene from time to time to "stabilize the transition" to the new system. As a result of these adjustments and market conditions throughout the year, the dinar during 1988 lost approximately one-third of its value in dollar terms, and even more against the currencies of U.S. competitor supplier countries. Obviously, overall demand for imports will decline in the face of these exchange rate adjustments.

3. Structural Policies

Market forces are generally allowed to set prices. Exceptions include (1) basic foodstuffs such as cereals, sugar and chilled meat which are imported by the government and sold at stable prices, and (2) some fifteen consumer items on which the government has recently set maximum price ceilings based on cost-plus-margin allowances. For the past several years the government has reaped a profit on the importation and sale of basic foodstuffs. With the sharp rise in 1988 of international foodgrain prices, depreciation of the Jordanian currency and an announced intention of keeping the prices of basic foodstuffs stable, some subsidy will now be provided for these items, keeping demand for imports of U.S. cereals higher than might otherwise be the case.

Taxes on imports comprise the chief source of domestic revenue. The tariff rate averages 26 percent, taking into account exemptions, and is comparable to levels prevalent in countries at similar stages of development. There is considerable variation around the average, reflecting low

taxation of raw materials and machinery for industry, and high tariffs for protection of infant industries and on consumer durables and luxuries. The maximum marginal income tax rate for all businesses except banks is 40 percent, while the marginal tax rate on individual income is capped at 45 percent, with large personal, educational and medical deductions. Except for financial institutions, interest, dividend and capital gains earnings are exempt from taxation; also income derived from agriculture is exempt. Internationally competitive tax holidays and import tax exemptions are provided for eligible investments in productive sectors. In sum, Jordan's tax policy provides incentives for productive investment, affords some protection to domestic industry and taxes imports as a major means of garnering government revenues.

In August 1988 requirements for industrial licensing were eliminated and replaced with a simple and automatic registration process. This move removed what had been a major impediment to new business establishment, because for larger businesses, application procedures were burdensome and approval was discretionary depending on governmental views on the need for additional capacity in a given industry.

4. Debt Management Policies

Jordan's public external debt (excluding military credits) has more than doubled since 1982 and now stands at $3.8 billion. The government has contracted approximately two-thirds of this stock of debt. The remainder is government guaranteed debt, primarily for state enterprises. In recent years, the composition of this debt has changed markedly; commercial borrowing now comprises 37 percent of debt outstanding as against only 17 percent in 1982. The end result is that the debt service ratio (over exports of goods and services including remittances) has soared from seven percent in 1982 to approximately 18 percent in 1987. In dollar terms, service on this external debt in 1987 equalled $564 million, more than double the $242 million registered three years ago.

The government in several public policy statements has reiterated its commitment to meeting all obligations as they accrue. As a general principle, the policy of the government is to limit annual levels of new foreign borrowing to the amount of principal that must be repaid. The pace of public sector external borrowing has slackened since the first quarter of 1987, and central bank officials maintain that 1988 will see an overall drop in civilian public sector debt. Recently, Government of Jordan obligations to the United States were reduced substantially, when Royal Jordanian Airlines completed a sale-leaseback arrangement in which more than $100 million in Eximbank guaranteed debt was repaid. Given Jordan's official policy of limiting external debt growth, economic growth is likely to be somewhat slower and demand for imports reduced. Nevertheless, the government's increased emphasis on private investment, as well as Jordan's continued access to international credit and grant assistance,

may attenuate any downward trend in demand for imported raw materials and capital goods.

5. Significant Barriers to U.S. Exports

Import licenses are required on virtually all imports and are usually granted within a day of payment of a license fee of five percent of the value of the commodity to be imported. Licenses are not issued to items permanently banned. These include milk, cream, yogurt, ice cream, tomato paste, table salt and fresh-cut flowers. In addition, on November 6, 1988 a temporary ban effective through December 31, 1989 was instituted on the import of passenger and transport vehicles, television sets and antennas, VCRs, cameras, refrigerators, freezers, air conditioners, home and office furniture, kitchen equipment, chandeliers, microwave ovens, marble, roof tiles, granite, brick stones, statues, ornaments, artificial flowers and fruits.

Foreign transportation companies, including courier services, operate freely in Jordan under normal investment and currency procedures. This holds true for financial services, including banking and insurance. Foreign banks, along with local ones, are required to meet minimum capital requirements to operate branches in Jordan. Foreign professionals must obtain a work permit from the Ministry of Labor subject to the approval of the relevant professional association.

No restriction is placed on the degree of foreign ownership in manufacturing, hotels and restaurants, and banking. However, foreigners may not own more than 49 percent of enterprises engaged in other commercial activity, such as trading. Moreover, defense regulation No. 51 (Control of Foreign Business Activities) states that no foreign person may conduct any commercial activity unless he has the written approval of the prime minister. Once obtained, this written approval can be cancelled by the prime minister at any time.

In other respects, foreign investment is encouraged. For investment approved under the Encouragement of Investment Law, profits may be remitted without limitation and capital repatriated after two years in three equal annual installments. The government has recently announced that it will establish a one-stop investment unit, and will act on applications for tax holidays in one month or less. Presently applications for tax holidays and customs exemptions under the encouragement of investment law are reviewed on a case-by-case basis against broad criteria. Investors frequently do not know what benefits will be granted until a commitment to invest is made. In practice, benefits such as duty free import of personal vehicles and office furniture can be subject to limitations. Follow-on regulations to rationalize legal contradictions are still in the process of being written.

As noted above, on November 6, 1988 the government imposed a temporary ban on the importation of luxuries effective through December 31, 1989. The government also

imposed new customs tariffs to be levied on imported luxury commodities. Included on this list are scented water, cosmetics, cigarettes, cigars, shaving cream, toothpaste, lubricants, automobiles, furniture, telephones, cameras, televisions and VCR's, washing machines, freezers, refrigerators, domestic ornaments and statues, sanitary products, imported tiles, tires, chandeliers and lighting equipment. Some of the items on the new tariff list are also contained on the import ban list, indicating the government's wish to curtail purchase of luxury items still "on the shelf" at the time the ban went into force. These new customs regulations will affect U.S. imports, but probably not significantly, because the bulk of U.S. products are concentrated in nonluxury categories. Even if the items included on the government's list of banned luxury imports were all dropped from the 1987 inventory of U.S. imports, the bill for U.S. imports would only be reduced by 6.7 percent.

6. Export Subsidies Policies

Export earnings are exempt from corporate income tax in proportion to their share in total output. The maximum exemption is 30 percent of total income. Jordan's mining industries (phosphates, potash and fertilizer) are ineligible for this exemption, but benefit instead from rebates on fuel taxes to compensate for the high domestic cost of fuel relative to international prices. Some preferential financing is available for Jordanian exports in that the central bank offers rediscount facilities for commercial bank financing of Jordanian exports. These facilities are little used as commercial banks find the spread between lending rates and the discount rate insufficient. Bilateral credit arrangements with Iraq, and barter trade and clearing arrangements, notably with Egypt, are also used to bolster Jordanian exports. Under currency regulations announced October 15, 1988 exporters may hold up to 50 percent of foreign exchange earnings in segregated foreign currency accounts to cover the cost of imported raw materials and inputs.

7. Protection of U.S. Intellectual Property

Jordan is a party to the Paris Convention on patents but, although the need for such protection has been long recognized, no specific Jordanian laws or regulations exist at the present time to protect foreign intellectual property. The issue remains unresolved as two government ministries, Education and Information, continue to wrangle over which ministry should be assigned jurisdiction over protection of foreign intellectual property rights. Consequently, infringement of U.S. intellectual property rights is theoretically not subject to any controls in Jordan. As a practical matter, however, few serious infringements occur.

One practice of concern is the piracy of audio and video tapes, the majority of which are tapes pirated in Egypt and marketed in Jordan. The duplication of such tapes for commercial purposes is a widespread practice, over which the

government exercises no control. The motion picture industry estimates the home video market in Jordan is 100 percent pirate and is also concerned with unauthorized hotel video performances which are said to be common.

There are also reports of pirated books which are sold in Jordan, but no indication that the books are actually being reproduced within the country.

Trademarks and patents, whether domestic or foreign, must be registered at the Ministry of Industry and Trade in accord with Law No. 33 of 1952 in order to receive protection. Registration may be renewed once, for a period of 14 years. The law, however, applies more for domestic patents and has not been legally tested for foreign patents, with the exception of pharmaceutical products, where a ruling is still pending in the Jordanian Supreme Court. At the present time, patented foreign pharmaceuticals are not protected because of the effect of a separate provisional act intended to protect Jordan's native pharmaceutical industry. Pharmaceutical Provisional Law No. 8 of 1986 (enacted by decree but not yet adopted by Parliament) allows Jordanians the opportunity to manufacture chemical compounds currently under foreign patent protection, as long as there is no infringement on the manufacturing process itself. The provisional law allows Jordanians to produce these pharmaceuticals without compensation to the foreign patent holder.

Jordan's intellectual property practices have negligible impact on U.S. trade. The United States has maintained its position as the leading supplier of non-oil imports to Jordan, providing about $276 million worth of goods in 1987. About 60 percent of this total consisted of items such as aircraft parts, wheat, heavy equipment, corn, precision instruments, rice, electrical machinery, etc. While some of these involve high technology apparatus, Jordan has been strictly a consumer, and there has been no indication that the country has either the capability or inclination to infringe upon intellectual property rights that could jeopardize future trade relations with the United States.

8. Worker Rights

a. The Right of Association

Jordanians are free to join labor unions. About 20 percent of the Jordanian work force is unionized. Seventeen unions comprise the Jordan Federation of Trade Unions (JFTU), and there are several other unions which do not belong to the JFTU. Unions have virtually no political role and confine themselves to representing their membership in such areas as wages and working conditions. Their effectiveness varies widely. The JFTU actively participates in meetings of organizations such as the International Labor Organization. Strikes have occurred in the past, but none took place in 1988. Strikes are permitted only if the Ministry of Labor fails to act to arbitrate a labor dispute within 2 weeks after

receiving a complaint from a union. Government employees, who compose about half of the labor force, may not legally strike.

b. The Right to Organize and Bargain Collectively

The 17 unions which comprise the Jordanian Federation of Trade Unions (JFTU) function freely and without government interference or antiunion discrimination, in accordance with Article 23 of Jordan's Constitution. The JFTU recently rejoined the International Association of Arab Trade Unions (IAATU). The officers of each union, as well as the JFTU executive committee, are elected annually by secret ballot. JFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions, and health and life insurance for workers and their families. If a union is unable to reach agreement with an employer, the issue is referred to the Ministry of Labor for arbitration. In fact, union-employer-government relations are generally tranquil, so arbitration is rarely required.

c. Prohibition of Forced or Compulsory Labor

Compulsory labor is forbidden by the Constitution and is not practiced.

d. Minimum Age for Employment of Children

Children under age 16 are not permitted to work except in the case of professional apprentices, who are allowed to leave the standard educational track and begin part-time (6 hours a day, no night shifts) training at age 13.

e. Acceptable Conditions of Work

Jordan's workers are protected by a comprehensive labor code, enforced by 30 fulltime Ministry of Labor inspectors, with other Ministry employees augmenting the staff on a parttime basis. Duty free trade zones are in operation at Zarqa and Aqaba, governed by the same labor provisions that apply country-wide. Jordan has no minimum wage at present. Maximum working hours are 48 hours per week, except for hotel, bar, restaurant, and movie theater employees, who can work up to 54 hours. Workers are entitled to a weekly day of rest, rest breaks during the workday, 2 weeks' annual paid leave, 2 weeks' annual sick leave and severance pay. The law specifies health and safety requirements, including bathrooms, drinking water, and safety equipment for workers. The government appears to administer and enforce its labor laws fairly. It has created an occupational and public safety committee, which studies international safety practices, recommends standards and conducts public awareness campaigns. Jordan also has a workers' compensation law, and social security covers all companies with more than five employees.

JORDAN

f. Rights in Sectors with U.S. Investment

There is no sig: ificant U.S. investment in Jordan.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		0

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

KUWAIT

Key Economic Indicators

Millions of Kuwaiti Dinars

	1986	1987	1988(est)
Income, Production, Employment			
GDP (1)	4,998	5,247	5,500
GDP Growth Rate (pct)	-15.6	5.0	5.0
Oil Sector GDP	1,842	1,997	2,000
Non-Oil Sector GDP	3,156	3,250	3,500
GDP per capita (KD)	2,790	2,800	2,810
Labor Force (est-thousands)	671	700	725
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1, yr-end)	922	975	1,000
Commercial Interest Rates (pct, 12-month interbank bid rate)	7.36	6.06	5.5
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index (1978 = 100)	143.8	144.7	146
Wholesale Price Index	107.5	111.1	115
Exchange Rate (KD/$)	.290	.279	.280
Balance of Payments and Trade			
Total Exports fob	2,104	2,330	2,350
Exports to U.S.	89	158	160
Total Imports cif	1,674	1,476	1,600
Imports from U.S.	190	141	180
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	N/A	N/A	N/A
Debt Service	N/A	N/A	N/A
Gold and ForEx Reserves ($ pd-end)	5,501	4,141	4,000
Balance of Payments (current account)	1,574	1,230	1,300

(1) Real GDP Data have not been published for recent years. Since the inflation rate as measured by both wholesale and consumer price indices has been very low, there should not be much difference in nominal versus real GDP data if 1986 were taken as the base year for constant price figures.

1. General Policy Framework

Kuwait's economy is based on its abundant reserves of oil and the mercantile skills of its commercial and banking establishment. The Kuwaiti authorities over the years have concentrated on oil as the major export and have generalized in imports, with little non-oil industry competing with imports. Kuwait has consistently run large balance of

payments surpluses in recent years and has invested the surplus abroad, mainly in western economies, including the United States. Kuwait's income from those investments now rivals oil exports as its major fsource of foreign exchange.

Kuwait's fiscal policy has been expansionary over the past several years. The Kuwait Government budget for the fiscal year which began last July calls for outlays of Kuwaiti dinars (KD) 3.195 billion ($11.5 billion), not counting capital allocations to the Fund for Future Generations. This level is only KD37 million ($133 million) above the allocations for the previous fiscal year. As usual, the largest allocations by ministry go to the Ministry of Finance, through which the government's general accounts are financed. Revenues are projected at KD2.054 billion ($7.4 billion). The budgeted increase in revenues of about KD75 million ($270 million) assumes an average oil price of between $17 and $18/barrel, if Kuwait produces at near its approximately one million barrels per day (bpd) OPEC quota. The revenue estimate is, of course, consistent with higher output at lower prices. The budget deficit is projected to narrow from KD1.376 billion ($4.95 billion) to KD1.346 billion ($4.85 billion), with little effect on the overall economy. There have been indications from partial year accounts, however, that the expenditure level was somewhat smaller than projected in FY1987-88, as was the budget deficit. If so, the FY1988-1989 budget would provide an expansionary boost to the domestic economy.

The Kuwaiti Government does not include its income from its foreign investments as revenues in its budget statement, so the budget is not as much in deficit, or may be in surplus, if U.S. accounting practices were followed. Since it reinvests most of these funds, the money available for domestic spending must come from drawing down general reserves or from borrowing. (Money in the Fund for Future Generations cannot be drawn on until the turn of the century.)

The Kuwaiti Government in 1987 launched a program of selling Kuwaiti treasury bonds and bills. It sold nearly KD1.7 billion of these bonds in FY1987-88 and the deficit appears to have been considerably less. Presumably it has borrowing authority sufficient to finance this fiscal year's deficit as well. The deficit has been provoked by the government's attempts to maintain its level of spending at current levels in the face of fluctuating oil income. Since oil income has been sharply lower throughout most of the 1980s, the effect has been to cushion the economy from an even more drastic economic downturn than the near halving of per capita gross domestic product (GDP) it experienced.

Monetary policy has been fairly loose in the past two years, with the government keeping interest rates low through a combination of adjusting the discount rate and open market operations. Foreign exchange flows have complicated the monetary policy stance, since some local investors perceived an opportunity to borrow at low local interest rates and to safely invest at a profit in western markets.

KUWAIT

2. Exchange Rate Policy

The Kuwaiti central bank pegs the Kuwaiti dinar against a basket of currencies. The weighting of the basket is not published, though the weights are said to be proportional to payments flows. There are no multiple rates, and there are few restrictions on foreign exchange availability other than the requirement that purchases be through a bank or licensed foreign exchange dealer. The pegging method does not affect the competitiveness of U.S. exports to any significant extent.

3. Structural Policies

There are few incentive programs for domestic private investment. The government has helped set up institutions to finance industrial and small business development, and has promoted the growth of the domestic stock market. However, it offers little protection for inefficient import substitution, and there are few resources other than oil and investment capital in this small country. The investment capital goes where rates of return are high, consistent with safety, which implies a portfolio heavily weighted to western markets. There are few taxes beyond a low (on average) tariff levy on imports.

4. Debt Management Policies

Kuwait is a creditor nation with large outstanding loans to developing country debtors. Since 1962, its foreign aid lending institution, the Kuwaiti Fund for Arab Economic Development, has provided more than $5 billion in low cost financing to developing countries throughout the world. In addition, the Kuwaiti Investment Authority (KIA) which is responsible for investing the government's liquid assets, holds an unknown amount of lesser-developed country (LDC) debt instruments. Kuwait participates with the United States and other creditors in rescheduling official debt of the developing countries via the Paris Club and has also participated in rescheduling packages involving commercial debt. The Kuwaiti Government has supported a strong role for the World Bank and the International Monetary Fund in dealing with the third world debt problem.

5. Significant Barriers to U.S. Exports

There are few barriers to U.S. merchandise exports to Kuwait. Kuwait is a Moslem country and does not permit the import of alcohol or pork from any country. It also participates in the Arab boycott of Israel, which may present problems for some U.S. exports. Kuwait is a low tariff country with few tariffs higher than a minimal four percent on most imports. It can and has imposed tariffs of up to 30 percent ad valorem on a few items which are locally manufactured. These few tariff lines have little effect on U.S. export sales to Kuwait.

KUWAIT

Kuwait has no investment code as such regulating foreign investments. However, several of its laws contain provisions which would hamper direct foreign investments. For example, in the accounting field, only Kuwaiti citizens are licensed and able to sign reports. Also, foreign banks are not permitted to operate in Kuwait. Furthermore, any foreign firm that invests in Kuwait must enter into a joint venture with a Kuwaiti individual or company. The Kuwaiti Government requires that the Kuwaiti partner own at least 51 percent of the joint venture's stock. The net effect of this provision is considered to be minor, since Kuwait is a major foreign investor, rather than a country attracting investment. The size of its investment in U.S. equity markets, for example, is greater by a large multiple than any potential U.S. investment in Kuwait.

Kuwait gives priority to local products in government procurement. Government contracts usually contain provisions that preference will be given to local products if available.

Kuwaiti import documentation requirements include provisions that country of origin be documented by Kuwaiti embassies or Arab chambers of commerce. This requirement is imposed uniformly and does not discriminate against U.S. exports.

6. Export Subsidies Policies

Kuwait does not subsidize exports, which consist almost exclusively of crude oil, petroleum products, and fertilizer. Small amounts of vegetables are grown by farmers receiving government subsidies, and small amounts of these vegetables are sold to neighboring countries. There is not enough grown to make noticeable inroads into the local or foreign markets.

7. Protection of U.S. Intellectual Property

Kuwait is not a party to the Paris Convention for the Protection of Industrial Property or to any other treaty relating to patents, copyrights or trademarks.

There has been a patent and trademark law in Kuwait since 1962. However, enforcement of the law is sporadic, and authorities have not been able to prevent the unauthorized sale of counterfeit goods, including car parts, suitcases, and watches.

The Government of Kuwait has been studying the enactment of a copyright law for at least the past four years, but there has been little progress towards enactment. There is a large overt market for pirated videos and cassettes as well as the sale of unauthorized Arabic translations of foreign-language books. The motion picture industry estimates the home video market in Kuwait is 100% pirate and is also concerned with unauthorized hotel video performances which are said to be common.

KUWAIT

The net effect of Kuwait's intellectual property practices tolerating trademark and copyright violations is small. The Kuwaiti market is small, and there are almost no tourists visiting Kuwait. The effect on U.S. exports is not considered significant. There is no local production of counterfeit or pirated works and no import for resale to third countries.

8. Worker Rights

a. The Right of Association

Kuwaiti workers have the right to establish and join unions. Kuwait's labor movement has about 27,000 members, organized into 13 unions. All but one of the 13, that of the bank workers, are affiliated with the Kuwait Federation of Trade Unions (KFTU). Expatriate workers, who comprise about 80 percent of the roughly 700,000-strong labor force, are permitted to join unions after 5 years' residence but only as nonvoting members who cannot hold office. Kuwait labor law stipulates that, for any new union to be formed, it must include at least 100 Kuwaitis. Unions are independent organizations, free from government control. Unions must, however, follow a standard format for internal rules and constitutions which includes a prohibition on any involvement in political, sectarian, or religious issues.

The vast majority of union members are Kuwaitis. The KFTU, grouping together nine civil service unions and three oil sector unions, is a member of the International Confederation of Arab Trade Unions (ICATU) as well as the Communist-dominated World Federation of Trade Unions (WFTU). Both the KFTU and the Ministry of Social Affairs and Labor are active in the International Labor Organization (ILO) and its regional counterpart, the Arab Labor Organization (ALO). The local ILO office was established in 1974 and provides the government and unions with technical assistance in the areas of vocational education and manpower plannin .

The right to strike is recognized, but in recent years there have been few work stoppages, and in 1988 there were no reports of any at all. The tranquil labor/management relations stem in large part from a generous social welfare system, and the Government's willingness to provide employment for Kuwaitis in the public sector, which features one of the most liberal government retirement systems in the world.

Kuwaiti labor law has a provision allowing for compulsory dissolution of any union that "commits an act considered to be violating the provisions of this law and of the laws connected with the preservation of public order and morals." Under the law, a union can only be dissolved by a court decision; such a court decision can be appealed. No unions have been dissolved in this manner.

b. The Right to Organize and Bargain Collectively

Kuwaiti workers have the right to organize and bargain collectively. Union rights are incorporated in the labor law and generally respected in practice. Kuwait labor law provides for direct negotiations between employers and "laborers or their representatives." If an amicable agreement is not reached, the parties may petition the Ministry of Labor and Social Affairs for settlement. If no agreed solution is reached by this means, the dispute is referred to a Labor Arbitration Board composed of officials representing the High Court of Appeals, the Attorney General's Office, and the Ministry of Labor and Social Affairs. Union activity is concentrated in the government, banking, and oil sectors. While non-Kuwaiti workers do not enjoy the same union rights as Kuwaitis, there is little overt discontent among expatriate workers. There are several reasons for this: most expatriates are drawn to Kuwait by comparatively high wages; the government will summarily deport any non-Kuwaiti deemed a troublemaker; and a non-Kuwaiti cannot remain in Kuwait without employer sponsorship. Union members have the right to elect representatives of their own choosing provided the candidates can obtain a "good conduct certificate" (absence of criminal record).

There are no export processing zones in Kuwait.

c. Prohibition of Forced or Compulsory Labor

The Kuwaiti Constitution prohibits forced labor "except in cases specified by law for national emergency and with just remuneration." This prohibition appears to be generally respected.

d. Minimum Age for Employment of Children

The minimum age under Kuwait law is 18 years for full-time work and 14 years for part-time work. This law appears to be generally observed and enforced, particularly in urban areas, by both labor inspectors from the Ministry of Labor and Social Affairs and truant officers of the Ministry of Education.

e. Acceptable Conditions of Work

General conditions of work are established by Kuwaiti labor law for both the public and private sector, with the oil industry treated separately. The law limits the workweek to 48 hours, provides for a minimum of 14 days' leave per year, and establishes a compensation schedule for industrial accidents. A 1979 ministerial decree created a permanent commission to coordinate activities in the field of public health and occupational safety. It has had some success in raising safety awareness and improving government coordination.

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Reflecting the importance of the petroleum industry in Kuwait, the law governing employment in this sector is more generous than the general laws. It provides for a 40-hour workweek, overtime pay for shift work, 30 days' annual leave, and a generous sick leave policy. Women are permitted to work, except in "dangerous industries and trades harmful to the health," and are promised "equal remuneration to that of a man provided she does the same work." There is no legal minimum wage, but this has little impact since Kuwait is not a low-wage country. By and large, employers appear to respect provisions of the labor law and provide suitable working conditions, although abuses occur in the treatment of unskilled foreign workers, particularly household maids and servants. There were credible reports that sizable groups of South Asian expatriate workers doing manual labor were not paid promised salaries in 1988, with similar reports of underpayment of salaries for servants.

f. Rights in Sectors with U.S. Investment

The only goods producing sector of any size in Kuwait is the oil sector, which is completely Kuwaiti owned. There is no public information indicating that any of the minor goods producing sectors (furniture for example) have any U.S. capital invested.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		7
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Lebanese Pounds (LL) Unless Otherwise Stated

	1986	1987	1988
Income, Production, and Employment ($ millions)			
GDP (current prices)(1)	1,190	1,000	N/A
O.W. (pct share by sector))			
Primary	N/A	20	N/A
Secondary	N/A	30	N/A
Services	N/A	50	N/A
Money and Prices(2)			
Money Supply (M1) (mills of LL)	30,326	68,890	157,332(3)
Commercial/Investment Interest rates (pct)	24.55	50.12	52.98(4)
Savings Rate (pct)	13.35	17.44	23.86(4)
Consumer Price Index (1985 = 100)(5)	338.6	2,813.3	2,878.4
Exchange Rate (yr-end)	87	455	485(6)
Balance of Payments and Trade ($ millions)(7)			
Total Exports fob	700	1,000	N/A
Total Exports to U.S.	30.8	34.3	25.3(8)
Total Imports cif	1,900	1,500	N/A
Total Imports from U.S.	106.3	96.6	73.1(8)
AID from U.S. (U.S. FY)	24.7	34.2	20.4
AID from Other Countries	N/A	N/A	N/A
External Public Debt (excluding military)	207	215	500-600(6)
Annual Debt Service Paid	N/A	N/A	N/A
Foreign Exchange Reserves	461.8	336.3	991.1(6)
Gold (million fine troy ounces)	9.22	9.22	9.22(6)
Balance of Payments	-122	119	196(9)

Notes:
(1) 1986 estimate of the Beirut Chamber of Commerce and Industry; 1987 estimate of the Central Bank of Lebanon (CBL).
(2) Central Bank of Lebanon.
(3) Until August.
(4) Until March.
(5) Confederation General of Labor Unions in Lebanon; 1988 figure is for September.
(6) October.
(7) Central Bank of Lebanon; U.S. Department of Commerce; USAID-American Embassy Beirut.
(8) January - July.
(9) May.

LEBANON

1. General Policy Framework

The Lebanese market with its longstanding *laissez faire* tradition is among the most liberal in the world. The government subsidizes some petroleum products and bread, but free market forces determine the price of other goods. The banking system is regulated by liberal monetary and credit policies of the Banque du Liban, the Central Bank of Lebanon (CBL). Other private sector enterprises operate with few if any government restraints. Government policy is to permit free exchange of currencies, precious metals, and monetary instruments domestically and in foreign trade. Bank secrecy laws are enforced. The repatriation of dividends and profits is unrestricted. Tax assessment and collection is not onerous.

Since the 1975-76 civil war, the Government of Lebanon has been accumulating increasingly larger budget deficits as traditional sources of revenues -- mostly customs collection -- have been shrinking. To finance deficits the Government of Lebanon resorts to borrowing from the CBL (advances and treasury bills) and from the commercial banks and the public (treasury bills). The Government of Lebanon is currently attempting as much as possible to restrict unnecessary expenditures. In 1987, for example, fuel subsidies accounted for about 50 percent of the public deficit.

The most important monetary tools used by the CBL to control the money supply include adjustments to the legal reserve requirements, the discount rate and regular intervention in the foreign exchange market. The Lebanese have been able to cope with high inflation and increasing reliance on a dollar-denominated economy thanks to remittances from family members or relatives working abroad. It is estimated that about 700,000 Lebanese have emigrated since 1982; remittances are roughly estimated by some observers to be between $500-600 million annually. Substantial inflows are attributable to merchandise export earnings as well as so-called secret subsidies for various political and militia groups. As a result, Lebanon's net capital inflow, transfers, and capital accounts more than offset the country's balance of trade deficit.

2. Exchange Rate Policies

Lebanon operates as a free foreign exchange market. The Lebanese pound has been freely floating since 1952. Prior to the September 1988 elections, the government sought to nurture confidence by forestalling large exchange rate movements. With the pound recovering from November 1987 to mid-1988, the CBL purchased $750 million of foreign exchange to slow the pound's appreciation. This appreciation was attributed to several factors, including a perceived excess depreciation previously, Lebanon's large gold stock, improvement of the trade balance, optimism at the time regarding the presidential election, greater remittances from abroad, and capital inflows. However, the public sector deficit and the money supply have continued to increase and the appreciation of the

pound has proven transitory. Lebanese authorities consult regularly with the International Monetary Fund (IMF), which is expected to offer technical assistance once security permits.

3. Structural Policies

As indicated, Lebanon is among the most liberal markets in the world. Prices of goods and services, except for public utilities, are determined by the workings of a free market. However, prices vary depending on regions, unofficial "taxes" charged by the various militias, and transportation surcharges set by sellers and transport operators. The Lebanese Government still subsidizes some petroleum products and wheat to keep them accessible to low income groups.

Tax assessment is not substantial in Lebanon, but tax collection has been greatly influenced by the security situation. Public revenues have grown slowly due to the infringement of government authority. In 1983 when the government was stronger, receipts from both customs duties and direct taxes accounted for the bulk of total receipts. However, since 1984 revenue growth has come mainly from fees, dues, and profit transfers from the CBL. Tax concessions are accorded to industrial facilities located away from the Lebanese coast and outside areas developed as summer resorts.

Pricing, tax, and regulatory policies do not appear to discriminate against U.S. imports.

4. Debt Management Policies

At between $500 to $600 million, excluding military debt, Lebanon's external public debt is not significant. This is especially so in light of the gold and foreign exchange reserves held by the CBL, estimated to be about $1 billion. A large part of this debt is long-term, to be fully repaid after the year 2000. Payment delays occurred in 1986 and 1987 but were eventually settled. The Lebanese Government has fallen seriously in arrears on its U.S. Government-guaranteed housing loan payment throughout 1988 and section 620 (9) sanctions were recently invoked.

5. Significant Barriers to U.S. Exports

As a general proposition, there are no official barriers to U.S. exports and few restrictions on U.S. or other foreign direct investment. Competitive forces and factors such as price and transportation costs determine the level of U.S. exports; and the current political and social instability -- not government actions or policies -- explain U.S. and other foreign disinvestment. Lebanon welcomes foreign investment, particularly from the U.S. Foreign investors find it easy to organize a Lebanese company, participate in a joint venture with an existing Lebanese company, or establish a branch or subsidiary of a foreign firm. Competent local legal and financial advice is, however, essential to minimize risks.

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Investment by foreigners still requires a very careful evaluation of local political and economic conditions.

Lebanon operates under bilateral commercial agreements with a number of countries, but does not have bilateral investment treaties per se. Investment projects are welcomed in all geographic areas and sectors. Investment incentives are extended to new industries which produce a product, and not on the basis of geographic criteria. Petitions to establish new manufacturing facilities are submitted for approval to the Ministry of Industry and Petroleum, which determines whether a projected industry is economically sound and qualifies for customs protection and special incentives. Among the benefits: tariff protection of up to 45 percent; duty free import of selected raw materials, agricultural machinery, equipment and spare parts; only one percent duty fee on the import of industrial machinery, equipment and spare parts; and accelerated depreciation. Industrial establishments must be registered at the Directorate General of Industry.

While no general system of investment restrictions is enforced, individual investments are reviewed for feasibility by one or more ministries before the necessary licenses are granted.

No import licenses are needed prior to importation, except for the importation of olive oil during the olive season. Most imports now enter the country through the illegal ports, thus avoiding testing, labelling and certification controls. Lebanon has preferential import agreements with countries of the European Communities (EC).

In principle Lebanon imposes no performance requirements on foreign investors regarding geographic location, percent of local content, import substitution, or export expansion. Foreign personnel need work permits from the Ministry of Labor. Lebanon poses no general legal requirement regarding the use of local labor, quotas, or choice of investor technology. However, in industrial plants the number of foreign personnel cannot exceed 20 percent of the work force.

In line with its free exchange policy, Lebanon poses no restrictions on the repatriation of profits or other capital movements. Foreign enterprises or entities need a presidential decree to own up to 10,000 square meters of real estate or property rights in Lebanon. Additional concessions can be authorized upon request if it appears that more surface area is needed by corporations and industrial or other enterprises to carry out their activities.

Government procurement practices use competitive bidding. However, if a foreign made product is only 10 percent superior in terms of quality and/or price to a locally made product, the Lebanese Government chooses the latter in order to encourage local production.

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6. Export Subsidies Policies

The Lebanese Government subsidized the export of textiles from 1967 until 1980. The government has not subsidized exports since that time.

7. Protection of U.S. Intellectual Property

Lebanon is a party to the Berne, Paris, and Universal Copyright conventions. Patents can be registered without prior examination and approval by the government but without its guarantee. The period of protection for a patent or a trademark is 15 years. However, in the case of a trademark, the protection may be renewed for successive periods of 15 years. Foreigners are required to apply for patents through a resident representative.

Partly as a result of the current political situation and the difficulty in governing or regulating effectively, and partly as result of Lebanon's longstanding *laissez faire* tradition, there is extensive smuggling. These same factors have affected the ability to protect trademarks and copyrights. Piracy of books, records and videos has substantially increased in recent years, especially with the sharp depreciation of the Lebanese pound vis-a-vis foreign currencies and the absence of effective official controls. Moreover, it is difficult to press cases in the local courts given the prevailing security situation.

The motion picture industry estimates the home video market in Lebanon is 100% pirate and is also concerned with private TV stations pirating U.S. programs and films.

8. Worker Rights

a. The Right of Association

Lebanese labor law gives workers the right to unionize; choose their own representatives, provided they are employed within the bargaining unit; and determine their own policies and programs as long as the unions do not involve themselves in politics. Workers have the right to strike, and they exercise it. The government does not control or restrict unions, except that government employees may not unionize or strike. The government also does not offer any special protection to the person and property of trade unionists. There are 160 local labor unions in Lebanon. The major labor umbrella organization, the General Confederation of Lebanese Workers (CGTL), is comprised of 18 federations of labor unions. There are no comprehensive statistics on union membership, although the CGTL claims 200,000 to 250,000 dues-paying members, which is about one-third of the 600,000 employed persons in Lebanon. The CGTL sends representatives to International Labor Organization (ILO) meetings, and is affiliated with the International Confederation of Arab Trade Unions (ICATU) based in Damascus. Thirteen of its affiliated federations belong to the International Confederation of Free

Trade Unions, headquartered in Brussels. Another affiliated federation is a member of the Prague-based World Federation of Trade Unions (WFTU).

b. The Right to Organize and Bargain Collectively

The right of workers to organize into unions and bargain collectively exists in law and practice in Lebanon. Most workers' groups engage in some form of collective bargaining with their employers. The stronger federations, such as the federation of bank employees' unions and the Airline Pilots Association, have been able to obtain significant gains through their own collective bargaining efforts. The weaker unions rely heavily on the mediation of the CGTL which, prior to the civil war, used to negotiate annual across-the-board pay increases with the private employers' association. Often the CGTL assists unions which are not affiliated with it in their bargaining efforts, and it even assists nonunionized workers. There is no government mechanism to promote voluntary worker-employee negotiations, and workers are not protected against antiunion discrimination. An example of such discrimination occurred when an outspoken leader in one of the teachers' unions was fired by the school in which he taught. His dismissal effectively silenced him because he was no longer qualified to hold a leadership position in the union.

c. Prohibition of Forced or Compulsory Labor

The government does not use forced labor. In the present anarchy, however, militias have forced workers, especially immigrant laborers, to perform unpaid duties such as filling sandbags for use in building defenses against attack and cleaning of militia offices. Hospitals and physicians are sometimes also required to provide services free to the army and the militias. In the case of the army, the mechanism for reimbursement exists, but the government has not fulfilled its obligations for several years. The militias use the authority of the gun to claim the same privilege as the army. This widescale nonpayment for medical services has contributed significantly to the growing emigration of doctors.

d. Minimum Age for Employment of Children

Lebanese labor law lists the minimum age for employment of children at 8 years (ILO convention No. 60, which Lebanon has not signed, limits employment of children under age 14 to light work for no more than 2 hours a day). In fact, few children under 16 years of age are employed.

e. Acceptable Conditions of Work

The Lebanese work a six-day week. According to Lebanese labor law, the maximum number of hours a person may work per week is 48. In practice, workers in the industrial sector work an average of 35 hours a week, and workers in the other sectors of the economy work an average of 30 hours a week. Lebanese labor law includes specific occupational health and safety regulations. However, given the civil strife and weakness of the central government, most of the regulations are not enforced.

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f. Rights in Sectors with U.S. Investment

There are presently in Lebanon a few representative officials of U.S. firms in which U.S. capital is invested, and which are manufacturing U.S. products locally. There are five U.S. companies in the chemicals and related products sector (two firms producing pharmaceuticals, two firms producing detergents, and one firm producing paints and paint brushes), one firm in food and related products (chewing gum and other), and one firm in other manufacturing (producing elevators).

These firms follow the Lebanese Code of Labor. They offer wages above the legal minimum wage, fewer working hours, and health and safety standards in the work place which exceed local requirements.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. Dollars)

Category	Amount	
Petroleum		2
Total Manufacturing		(D)
Food & Kindred Products	(*	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	1	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,00

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Libyan Dinars Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
Real GDP	6,473	6,100	N/A
Real GDP Growth Rate (pct)	10.0	6.0	N/A
GDP by Sector (pct)			
Manufacturing	--	less than 5	--
Agriculture	--	less than 10	--
Petroleum	--	about 35	--
Real per capita Income	2,001	1,730	N/A
Size of Labor Force (millions)	0.8	0.8	0.9
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	3,492	3,041	N/A
Commercial Interest Rates (pct)	--	7 ceiling	--
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
CPI	N/A	N/A	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Official (LD1 = $)	$3.07	$3.33	$3.41
Parallel	N/A	N/A	N/A
Balance of Payments and Trade			
Total Exports	1,800	1,850	N/A
Total Exports to U.S.	5	0	0
Total Imports	1,300	N/A	N/A
Total Imports from U.S.	14	.03	0
Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	1,100	N/A	N/A
Annual Debt Service Payments	250	N/A	N/A
Gold/Foreign Exchange Reserves	2,800	2,600	2,400
Balance of Payments	-600	-500	N/A

1. General Policy Framework

The popular assemblies (or jamahariyah), established in the late 1970s, have ostensible control over the national budget and development programs. In practice, however, the Libyan economy is subject to extensive central control. Nationalization programs have reached beyond heavy industry and large enterprises to embrace retail marketing and agriculture. For pragmatic reasons, private farming has been allowed to coexist with the subsidized state system.

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Perhaps because of the inefficiencies, scarcities, and general unpopularity of the government-run retail trading system, some liberalization in this sector has occurred over the past year or so. The oil sector, heavily dependent on outside expertise, has been largely exempt from the nationalization nostrums practiced by the Libyan regime.

The principal policy consideration surrounding growth in demand for U.S. exports is the U.S.-imposed trade embargo on Libya. It is illegal under U.S. statutes, regulations, and pertinent Executive Orders for U.S. nationals and corporations to trade with Tripoli. Authorization instituted in January 1989 for five U.S. oil companies to manage their assets in Libya does not permit trade between the United States and Libya.

The Libyan dinar is not a freely traded currency. Foreign reserves are husbanded by the central government, and first priority for their use is accorded to items and programs of importance to the government. Such controls have created a disfunction between the availability to the private citizen of currency on the one hand and desired goods and services on the other. In recent years, the Libyan economy has been marked by scarcities of goods normally available to ordinary citizens. All imports are made by the government. Import licenses are not available to private firms.

2. Exchange Rate Policies

Before March 1986 the Libyan dinar was pegged to the U.S. dollar at a rate of LD 0.296 equal to $1. The dinar is now pegged to the International Monetary Fund's Special Drawing Rights (SDR) at a rate of LD 0.384 = SDR1.0. Virtually all importation is in the hands of the government, with foreign trade in the hands of some 60 public corporations. With certain narrow exceptions, such as imports by contractors working under government auspices, imports by the private sector are forbidden.

Libyan exchange rate policies currently have little if any effect on the competitiveness of U.S. exports since such exports are illegal under U.S. law.

3. Structural Policies

The Libyan economy is controlled by the public sector. Imports for resale are handled almost exclusively by public entities. Decisions on the types and quantities of goods available for sale to the public are largely made by government bodies. The government's previous efforts to close down all private shops and divert consumer purchases to state-run enterprises met with public disenchantment, and there has been some loosening of controls on the small sole proprietorships common elsewhere in the Middle East and North Africa. Such companies, however, have no control over the manufacture, importation, or distribution of products within the economy. Basic foodstuffs traditionally have been heavily subsidized.

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The Libyan tax structure is pervasive. The income tax is steeply progressive, and no Libyan is supposed to have an income over 10,000 dinars per year. In addition, there are entertainment taxes, agricultural taxes, production taxes, special taxes on the banking and insurance sectors, and customs duties.

Libya's structural policies do not affect the market for U.S. exports since these are illegal under U.S. law.

4. Debt Management Policies

The slump in world oil prices during the 1980s has dealt a blow to Libya's management of its foreign debt. Libya has needed a large number of expatriate workers to perform the professional services and skilled work necessary to the functioning of its economy. Since relatively high wages (and the ability to expatriate a significant portion of these earnings) were essential to attracting and maintaining needed workers, Libya was compelled to convert current domestic wages into currencies attractive to these workers. This system required a significant surplus from the oil sector of the economy. In recent years such foreign earnings have declined substantially.

To deal with this imbalance, Libya sent home thousands of Tunisian and Egyptian workers several years ago and has placed some restrictions on repatriation for the remaining foreign nationals in Libya. It has also resorted to non-payment of prior commercial debt to foreign suppliers and contractors. The Libyan government has resorted to negotiating barter deals for crude oil to satisfy some of these preexisting obligations. It has also cut back sharply on imports in order to balance its books.

In contrast to many third world countries, Libya has relatively little foreign debt. Its management of this debt has not adversely affected the market for U.S. exports, prohibited by U.S. law.

5. Significant Barriers to U.S. Exports

The most significant barrier to U.S. goods and services in Libya is the U.S. prohibition of trade with the Qadhafi government. Libya maintains substantial barriers to foreign imports. These include a dearth of import licenses, customs duties, a prohibition on foreign direct investment, a nationalized economy without significant opportunities for foreign banking and insurance enterprises, severe government restrictions on the general level of imports, extensive use of countertrade arrangements, prohibitions on land ownership by foreigners, prior examples of expropriation of foreign holdings, and a cumbersome and stultifying bureaucratic framework.

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6. Export Subsidies Policies

With the exception of the petroleum sector, Libya produces little that is of demand on world markets. With the decline in world oil prices, Libya has endeavored to arrange barter deals for its crude oil in return for foreign goods and services and for the cancellation of prior foreign debt. To the extent that these efforts have been successful, the net effect in most cases has been a hidden subsidy of petroleum exports which has created an additional drag on world oil markets.

7. Protection of U.S. Intellectual Property

Libya is a party to the Berne and Paris Conventions but, like many third world countries, does not devote extensive resources to protecting the rights of foreign intellectual property owners. At the same time, however, trade restrictions, import restrictions, currency unavailability, and the small size of the domestic market all play a part in making the problem less acute in Libya than in some other locales.

8. Worker Rights

a. The Right of Association

The official trade union organization, the General Federation of Producers' Trade Unions, which was created in 1972, is under government control and administered through the People's Committee system. Independent trade unions and professional associations are viewed as unnecessary, since Col. Qadhafi has vowed not to accept intermediaries between the revolution and its working forces. Although unions are guaranteed the right to "safeguard their interests," there is no right to strike, and no strikes, by Libyan workers, have been reported for years.

With government financing, the official trade union organization plays a leading role in the International Confederation of Arab Trade Unions and the Organization of African Trade Union Unity and exploits international trade union contacts to engage in propaganda efforts on behalf of the Government. Libya is a member of the International Labor Organization (ILO). It ratified ILO Convention 98 on the Right to Organize and Collective Bargaining in 1962 (under the previous regime), but it has not ratified Convention 87 on Freedom of Association.

b. The Right to Organize and Bargain Collectively

There is no collective bargaining in Libya. The ILO's Committee of Experts has noted that the Libyan Labor Code lays down conditions for the validity of collective agreements which are contrary to provisions of ILO Convention 98 requiring free and voluntary negotiation of collective agreements.

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c. Prohibition of Forced or Compulsory Labor

There were no known reports of forced or compulsory labor as defined by ILO conventions.

d. Minimum Age for Employment of Children

No information is available regarding employment of children in Libya. In general, there is no evidence that child labor is a problem.

e. Acceptable Conditions of Work

Libya maintains a work force of around 1 million workers in a population of 3.7 million. Libyan labor law defines the rights and duties of workers, and such aspects as compensation, pension rights, minimum rest periods, and length of the workday.

Libyan labor law does not apply to the 300,000 foreign workers in Libya, who do much of the blue collar and technical work. Their permission to stay in the country extends only for the duration of the contracts under which they are employed. Foreign workers are subject to arbitrary pressures, such as changes in work rules and contracts, with little option but to accept or to depart the country, often without full compensation for work already performed. The conditions of their employment are subject to negotiation between the worker and the employer. Foreign workers who are not under contract enjoy no protection. In 1988 a series of strikes by foreign workers, against their foreign employer, were suppressed by the Libyan military. The workers were arrested and expelled.

During the 1988 session of the ILO, Libya was criticized for its failure for the past 17 years to submit reports of labor inspection, as required by the Convention on Labor Inspection (Convention No. 81, 1947). A government representative claimed that labor inspection in Libya was within the competence of the popular committees and that a technical committee carried out regular inspections in factories.

f. Rights in Sectors with U.S. Investment

There is appreciable U.S. investment in Libya only in the petroleum sector. The U.S. presence in this sector of the Libyan economy predates Qadhafi's rise to power in 1969. This investment was attracted by the presence of untapped crude oil reserves and the inability of King Idris' government to extract them without the assistance of foreign expertise. Since 1986 U.S. assets in the Libyan petroleum sector have been frozen, and U.S. companies have had no authority over the conditions of workers in the facilities containing U.S. investment.

In January 1989 the President authorized the Treasury to modify the special licenses of U.S. oil companies operating in Libya at the time current economic sanctions were imposed in 1986. The effect of this decision was to deny an economic

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windfall to Libya by removing grounds on which the assets of these companies in Libya could have been nationalized. Existing travel and trade restrictions against Libya were unaffected and remain in full force. Subject to these restrictiona, the mofified licenses would allow the companies to resume operations, transfer assests to foreign subsidiaries, or sell their assets. As of the end of January 1989, the licesnes had not been modidied, nor had operations resumed.

In practical terms, there is no guaranteed freedom of association under the present Libyan regime, nor is there a generally respected right to organize and bargain collectively. Such restrictions are traceable to the practices of the Libyan regime, rather than to the policies of the U.S. oil companies themselves. When these U.S. companies had the authority to oversee their own operations in Libya, we know of no incidents in which there was use of forced or compulsory labor or the employment of children below the age set by statute. Likewise, conditions of employment (wages, hours, occupational safety and health) generally exceeded national norms.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		246
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		1
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		247

Source: U.S. Department of Commerce, Survey of Current Business
August 1988, Vol. 68, No. 8, Table 13

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Key Economic Indicators

Moroccan Dirhams Unless Otherwise Stated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP (millions 1980 base)(1)	75,775	73,595	N/A
Real GDP Growth Rate (pct)	5.8	1.5	6.0
GDP by Sector (pct)			
Industry	30.0	31.0	N/A
Manufacturing	17.5	18.5	N/A
Mining	3.6	3.4	N/A
Agriculture	21.3	18.6	N/A
Services	49.0	50.4	N/A
Real Income per capita (1980 Base)	3,352	3,105	N/A
Labor Force (000s)	6,950	7,200	7,460
Unemployment Rate (pct)	14.0	15.5	N/A
Money and Prices			
Money Supply (M1) (pct)(2)	9.9	10.4	7.2
Interest Rates (annual pct)(3)			
Savings Rates (pct)			
Small Savers	9.0	9.0	9.0
Migrant Workers	8.0	8.0	8.0
6 month Treasury Bonds	10.0	10.5	10.5
24 month Treasury Bonds	11.0	11.0	11.0
5 Year Treasury Bonds	11.5	11.5	11.5
Lending Rates (pct)			
Short-Term	14.0	14.0	13.0
Long-Term	16.0	16.0	16.0
Consumer Price Index (pct change)	8.8	2.7	4.5
Wholesale Price Index (1977 = 100)	243.1	245.6	N/A
Exchange Rate (dirhams/$)	9.10	8.36	N/A
(pct change)	7.8	1.0	N/A
Balance of Payments and Trade ($ millions)			
Total Exports fob	2,438	2,798	N/A
Exports to U.S.	47	54	N/A
Total Imports cif	3,802	4,219	N/A
Imports from U.S.	487	382	N/A
Total Aid from U.S.	121.3	134.6	136.3
Debt Service Paid	1,940	1,996	N/A
Foreign Exchange Reserves (yr-end)	159	370	N/A
Balance of Payments			
Trade Balance	-1,364	-1,421	N/A
Current Account	-216	164	N/A

(1) International Monetary Fund data at current prices deflated by annual GDP deflators used by the IMF.
(2) Annual real growth rate.
(3) Annual nominal rates.

MOROCCO

1. General Policy Framework

Morocco has an active free enterprise economic system in which the role of the state has been steadily reduced in recent years. Private property and private investment predominate in most areas of economic and commercial activity. Prospects for near term expansion of U.S. exports are limited fundamentally by the country's lower-middle income status and its heavy foreign debt burden. In per capita gross national product (GNP) terms, Morocco has the lowest income of the countries included under the U.S. Government's strategy for dealing with the global debt problem.

Since 1983 Morocco has been engaged in a strenuous program of economic stabilization and reform in close cooperation with the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). Adjustment policies necessitated a sharp reduction in imports and public investment. In the past several years, U.S. market share has fluctuated between 6.0 and 12.5 percent of total imports, depending on changes in demand for U.S. agricultural products, principally cereal and feed grains and vegetable oils.

Good progress has been achieved in economic reforms and performance has improved markedly, particularly in the past two years. In 1987 Morocco posted its first current account surplus since 1973. Inflation has been brought under five percent without resort to price or wage controls, domestic food subsidy programs have been reduced and the foreign trade and foreign exchange regimes have been progressively liberalized. Morocco became a full member of the General Agreement on Trade and Tariffs (GATT) on June 15, 1987.

Fiscal policy has been austere throughout the adjustment period. The overall annual budgetary deficit has been reduced from around 12 percent of gross domestic product (GDP) in 1982 to just over 6 percent in 1987 and is expected to drop further in 1988. Deficits have largely been financed by keeping domestic petroleum product prices well above world market levels, by introduction of a value added tax (VAT) in 1986, and by issue of long-term Treasury bonds that have consistently been oversubscribed.

Monetary policy has been similarly restrictive with annual domestic credit expansion reduced from 20 percent in 1983 to 11.3 and 7.4 percent in 1986 and 1987 respectively. The government maintains generally effective control of the money supply through the use of bank credit ceilings. Public borrowing from the banking system has been reduced. Interest rates for both savers and borrowers have remained positive in real terms.

2. Exchange Rate Policies

Since 1980 the Moroccan dirham has been pegged to a currency basket reflecting the direction of the country's

trade and its currency denomination. Depreciation of the dirham was relatively rapid from 1980 through 1985. Since then, exchange rates have been relatively stable. There are no parallel or multiple rates, and the discount on the dirham in the small black market in neighboring countries is believed to be small.

The government no longer requires advance approval of all foreign exchange transactions by the Exchange Office of the Ministry of Finance. The waiting time for access to hard currency at the Central Bank has fallen steadily in the past two years and is currently less than ten working days. Foreign investors are guaranteed the right to convert and export both net profits and original investment capital under Morocco's liberal foreign investment codes. The regulatory role of the Exchange Office has been steadily reduced with the ultimate goal of having it function solely as a collector of ex-post statistics on foreign exchange transactions.

3. Structural Policies

Morocco's tax reform program aims to create a simplified three-part tax structure to replace a complex system of import, excise and special taxes inherited from the French colonial period. A uniform VAT system was introduced on April 1, 1986. A revised corporate profits tax went into effect in January 1988, and a proposal for a revenue positive personal income tax reform was put before the Parliament during the autumn 1988 session. The thrust of reforms is to reduce evasion, improve collection and eventually eliminate the annual budgetary deficit currently running around five percent of GDP.

Morocco has steadily reduced its foreign and domestic debt service arrears in the past two years. In the second half of 1988 the Government made major progress in reducing its past-due debt to domestic suppliers, thereby improving their ability to rebuild depleted stocks in the coming year. External foreign exchange arrearages were reduced from Special Drawing Rights (SDR) 510 million at the end of 1986 to SDR378 million at the end of 1987. Further reduction has taken place during 1988, but final figures are not yet available.

In a major development in 1988 the government presented a draft law on privatization of state-owned enterprises to the Parliament in October. The bill calls for transfer to the private sector of all wholly or partly-owned state enterprises with the exception of the phosphate industry, the electricity, potable water supply and railroad sectors and the national airline. It includes provisions calling for definition of the extent to which foreigners may be permitted to obtain equity shares in privatized enterprises. Implementation of the law is expected to take at least one year after passage.

4. Debt Management

Medium and long-term debt owed to foreign commercial banks and official creditors, including international financial

institutions amounted to $18.6 billion at the end of 1987. Debt-to-GDP ratios were 109 and 99 percent in 1986 and 1987, respectively. Morocco's post-rescheduling debt service ratios were 37.1 percent and 33.1 percent in the same two years.

External debt management policies have been prudent and effective since the onset of Morocco's debt squeeze in 1983. Relations with the IMF and World Bank have been positive and cooperative throughout the stabilization and adjustment period. While some economic performance targets of secondary importance under previous stand-by arrangements with the Fund have been missed, shortfalls have not led to major problems, and Morocco has adhered to the outlines of its economic reform strategy. This has been reflected in the willingness of the country's official and commercial creditors to agree to successive reschedulings on increasingly less restrictive terms. Morocco is presently operating under an SDR210 million stand-by arrangement with the IMF lasting through 1989. A $200 million Structural Adjustment Loan with the World Bank was agreed in October 1988. Official creditors in the Paris Club granted significant debt relief to Morocco in two agreements in March 1987 and October 1988. Commercial bank rescheduling arrangements for 1989 and beyond have yet to be concluded.

With its good performance, Morocco is expected to return to normal access to international capital markets in a few years. As a traditionally important recipient of official development assistance from a broad range of bilateral and multilateral donors, Morocco's net financial flow position did not turn negative as quickly as a number of other major debtor countries with a higher percentage of commercial bank indebtedness. Nevertheless, net flows fell sharply in 1986, amounting to a net outflow prior to rescheduling of $854 million in that year and $789 million in 1987, according to official Moroccan Government statistics presented to the Paris Club in October 1988. Prospects for a significant increase in imports of consumption and investment goods from the United States and other industrialized countries will remain limited as long as Morocco remains dependent on rescheduling to counterbalance foreign exchange outflows of this magnitude.

5. Significant Barriers to U.S. Exports

Morocco has undertaken a progressive liberalization of its international trade over the past five years, but it still requires import licenses for items representing approximately ten percent of total imports. When first implemented in 1967, the licensing program was designed primarily to protect local production from foreign competition and to promote import substitution industrial development. A secondary concern was to regulate the import of luxury goods. In the course of trade liberalization, many import items have been removed from the licensing list and there are no longer any items prohibited outright. Annual reductions in the list of goods requiring licenses are made by the government in consultation with representatives of affected industries. Licenses are required for import of many bulk and processed agricultural goods including meat, vegetable oil, wheat, sugar, tobacco, butter,

etc. Only the government may import such items as wheat, tobacco, sugar and others. There is a 21 percent tariff on privately imported corn. In 1987, 75 percent of U.S. exports to Morocco were goods in these categories.

The principal barrier to greater export of U.S.-origin services to Morocco arises from the 1973 "Moroccanization" law stipulating that certain economic sectors would be at least 50 percent Moroccan-owned with controlling Moroccan interest on boards of directors. Sectors affected include: insurance, banking, leasing, public relations, travel agencies, road transportation of merchandise (except petroleum and mineral products), passenger transport, maritime transport agencies, and cinemas.

6. Export Subsidies Policies

Morocco subsidizes exports through a program to provide relatively inexpensive, short-term credit for exporters' operating costs. The subsidized rate is currently three percent less than regular short-term credit lines from the commercial banks. This facility is subject to central bank review, and a limited credit level is authorized for each enterprise. Exporters may also apply for a government loan to cover the cost of participation in a recognized international trade fair. This loan automatically becomes a grant unless sufficient business orders are generated directly from the fair. Exporters may import raw materials and other inputs duty free, or they may apply for "drawback" of import duty on production inputs, including energy products. The government maintains an export industry investment code which provides up to five years' tax holiday on fifty percent of profits for qualified Moroccan and foreign investors.

7. Protection of U.S. Intellectual Property

Morocco is a member of the World Intellectual Property Organization (WIPO) and is party to the Paris, Berne and Universal Copyright Conventions, the Brussels Satellite Convention, and the Madrid, Nice and The Hague agreements for protection of intellectual property.

Morocco has a relatively complete regulatory and legislative system for protection of intellectual property, although a quirk of colonial history requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection. Enforcement of trademark protection, in particular, is lacking. Counter-feiting of clothing, other wearing apparel, and luggage trademarks is widespread.

8. Worker Rights

a. The Right of Association

The right to organize trade unions is provided for in the

Constitution. Three trade union federations dominate the labor scene: the Union Marocain du Travail (UMT), the Confederation Democratique du Travail (CDT), and the Union Generale des Travailleurs Marocains (UGTM). Each has a democratically elected leadership. The UMT has no political affiliation, the CDT is linked to the Socialist Union of Popular Forces, and the UGTM with the nationalist Istiqlal Party. All three federations belong to regional labor organizations and maintain contacts with international trade secretariats. They also attend and participate in the annual conference of the International Labor Organization (ILO). In all, about 1 million of Morocco's 7.5 million workers are organized.

Despite constitutional protection, unions complain regularly that employers have suspended or dismissed their members for trade union activity with little risk of penalty, although the law entails fines or imprisonment for some labor law violations. In 1988 Morocco's phosphate workers -- the largest segment of industrialized workers -- were unable to publish an announcement of a representation election and instead had to accept slates of delegates chosen by management. Consequently, only a few workers voted, and the unions claimed that "a fair and free exchange of information" had been blocked.

The Constitution gives workers the right to strike, but no detailed law exists to define it. Laws governing settlement of disputes set forth mandatory procedures. Disputes are handled by the Government on a case-by-case basis.

Moroccan law outlaws strikes in sectors affecting national security. The government has used that provision to ban strikes by teachers, among others. During strikes and work protests, workers have also been arrested and prosecuted under criminal statutes that ban picketing and damage to employers' property. The UMT has filed with the ILO several cases alleging infractions of ILO conventions on freedom of association, the right to organize, and collective bargaining. The ILO Committee on Freedom of Association is monitoring several cases involving dismissals and prison terms for Moroccan strikers and workers involved in trade union activity. The government reported in April that persons suspended because of participation in a June 1981 work stoppage had been ordered reinstated and that public sector employers had been ordered to normalize the situations of public servants affected by suspension measures. In late April, however, nonunion miners who struck to protest dismissals were removed and imprisoned for trespassing. Union activists accuse the police and the Interior Ministry of interfering on behalf of employers in these and other labor disputes. Thus, while Moroccan law provides for the right of association, enforcement is irregular.

b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is also provided for in the Constitution. The multiplicity of trade union federations creates competition to organize workers. Any

group of eight workers can organize. Thus, any single factory may contain several independent locals or locals affiliated with more than one labor federation. In both the organization process and during collective bargaining, the law is honored most often in the industrial sector of the economy, especially because government mechanisms to promote worker-employer negotiations are easier to apply there.

In the informal and underground economies, the law is less well observed and sometimes ignored entirely. In part, the state of the economy, with widespread youth unemployment, hinders protection of the organization and collective bargaining process. Workers understand that replacements are available should they be fired for organizing or bargaining activity. On the other hand, workers face no barriers in making complaints to Moroccan authorities or the ILO. There are no special economic zones in Morocco, and labor legislation applies equally throughout the country.

c. Prohibition of Forced or Compulsory Labor

Although there appears to be no legal or constitutional prohibition, there is no forced labor in Morocco.

d. Minimum Age for Employment of Children

Moroccan law specifies that children cannot be employed or apprenticed before age 12. Special regulations govern the employment of children between the ages of 12 and 16. In the traditional economy, however, particularly in artisanal work, children may be apprenticed earlier than age 12. Safety and health conditions in many enterprises employing children are substandard. In 1987, and again in 1988, the Moroccan press highlighted abuses of minors in the rug-making and carpentry industries, and Moroccan children are often seen in the streets of small cities working with yarns. Labor inspectors have difficulty ensuring application of child labor laws.

e. Acceptable Conditions of Work

Moroccan laws provide a 48-hour maximum workweek, premium pay for overtime, paid public and annual holidays, and minimum conditions for the safety and health of workers, including prohibition of night work for women and minors. These are observed unevenly. The Ministry of Labor maintains inspectors to monitor worker rights and working conditions. They lack, however, sufficient resources and authority to investigate complaints and assure compliance with the law.

Minimum wages are set by law. Most industrial workers in the modern sector, however, earn more than the minimum wage, while in smaller establishments and outside the formal economy minimum wage levels are less frequently observed.

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f. Rights in Sectors with U.S. Investment

U.S. private investment in Moroccan industry is small in comparison with indigenous and French investment. "Other manufacturing" constitutes its major component. U.S. companies in Morocco, nearly all of which have local partners, maintain high standards in regard to worker rights and thus encounter few, if any, labor problems. Those firms which are non-unionized provide good salaries, benefits and working conditions. A unionized U.S. firm, one of two tire manufacturers in Morocco, supplies an estimated 55 to 65 percent of the local tire market. Its relations with the General Union of Moroccan Workers have been excellent in recent years. A non-unionized U.S. firm, the primary producer of razors in Morocco, employs 140 workers with virtually no turnover. This company is often singled out as having avoided union pressures though superior treatment of its work force.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		10
Total Manufacturing		(D)
Food & Kindred Products	2	
Chemicals & Allied Products	(*)	
Metals, Primary & Fabricated	(D)	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Omani Rials Unless Otherwise Stated

	1986	1987	1988
Income, Production, Employment			
Real GDP	N/A	N/A	N/A
Nominal GDP	2,800.4	3,010.8	3,100
Real GDP Growth Rate	N/A	N/A	N/A
Nominal GDP Growth Rate (pct)	-19.0	7.5	2.0
GDP by Sector			
Agriculture and Fisheries	95.8	105.4	115
Mining and Petroleum	1,072.4	1,413.0	1,200
Manufacturing	103.1	111.5	121
Utilities	40.3	43.5	45
Construction	220.8	137.0	150
Trade Hotels and Restaurants	383.2	330.1	330
Transportation	103.4	97.7	95
Banking and Insurance	98.6	91.3	90
Real Estate	187.7	175.6	160
Government	495.8	509.0	520
Labor Force (est)(000s)	467	397	395
Native	199	207	215
Expatriate	268	190	180
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	310.3	334.4	335
Commercial Interest Rate (pct)	8.5	8.5	8.5
Savings Rate (pct) (national savings/GDP)	18.9	28.0	25.0
Investment Rate (pct)(gross fixed capital formation/GDP)	32.1	18.7	30.0
CPI (est) (pct change)	2	-4	2
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (US$/Rial)	2.6	2.6	2.6
Balance of Payments and Trade			
Total Exports fob	1,093.0	1,463.0	1,300.0
Total to U.S.	16.4	88.4	38.0
Total Imports cif	980.0	756.0	800.0
Total from U.S.	61.4	65.9	50.0
Aid from U.S. ($ millions)	19.6	15.0	13.0
Aid from Others (est)($ mil)	120	120	120
External Public Debt ($ bil)	2.5	3.0	2.7
Debt Service Paid ($ mil)	454	680.0	700
Gold and Forex Reserves ($ mil)	4,336	4,796	4,300
Balance of Payments			
Trade Balance	113	696	450
Current Account	-383	227	-30

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1. General Policy Framework

Oman is a small oil producing country. The petroleum sector dominates the economy, accounting for 97 percent of export earnings and 80 percent of government revenues. Government expenditures, which are largely financed by oil receipts, serve as the main support for much of the activity in the non-oil sectors of the economy.

Monetary policy plays only a limited role in the overall management of Oman's economy. While the central bank has a number of instruments, such as swap arrangements and, since June 1987, sales of treasury bills which it applies, the control of the money supply is made difficult by interest rate ceilings (8.5 percent on deposits and 10.5 percent on loans) and the near absence of controls on trade and capital flows. Domestic liquidity is affected substantially by private capital flows. Furthermore, since a large proportion of the budget is financed with funds originating from abroad, government deficit spending is also very important in increasing the money supply.

Fiscal policy is by far the most important tool of economic management. Oil production and revenues largely determine public sector expenditures and, hence, overall economic activity. The share of non-oil domestic revenues in total revenues has increased from 8 percent in 1980 to 20 percent in 1987, but petroleum revenues are still by far the most important source of income. Oman has run a deficit every year since 1982. Shortfalls are largely due to the government's difficulty in restraining overall spending sufficiently to compensate for continuing declines in oil receipts. The most important means of financing these budget deficits are foreign development loans and the State General Reserve Fund (SGRF). The SGRF, established in 1980, initially received 15 percent of Oman's annual net oil revenues. Since the collapse of the oil market in 1986, it has been receiving five percent. The money is mostly invested abroad. The fund, estimated at more than $3 billion, serves both to finance budget deficits and to guarantee loans raised by Oman.

The level of government spending largely determines the demand for imports. Decreases in expenditures to cope with the decline of oil income has led to a recession and a marked decrease in imports -- from Omani rials (OR) 1,162 million in 1985 to OR756 million in 1987, a decline of 35 percent.

2. Exchange Rate Policies

There are no restrictions of any kind on payments or transfers for international current or capital transactions. The Omani rial has been pegged to the U.S. dollar since February 1973. Following the collapse of world oil prices, the rial was devalued from $2.90 to $2.60 in January 1986. The depreciation of the dollar in recent years has caused the rial to lose purchasing power against nearly all of Oman's major trading partners, with the exception of the United

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States. Unfortunately, this increase in price competitiveness has not benefitted U.S. exports to Oman to any great extent. The Omani economy is still in a deep recession, and purchases of foreign goods have declined markedly.

3. Structural Policies

Prices in Oman are set by free market forces. The principal exceptions are prices set by the government on the electricity, gas and water produced by the public sector utilities, and on petroleum products from the government-owned refinery. In addition, authorities set floor prices on hotel room rates in 1986 following a price war. Oman's economy is virtually fully open to trade and capital flows. Domestic price developments reflect to a large extent the movements in Oman's import prices as a result of the declining value of the U.S. dollar and the peg of the rial to the dollar. This benefits U.S. exporters as long as the dollar remains cheap relative to the currencies of Oman's other trading partners.

Oil and gas revenues are the source of most government income (82 percent in 1987). Much of the remainder is from returns on investments, utility charges and licensing fees. Only three percent of revenues derive from corporate income taxes and customs duties. Oman has no personal income tax. Taxation is primarily a revenue measure, with a few exceptions to encourage the development of local industry and trade.

About half of Oman's imports are subject to an across-the-board five percent duty, raised from four percent in January 1986 when oil prices began to decline. The remaining imports include a large number of goods exempt from duty: currency, bullion, seeds, fertilizers, live plants, agricultural implements and insecticides, books, refined petroleum products, tea and various foodstuffs. Government imports are not subject to duty. Special duties apply to alcoholic beverages, tobacco and pork products (100 percent). In addition the government imposes duties of 10 to 50 percent on some items to protect nascent domestic industries such as cement, asbestos pipes, polyurethane products, and bananas. As more industries open in Oman, more protective tariffs will probably be erected. In November 1988 Oman introduced protective tariffs on copper wire, the first product manufactured locally that competes directly with U.S. exports. The government grants exemptions from import duties for the inputs of nascent industries, thereby increasing the advantage of the local producers. Goods produced in the member countries of the Gulf Cooperation Council (GCC) enter duty free with the exception of products such as cement, paints, plastic products, vegetable ghee, and detergents.

Omani owned firms pay no taxes. Firms with some foreign ownership are subject to a corporate income tax, ranging from a maximum of 20 percent for companies with majority Omani ownership to 50 percent for foreign firms with earnings in excess of OR500,000. In addition the government collects a training tax from all firms with more than 20 workers which do

not have training programs of their own. The purpose of this measure is to develop indigenous skills to help Omani citizens replace the large number of foreign laborers now in country.

The Omani Government espouses a free market philosophy. The government does encourage investment in industry, and agriculture and fisheries, sectors believed important for the future of Oman. However, this is done primarily through soft loans and some subsidies of inputs.

4. Debt Management Policies

Oman's external debt has grown in the last three years as the government borrowed in order to cover the large budget deficits brought about by the decline in the world price of oil and the subsequent drop in government revenues. Nonetheless, the debt remains manageable. Oman enjoys a good credit rating and has no difficulty finding subscribers for loans among commercial banks abroad. The Omani Government attempts to deal with its relatively small debt problem by decreasing government expenditures -- measures which suppress import demand in Oman's economy which is fueled by public sector spending -- and by increasing income through expanded petroleum production. The January 1986 devaluation of the rial was also an attempt to cool the demand for imports to improve the trade balance.

5. Significant Barriers to U.S. Exports

While a number of Omani trade practices clearly serve as barriers to U.S. exports, the impact of these laws are greatly lessened by two factors. First, Oman is almost totally dependent on imports for its required consumer and industrial products as well as many categories of food items. Laws which restrict trade therefore serve to make doing business more difficult rather than to reduce trade. Second, because businessmen from nearly all of Oman's trading partners are subject to the same rules, restrictive regulations do not have a discriminatory impact on trade. The only countries receiving significantly better access than the United States are the members of the Arab Gulf Cooperation Council (GCC). Under the GCC's unified economic agreement, the member states (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) have eliminated virtually all trade barriers between countries. In addition GCC nationals are afforded national treatment in many areas.

With certain exceptions (including explosives, alcoholic beverages and firearms) import licenses are not generally required. Only local firms with at least 51 percent Omani ownership may import, however, and imports are further restrained by the fact that most goods must enter the Sultanate under exclusive agency agreements with Omani importers.

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No new banks may be opened in Oman. Foreign insurance companies must concede 30 percent of all business to one of the three local insurance companies. All services firms must be Omani owned; Americans and other foreigners operate in Oman via sponsorship agreements with local companies. Travel agencies must be 100 percent Omani owned. Video rental stores and motion picture studios must also be 100 percent locally owned. Air couriers must obtain both a sponsor and official government permission to operate in Oman, and the permission is not always given.

The Omani standards bureau is fairly new and not all standards are clear. In the absence of Omani standards, goods sold to the government must meet British standards, although other international standards are often acceptable. Arabic labeling laws are enforced fairly strictly for goods entering via the main sea and air ports, much less so for goods arriving via road from the United Arab Emirates. Date labeling of food products is strictly required and government mandated expiration dates tend to be relatively short. In those few imports, the Omanis have shown a tendency to use standards as a nontariff trade barrier.

In general foreign equity participation in Omani ventures is limited to not more than 25 percent of paid-in capital. In addition, the minimum capitalization of enterprises with any foreign ownership is OR150,000 ($390,000). At the discretion of the investment committee, the amount of foreign equity can be raised to 49 percent and the minimum paid-in capital reduced to OR30,000 ($78,000). Projects considered important to the development of the Omani economy are eligible to apply for permission for increased foreign participation and reduced total equity requirements. According to officials at the Ministry of Commerce and Industry, nearly all projects which contribute to Oman's economic diversification drive, especially those in manufacturing, fisheries and agriculture, are important to Oman's economic development. Although Oman's foreign business investment law stipulates that foreign ownership may equal 75 percent, no new companies are allowed to operate with more than 49 percent foreign ownership.

The Ministry of Petroleum, which welcomes 100 percent foreign concessions, provides an exception to the normal limits on foreign equity participation in Omani enterprises. For historical reasons, Petroleum Development Oman, a joint venture of the Omani Government and Royal Dutch Shell, controls over 90 percent of Oman's oil production. When new concessions open, however, the bidding for drilling rights is open and foreign companies have received some concessions. In addition to the exception for oil companies, restrictions on foreign investment mandated in Oman's foreign business investment law do not apply to international transportation companies, professions in which there is a critical shortage of skilled people, companies engaged in what the government deems to be "economic development projects," and those companies enjoying special government contracts or exempted by royal decree.

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Companies with foreign ownership do not receive national treatment with respect to taxes. While 100 percent Omani-owned companies are exempt, taxes on firms with up to 49 percent foreign ownership range up to 25 percent and taxes on wholly foreign-owned companies operating in Oman under an agency or sponsorship agreement are taxed at up to 50 percent.

While there are no set requirements for the number or percent of local workers that must be hired, the government is actively encouraging "Omanization" and companies wishing to hire expatriate workers must prove that there are no local employees available to fill the positions sought. In addition feasibility studies may have to be completed before investment projects may be undertaken.

Goods produced in Oman receive a 10 percent price preference in all government procurement. Omani law does not specify a local content requirement.

Customs procedures in Oman are generally regarded as quite burdensome. Because these procedures affect all importers, however, their importance as a trade barrier is minimal. Goods arriving by road from the United Arab Emirates tend to enter the country more easily, and many importers choose to purchase reexports from the Emirate of Dubai rather than importing directly from the producing country to Oman.

6. Export Subsidies Policies

The Omani Government does not subsidize exports directly. Some government policies could, however, be construed as indirect subsidies. In the fishing sector, for example, the government has in the past subsidized the purchase of small fiberglass fishing boats with outboard motors by Oman's traditional fishermen. Partly due to this incentive, Omani exports of fish and shellfish have grown to approximately $25 million per year. Similarly, the government does offer other incentives to farmers, fishermen, and small industries. While these programs are not intended as export subsidies -- the emphasis is on local self-sufficiency -- the programs can aid exporters.

7. Protection of U.S. Intellectual Property

Oman is not a party to any major intellectual property accords. Violations of intellectual property rights are common in Oman. While most pirated products available on the market are of foreign manufacture, Omani firms do produce their own bootleg videocassettes and pirated computer software. In some areas, most notably computers and textiles, the problem of piracy has grown worse in recent years. Nonetheless, a significant number of firms manage to have their intellectual property rights defended by the Ministry of Commerce through the clever use of Oman's commercial agency law. Comprehensive intellectual property laws will probably not be adopted in Oman until the six GCC nations do so as a group.

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Oman has no patent law and is not likely to adopt one in the near future. Firms producing patented goods in Oman may obtain protection from patent infringement from the Ministry of Commerce and Industry.

On December 30, 1988 the Ministry of Commerce and Industry issued implementing regulations for the trademark law adopted in 1987. The Omani Government began accepting trademark registrations on January 1, 1989. Goods which violate trademarks are imported and sold in Oman, although few if any trademark violators produce in the Sultanate itself.

Oman has no copyright law and, without a major push by trading partners, is unlikely to adopt one in the near future. Virtually all videos and cassettes for sale in Oman are pirated copies, as is most computer software. Books and records are usually genuine. The impact of Oman's lax attitude on intellectual property protection on U.S. trade cannot be estimated with available data. U.S.-origin videos are sold and rented from a very limited number of shops, only two of which are comparable in size to a typical U.S. video store. U.S.-origin audio recordings are more commonly sold. The total value of recorded imports of recorded and unrecorded audio and video tapes for 1987 was approximately $3 million.

8. Worker Rights

a. The Right of Association

Labor unions are illegal in Oman, and, as specified in Oman's labor law, "it is absolutely forbidden to provoke a strike for any reasons."

b. The Right to Organize and Bargain Collectively

The labor law provides procedures for pursuing a "collective grievance" and encourages conciliation of disputes through the formation of joint consultative bodies of labor and management. Employers are forbidden by law from making a distinction between workers who belong to these consultative bodies and those who do not.

Oman's labor law, issued in 1973, is a comprehensive document defining conditions of employment for both Omanis and foreign workers, who constitute 50 percent of the work force. Labor legislation and practice is uniform throughout the country. Work rules must be approved by the Department of Labor and posted conspicuously. Under Oman's labor court system, any employee (Omani or expatriate) may file a grievance. The employer pays all costs incurred in the filing of the grievance, regardless of the verdict. The employee cannot be reprimanded or punished for filing a grievance. The labor law is reportedly fairly enforced, and the labor courts generally give workers the benefit of the doubt in grievance hearings.

OMAN

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor.

d. Minimum Age for Employment of Children

Employment of children under the age of 13 is prohibited. Omani law regulates the employment of juveniles, defined as those between the ages of 13 and 16, prohibiting evening and nighttime work, strenuous occupations, and overtime and holiday work.

e. Acceptable Conditions of Work

The labor law states that the government can determine the minimum wage and make adjustments according to economic circumstances. The minimum wage does not cover domestic servants, farmers, government employees, or workers in small businesses. Expatriate workers are also given lodging. For foreigners not covered by the labor law, the respective embassies in many cases set suggested minimum wages.

The workweek is set at 48 hours (36 for Muslims during Ramadan). Every worker has the right to 15 days of annual leave during the first 3 years of employment and 30 days per year thereafter. Oman's labor law and a subsequent 1976 law "governing compensation for occupational injuries and illnesses" cover in detail issues of occupational safety and access to medical treatment. Employees covered by the labor law can recover compensation for industrial injury or illness. The laws on child labor and conditions of work are enforced effectively and uniformly throughout the country.

f. Rights in Sectors with U.S. Investment

The petroleum sector is the only sector in which there is significant U.S. investment in Oman. As in the other sectors of the Omani economy, labor unions and strikes are illegal. However, workers may file grievances with the labor court, which appears to adjudicate labor laws fairly. No one under the age of 16 works in the petroleum sector. Conditions of work appear to be more than acceptable. Worker safety is exceptionally good for the sometimes dangerous work in the petroleum field.

OMAN

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		19
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		19

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

PAKISTAN

Key Economic Indicators

Millions of Pakistani Rupees Unless Otherwise Indicated

	FY85/86	FY86/87	FY87/88(est))
Income, Production, Employment			
GDP(1)	527,792	608,145	685,867
GDP by Sector (pct of GDP)			
Agriculture	25.5	25	24.8
Manufacturing	19.9	21	20
Services	8.1	7.9	N/A
Real GDP Growth Rate	7.3	5.7	5.8
Real GNP per Capita ($)	362	369	390
Labor Force (thousands)	27,861	29,600	30,500
Unemployment Rate (avg pct)	3.6	3.6	3.6
Money and Prices			
Money Supply (M1)(2)	133,953	158,524	176,178
Commercial Interest Rates (pct)	15.0	15.0	15.0
Savings Rate (as pct of GNP)	14.0	14.1	13.3
Investment Rate (as pct of GNP)	15.5	16.1	15.7
Consumer Price Index (1975-76=100)	4.4	3.6	7.0
Wholesale Price Index (1975-76=100)	4.6	5.0	10.3
Exchange Rate			
Official	16.14	17.18	17.82
Parallel (est)	.15	18.15	18.90
Balance of Payments and Trade (millions $)			
Total Exports fob	2,942	3,498	4,300
Total Exports to U.S.	318	374	483
Total Imports cif	5,984	5,792	6,529
Total Imports from U.S.	672	593	700
Aid from U.S. (U.S. FY, includes military)	629	610	585
Aid from Other Countries (excludes military)	1,213	1,048	1,227
External Public Debt	11,119	11,761	13,901
Debt Service Payments (non-mili)	906	1,101	1,154
Foreign Exchange Reserves	878	865	500
Balance of Payments	-62	-60	220

(1) Based on current factor cost.
(2) 1987-88 figure is July-March only.

Pakistan's fiscal year (FY) is July 1-June 30.

PAKISTAN

1. General Policy Framework

Historically Pakistan has experienced uneven development: rapid industrial growth in the 1960s was followed by stagnation under the socialist policies of former Prime Minister Bhutto. Since reestablishment of economic stability in 1977, however, real gross domestic product (GDP) growth has averaged about 6 percent per year. The share of agriculture in GDP declined from 53.2 percent in 1950 to 24.8 percent in Pakistan fiscal year (FY) 1988. Manufacturing now contributes almost 20 percent of GDP, compared to 7.8 percent in 1950.

Federal budget deficits are a source of continued concern, because the financing of them through large public borrowing could fuel inflation. For the past several years, the central bank has pursued a relatively tight money policy. The annual total amount of credit in the economy is decided by the central bank. Commercial banks have to adhere to a strict overall credit ceiling as well as limits on loans to individual sectors. Monetary expansion has generally been prudent, with the money supply growth rate not exceeding the nominal GDP growth rate by more than two to three percentage points. As a corollary, the price situation has generally been stable in recent years with an official average annual inflation rate of three to four percent per annum. Over the past year, however, inflationary pressures have gained momentum. By the end of 1988, inflation was estimated at over 10 percent. The government maintains that last year's drought was primarily responsible for the rise in the consumer price index, but the effects of financing the government budgetary deficit could also be partly responsible. If the government continues to resort to heavy deficit financing by bank borrowings, this will further feed inflation.

The budget presented by the caretaker government in June 1988 contains a number of measures -- for example an expanded sales tax and improved tax administration procedures -- to increase revenues. Other steps such as capping federal reimbursement for provincial expenditures should help reduce the deficit, which the government projects will fall from 7.9 to 6.5 percent of GDP during FY1989. One of the first official acts of the new Prime Minister, Benazir Bhutto, was to affirm the government's acceptance of the program negotiated by the caretaker government with the International Monetary Fund (IMF). Given this assurance, in December 1988 the IMF approved a standby and structural adjustment facility for over $800 million. An IMF program should ease Pakistan's balance of payments situation and keep the country on the path of structural economic reform. Pakistan can then continue to finance the imports necessary for continued economic growth as stipulated in its seventh Five Year Plan.

In June 1988 the caretaker government presented the seventh Five Year Plan -- which runs from FY1989 through 1994. This plan and the annual development program that flows from it are key elements in setting priorities for government expenditures and policy. The economy continues to be

dominated by agriculture and agro-based industries, but the plan places major emphasis on increased industrialization.

Agriculture employs 50 percent of the labor force in Pakistan, earns (directly or indirectly) approximately 70 percent of export revenues, and contributes 24.8 percent to GDP. Relying on the world's largest contiguous irrigation system, Pakistan grows cotton, rice, wheat, sugarcane, and a variety of fruits, vegetables and other grains. Favorable weather and improved government policies have spurred agricultural production during the past ten years. A degree of self-sufficiency has been achieved in wheat -- the staple food for most of the population -- but imports sometimes supplement the domestic crop. In 1987 late rains caused a 14 percent drop in wheat production. Then again in 1988 unfavorable weather meant wheat production stagnated. As a consequence, Pakistan is using imports to cover the shortfall.

Pakistan has developed a fairly broad industrial base after starting from scratch in 1947. Industry contributes approximately 20 percent to GDP and has become increasingly important to the country's development and export potential. After achieving prominence in the socialist government of the 1970s, the public sector share in Pakistani industry has diminished over recent years. In FY1982, industry was divided evenly between the public and private sectors. By FY1986, the public sector accounted for under 20 percent of total fixed capital formation. Pakistan's industrial growth is supported by substantial imports of raw materials, intermediate inputs, and machinery. Currently, principal U.S. exports to Pakistan are soybean oil, wheat, tallow, machinery, transportation equipment (including aircraft and parts), chemicals, and phosphatic fertilizer. With the depreciation of the dollar relative to the Japanese yen, more aggressive marketing by U.S. exporters could pay good dividends.

Although many domestically owned banks and large industries were nationalized in the 1970s, the Government of Pakistan has more recently depended on the private sector to fuel economic growth through new industrial investment. The government has announced its intention to sell blocks of shares in selected state-owned industries such as the nationalized banks and Pakistan International Airlines. However, implementation of disinvestment has not yet begun. Five categories of industries, primarily those pertaining to defense and nuclear technology, remain on the list requiring government approval for private investment. The government has announced a "one window" facility whereby approvals for new domestic investment may be obtained in comprehensive fashion. This will take some time to function smoothly. Foreign investment requires government approval.

2. Exchange Rate Policies

Pakistan follows an exchange rate policy of a managed float whereby the central bank regularly adjusts the value of the rupee against major international currencies. Since 1982 the rupee has depreciated by 88.4 percent in real terms

against the U.S. dollar. Real depreciation in FY1987-88 was slightly over four percent. This depreciation makes all imports more costly. U.S. imports should be more cost competitive than products of our principal competitors, the Japanese, however, because of the current yen/dollar relationship.

3. Structural Policies

While the government retains considerable powers to impose price controls on the economy, in recent years it has largely moved away from this practice. Controls remain on drugs and pharmaceuticals, however, and represent a major ongoing problem for foreign drug companies. In other areas, the government no longer fixes prices, but it will intervene in the market with government stocks if prices on certain commodities such as wheat, sugar, and edible oil get too far out of line from the set support price. This is especially true for wheat and vegetable oil (ghee) where the low prices stimulate consumption and also some smuggling across the border to India and Afghanistan. Pakistan imports U.S. wheat during years of weather-reduced crops. While 80 percent of the vegetable oils are imported, the government policy taxing palm oil imports effectively stimulates consumption and sustains imports of U.S. soybean oil. The soybean oil is provided under PL-480 and Commodity Credit Corporation (CCC) credit programs.

Pakistan has a very inefficient system of taxation, which relies for close to 50 percent of its tax revenue on customs duties. A 1987 World Bank report states that the unweighted average tariffs for FY1986-87 were 95 percent on consumer goods, 54 percent on capital goods, 56 percent on intermediate goods and 95 percent on textiles. Average import duty collection was 34 percent of total import value in FY1986-87. The rate structure is determined by a number of socio-economic factors. In general luxury goods and less essential consumer items are assessed higher rates (for instance up to 425 percent *ad valorem* on passenger cars), while machinery and capital goods are charged an average of 40 percent. Essential capital goods, food and raw materials are duty free. A price equalization surcharge of five percent of cost, insurance, and freight (cif) and an educational surcharge of five percent are levied on all imports. When these surcharges and sales tax are added, the duty rates become much higher, reaching prohibitive levels in many instances. The government stated in its June 1988 budget presentation that customs tariffs would be rationalized, reducing overall average tariffs from 150 percent to 125 percent. This is a move in the right direction, but customs tariffs for the foreseeable future will remain a substantial deterrent to imports.

4. Debt Management Policies

Pakistan has consistently followed a conservative approach to external borrowing. Total external debt in 1986 consisted of the following: (millions of dollars):

- long-term publicly guaranteed 11,764
- long-term private 30
- IMF credits 1,036
- short-term debt 790

Pakistan's debt service ratio on approximately $358 million worth of interest on long-term debt in 1986 was 3.3 percent of GNP or 27.2 percent of export earnings.

Pakistan has a sound credit rating and has consistently made its payments on time. It has experienced some difficulty qualifying for midterm money during the summer and fall of 1988 because of uncertainties raised by political events. The election of the new Bhutto government in November 1988 and the conclusion of an agreement with the IMF should alleviate that problem. The new government is not expected to make a marked change in Pakistan's debt management policies. Pakistan is expected to complete an agreement refinancing its Foreign Military Sales (FMS) debt in early 1989.

Pakistan's conservative stance regarding foreign borrowing has a profound effect on U.S. imports. The government, the largest consumer in Pakistan, is reluctant to go into debt. When borrowing is necessary, the government tends to be less sensitive to basic price than to credit terms. This inevitably puts Japan in an advantageous position because of the concessional financing offered under Japan's aid programs (OECF). This also tends to cancel out the advantage U.S. imports would otherwise have because of the appreciation of the yen vis-a-vis the dollar.

5. Significant Barriers to U.S. Exports

Quantitative restrictions are implemented through Pakistan's import regime, including license requirements for all imports. Prior to 1986 Pakistan had a highly restrictive import policy which closely regulated the number and amount of permitted imports. At the urging of the IMF, and supported by a three-year loan of $1.6 billion in 1980 from the IMF's Extended Fund Facility (EFF), Pakistan began to reform its import regime. The former restricted list of possible imports has been replaced by a negative list and a restricted list, each of which has been further reduced by the import policies of the last two Pakistani fiscal years. All other products may be imported with a valid license. Import licenses are valid for one year after issue and may be extended or revalidated within 15 days of the expiration of the letter of credit (LC). If an LC is not opened within 60 days of the issuance of the import license, the license becomes invalid. The validity period of licenses for essential food items was reduced from one year to three months and the period for opening a letter of credit from 60 days to 30 days. Processed food products will be allowed entry if the packages are inscribed with the date of manufacture and date of expiration.

Services barriers affect the banking industry, insurance, maritime transportation, audio and visual works, and air

transportation. Portions of major service industries in Pakistan are nationalized and run by the government. The National Insurance Company is controlled by a government appointed managing director, chairman, and a majority of the board of directors. Foreign insurance firms are required to place a portion of any service transaction with or through a local private firm or government facility. All imports must be insured in the domestic insurance market except shipments financed by U.S. Agency for International Development (USAID) programs. The government refuses to license any new foreign insurance firms. Foreign banks are limited to three branches, and the import of foreign films is controlled by a quasi-governmental monopoly.

Although high-level Pakistani Government officials encourage foreign direct investment, foreign investors must overcome a number of bureaucratic hurdles. The government must approve foreign investment and gives priority to basic manufacturing projects involving advanced technology. The government follows a location policy aimed at achieving a wider dispersal of industries in underdeveloped areas. Local content requirements are imposed on certain categories of investment (such as the beverage and farm machinery industries) and most investments require substantial Pakistani equity participation.

The government, including the large autonomous organizations and numerous government-controlled corporations, is the country's largest importer. Import requirements are handled through bids. Orders are generally placed with the lowest bidder. Most government agencies, autonomous organizations, and public sector corporations import their requirements directly through tenders, which are publicly announced and/or issued to registered suppliers. Some of the major government agencies that purchase their requirements directly include: Ministry of Defense through the Directorates of Procurement for Army, Navy, and Air Force; Department of Telegraph and Telephone; Water and Power Development Authority; Oil and Gas Development Corporation; Pakistan International Airlines; Pakistan Railways; Karachi Shipyard and Engineering Works; Pakistan Broadcasting Corporation; and Pakistan Television Corporation.

The provincial governments purchase equipment through their respective directorates of industry located in the provincial capitals. This system presents U.S. exporters with potentially large sales. On the other hand they must deal with copious red tape and with a powerful purchaser who is in a position to whipsaw competing suppliers. Also government entities must procure services such as banking and insurance from public sector corporations.

Customs procedures are not unusually burdensome. Since customs revenues constitute in the range of 45 to 50 percent of total tax revenue, however, the Central Board of Revenue is usually loath to grant waivers of import duties, even for special equipment to start up a new plant. In addition many importers have had some difficulty getting customs officers to honor waivers that have been negotiated.

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6. Export Subsidies Policies

Pakistan seeks to encourage exports through import duty/sales tax rebates, income tax rebates, and concessional export financing. Import duties and sales taxes paid on raw materials needed for production of exports are refunded on exports of manufactured goods. For certain major export items, the rates of rebate have been standardized and expanded. In other instances, rebates are determined on the basis of documentation furnished by the exporters. A rebate of 55 percent is also available against the tax on income attributable to the sales proceeds from exports of goods manufactured in Pakistan. Also, under the export financing schemes in place since May 1985, the commercial banks provide concessional export financing to exporters for five months at low interest rates. All exports, with the exception of 25 items or categories specified in Volume II of the "Export Policy, 1984-85," are eligible for concessional financing.

7. Protection of U.S. Intellectual Property

Pakistan is a member of the World Intellectual Property Organization and a party to the Berne and Universal Copyright Conventions. It is, however, not a member of the Paris Convention for the Protection of Industrial Property. The U.S. Treaty of Friendship and Commerce with Pakistan guarantees national and most favored nation treatment (MFN) for patents, trademarks and industrial property rights.

Pakistan is in the process of enacting new patents and copyrights legislation. For the present, it protects only process patents, not product patents. U.S. pharmaceutical companies have complained that this complicates their efforts to pursue infringement allegations in local courts. Infringement can be shown only through complex technical and scientific presentations, and without the benefit of putting the burden of proof on the alleged infringer.

Trademark and copyright infringement is the area of greatest U.S. concern. U.S. book publishers have complained that although Pakistan is a member of the Universal Copyright Convention, its copyright law enforcement is ineffective and penalties for violation extremely weak. Government of Pakistan officials have stated that infringement penalties will be significantly stiffened in the new legislation.

8. Worker Rights

a. The Right of Association

The right of industrial workers to form trade unions is protected by the Industrial Relations Ordinance, but subject to major restrictions in some employment areas. Workers' associations of other types are unrestricted and exist in large numbers. There are no restrictions on employers' rights to establish their own associations, and many exist, along with the semiofficial but independent-minded chambers of

commerce and industry. All of these organizations are free from government interference in their determination of their own rules, their election of their own representatives, and their formulation of policies and views.

In practice, however, Pakistan's labor laws place severe constraints on the formation of unions and their ability to function effectively. In her first public statements after being named Prime Minister on December 1, Benazir Bhutto indicated that her government would seek to remove as yet unidentified limitations on trade union activities. But at the present time, only about 3 percent of Pakistani workers belong to unions (about 6 percent of the nonagricultural work force).

The right of unions to strike in Pakistan is severely constrained by lengthy arbitration requirements and cooling-off periods, and most especially by the government's authority to ban any strike found to cause "serious hardship to the community" or prejudice to the national interest, or in any case after it has continued unresolved for 30 days. Strikes are rare; when they do occur, they are usually illegal and short. Police crackdowns on worker demonstrations are fairly common.

Strikes are banned by law in Export Promotion Zones (EPZ), although this has had little impact, since EPZ development has been almost entirely on paper to date.

Despite these restrictions, associations have been formed among workers in sectors where union activity is theoretically banned (e.g., medical workers), and strikes do occur in these areas.

Trade unions covering the entire political spectrum are permitted. Workers do not seem to be subject to any official sanctions based on their political leanings. While most unions remain aloof from party politics, several have associated themselves with political parties, and the political leanings of labor leaders span nearly the entire spectrum from far left to right.

There are no official constraints on Pakistani labor federations' affiliations with international labor organizations, notably the International Confederation of Free Trade Unions (ICFTU) and its Communist-controlled rival, the World Federation of Trade Unions (WFTU). An International Labor Organization (ILO) mission functions freely and has long been active in assisting the government and worker and employer organizations in a variety of training and development programs. The composition of ILO delegations was approved by the federal government in 1988, but there were no indications that the independence of the worker or employer delegates was inhibited.

The government has been criticized for years by ILO committees for failure to abide by Convention 87 (Freedom of Association and Protection of the Right to Organize, 1948), and Convention 98 (Right to Organize and Collective

Bargaining, 1949), which Pakistan has ratified. The charges, repeatedly raised by Pakistani trade unions, have focused on the limitations on union formation, strikes, and collective bargaining. The government has responded to the charges but has made no serious movement yet towards changing any of the laws criticized in the ILO reports.

In the report of the 1988 meeting of the ILO Committee on the Application of Conventions and Recommendations, Pakistan was cited for violations of Convention 87 as well as for Convention 105 (Abolition of Forced Labor, 1957) and Convention 29 (Forced Labor, 1930) -- see also section c. below.

b. The Right to Organize and Bargain Collectively

Free formation of workers' associations and free election of representatives to act as collective bargaining agents are guaranteed by law. While it is not clear that the Government has taken deliberate official action to prevent such activities, current laws place major limitations on their extent and effectiveness.

Large sections of Pakistan's labor force are excluded from the right to organize and bargain collectively under the Industrial Relations Ordinance. Union activity is prohibited for the 53 percent of Pakistan's labor force employed in agriculture. Under the Essential Services (Maintenance) Act of 1952, normal union activities are severely restricted in sectors associated with "the administration of the state," such as education; public utilities; oil and gas production (including some private sector employees); the nationalized banks; medical, security and transport workers; and all employees of the national airline.

For each industry declared subject to the Essential Services (Maintenance) Act (a finding which must be renewed every 6 months), a specific determination is made by the government of exactly what the limits of union activity shall be. In cases where collective bargaining has been barred, individual wage boards are established to decide wage levels. Disputes can be brought for adjudication before the National Industrial Relations Commission. A worker's right to quit can also be curtailed under this Act, and a fired worker does not have recourse to the labor courts. Here again, however, collective bargaining and even strikes are known in some job areas covered by the Act (e.g., the nationalized banks). The abolition of the Essential Services Act is a major demand of most unions.

Union leaders argue that the government has given its blessing to the rapid spread of contract hiring, which acts to undercut the power of the unions. Unions' potential membership can be severely limited in branches where contract labor is widespread, and the power of the collective bargaining agents can be seriously undermined. Employers argue that contract labor is necessary because of legal restraints on their ability to fire nonproductive, troublesome, or unneeded workers. Legislation has been

proposed to limit contract labor or to extend certain rights to contract workers, but no such laws have yet been passed. EPZ's are not yet functioning, and it is difficult to judge how labor laws will be applied in them.

c. Prohibition of Forced or Compulsory Labor

Forced labor is specifically prohibited by Pakistani law. There is no evidence that any form of slavery or bonded labor has received official sanction. However, critics have argued that the Essential Services (Maintenance) Act's authority to limit some employees' rights to leave their jobs constitutes compulsory labor. While it is not clear that this provision has been invoked, it has raised another issue which is pending before the ILO.

As noted in section a. above, the 1988 report of the Committee on the Application of Conventions and Recommendations cited Pakistan for violations of Convention 105 (Abolition of Forced Labor, 1957) and Convention 29 (Forced Labor, 1930), based on this aspect of the Essential Services Act and other laws which allow punishment for violations of collective bargaining agreements and violations of certain restrictions on the press, and laws which restrict merchant seamen's freedom to quit, and imply official approval of discrimination against Ahmadis.

Illegal cases of bonded labor are said to be widespread. Several specific cases were reported in 1988. In August authorities freed 36 families in the NWFP who had been driven into forced labor by creditors; a new organization, the Free Farmers Movement, has come into being with the objective of countering such practices. In July authorities freed 11 children in Lahore from forced labor in a glass factory--press accounts stated that they had been kidnaped. In September the case of 20 bonded brick kiln workers in Punjab came to national prominence through the intervention of the Supreme Court (see below).

There are no reliable statistics on bonded or forced labor -- the worst cases tend to come to light only through sensational treatment in the press. Many observers claim, however, that such violations are common in some fields of work: the brick, carpet, glass, and fishing industries have specifically been mentioned. The problem is also said to extend to agricultural laborers and rural construction workers in some areas.

A Supreme Court decision in September could prove to be a first step towards dismantling the bonded labor system. In an interim ruling, the court ordered the cessation of all pay advances beyond a week's wages to brick kiln workers in Punjab province. It further ruled that existing debts could not be recovered through coercion or with police assistance. The 20 kiln workers, allegedly kidnaped by their employer after having been freed by the Provincial High Court, were again ordered freed. A major investigation by the Punjab police into the brick kiln business was initiated. A final decision (which should include a ruling on whether advanced-pay debts

in such extreme cases are legally valid) is expected in March 1989.

d. Minimum Age for Employment of Children

Child labor is limited by at least four separate statutes and Article 11 of the Constitution. These laws present a confusing picture, variously limiting employment in certain fields to those over 14 or 15, and, in one case, permitting factory work by children under 14 (in apparent contradiction of the Constitution) if a government doctor issues a certificate of fitness. None of these regulations is effectively enforced.

Child labor is widespread in Pakistan, despite the legal limitations. While much of it is in the traditional framework of family farming or small business, widespread abusive employment of children in nonfamily businesses exists. Although there are no reliable official statistics, unofficial surveys and occasional press features suggest that violations of existing laws are common. The employment of children is occasionally referred to in stories of bonded or forced labor and child prostitution.

e. Acceptable Conditions of Work

Labor regulations in Pakistan are governed by federal statutes applicable throughout the country. These provide for, or require the provincial governments to provide for, a legal minimum wage as well as certain worker protection and welfare provisions. A limit to the number of hours in the workweek, paid annual holiday and rest periods during the workday are all provided for under Pakistani law. Most of these regulations apply, however, only to a small minority of Pakistan's labor force: they specifically do not apply to agricultural workers (roughly one-half of Pakistan's work force), to workers in Pakistan's countless small manufacturing establishments with fewer than 10 employees, or to the small contract groups of under 10 workers into which factory work forces are increasingly divided.

The enforcement of labor regulations is left up to the provincial governments, none of which are particularly effective in this role. The degree of attention given to enforcement varies amoung the provinces in proportion to the significance of industrial labor. In general, however, resources are very limited, openings for corruption are many and the regulatory structure, while it does function, is inadequate.

In general, worker health and safety conditions are very poor by international standards, and little is being done to improve them. Organized labor is occasionally able to press for improvements in this area, and some legal protections apply, although they are weakly enforced.

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f. Rights in Sectors with U.S. Investment

Significant investments by U.S. companies have occurred only in the petroleum, food and related products, and chemicals and related products sectors. Although U.S. consumer goods and electronics are represented in the wholesale trade sector, they are usually marketed under agency agreements which involve little U.S. capital investment.

Although occupational health and safety requirements are modest by U.S. standards, none of the sectors in which U.S. investment is significant has come to the attention of the U.S. Embassy as particularly bad in this regard.

In general, however, multinationals seem to do better than most employers in fulfilling their legal obligations and dealing responsibly with unions. The industrial establishments built with U.S. investments are all large enough to be subject to the full provisions of Pakistani law for worker protections and entitlements. U.S. firms appear to take care to meet or exceed legal requirements. The U.S. Embassy is not aware of any case where a U.S. company has been accused of major worker rights abuses. Large industrial concerns generally pay their workers considerably more than the minimum wage.

The only area of U.S. investment where worker rights are legally restricted is in the petroleum sector. The oil and gas industry has been declared subject to the Essential Services (Maintenance) Act -- a finding renewed at six-month intervals -- which bans strikes and collective bargaining, holds up the threat of legal sanctions against worker misconduct, theoretically limits a worker's right to change employment, and gives very little recourse to a fired worker.

In practice restrictions on changing employment have apparently been used to protect the federal government's Oil and Gas Development Corporation (OGDC) from losing its trained manpower to private companies offering more generous benefits. The U.S. Embassy understands that employees who quit OGDC must generally wait for two years before seeking other employment in the petroleum industry in Pakistan. Many OGDC workers, however, have found employment abroad. But the exemption of the petroleum industry or the total repeal of the Act seem politically unlikely in the near future.

PAKISTAN

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		129
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	3	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

QATAR

Key Economic Indicators

Millions of Qatari Riyals

	1986	1987	1988
Income, Production, Employment			
Real GDP	18,018	18,380	N/A
Real GDP Growth Rate (pct)	-22	2	N/A
Breakdown of GDP by Sector			
Petroleum	5,560	5,792	N/A
Banking, Insurance, & Services	7,428	N/A	N/A
Manufacturing	1,781	N/A	N/A
Real per capita Income	47,320	N/A	N/A
Size of Labor Force	N/A	N/A	N/A
Unemployment Rate	N/A(1)	N/A	N/A
Money and Prices			
Money Supply (M1)	4,148	4,804	N/A
Commercial Interest Rates (pct)	from 7 to govt cap of 9.5		
Savings Rate	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index	less than 3% per annum (est)		
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Official (1 QR =)	$0.274	$0.274	$0.274
Parallel	$0.274	$0.274	$0.274
Balance of Payments and Trade			
Total Exports	7,666	N/A	N/A
Total Exports to U.S.	236	14.56	2.18
Total Imports	3,986	4,128	N/A
Total Imports from US	228.5	276.4	340.0
Aid from US	0	0	0
Aid from Other Countries	N/A	N/A	N/A
External Public Debt	0(2)	0	0
Annual Debt Service Payments	0(2)	0	0
Gold/Foreign Exchange Reserves	2085.4	2253.9	2072.6(3)
Balance of Payments	-1772.7	-1510.6	N/A

(1) Downturns in employment demand are handled through nonrenewal of guest workers' employment contracts/work permits.
(2) External public debt and debt service are negligible.
(3) "Off-book" reserves may be considerably higher.

1. General Policy Framework

The State of Qatar is ruled by an amir, whose style of governing long predates the oil wealth of this small Persian Gulf country. Other members of the extended Al-Thani family and the upper level of local merchants have an informal,

ad hoc influence on government policies. At least two-thirds of the population is foreign and lives in the emirate at the sufferance of their required local sponsors and of the Qatari government. These foreigners account for some 80 percent of the work force.

Oil revenues constitute over 90 percent of Qatar's export earnings. In recent years the country has tried to diversify its economic base through construction of industrial plants for the manufacture of concrete, petrochemicals, and fertilizers, but these ventures have not been as successful as originally envisaged. With the downturn in oil prices in the 1980s, Qatari export earnings have suffered. Receipts in 1986 were particularly low, owing not only to soft world oil prices but also to difficulties in marketing the country's petroleum output.

Export revenues -- which are virtually synonymous with oil earnings -- pay for desired imports and the foreign currency requisite for the massive remittances of the non-Qatari work force. These revenues also pay the bulk of the costs of government operations, public works projects, and an extensive social service budget whose benefits are largely confined to Qatari nationals. Education and public utilities, for instance, are free to the Qatari minority of the emirate's population. With a negative balance of payments in both 1986 and 1987, the government has had to draw on its large foreign reserves accumulated in the heady days of high world oil prices.

Qatar's economic policies tend toward the nationalistic. Under a 1985 law, pre-existing companies with up to 49 percent foreign ownership were given four years to liquidate the foreign ownership share. There are some indications that the deadline may be extended, but no suggestion that the substance of the law will be modified. Existing foreign interests in Qatar are subject to an income tax ranging from 5 to 55 percent; firms owned by Qatari nationals are exempt from such levies. In addition, most non-Qataris are not permitted to own land. There is a limited exception for nationals of other member states of the Gulf Cooperation Council (GCC).

The Government of Qatar maintains an active ownership role in the larger industries situated in the country. These include oil extraction, petrochemicals, concrete, and natural gas. There are minority foreign stakes in some of the enterprises in these sectors, but under current practice majority ownership and therefore basic management control remains in the hands either of Qatari nationals or of the government itself.

2. Exchange Rate Policies

Since 1980 the Qatari riyal has been pegged to the U.S. dollar at a rate of 3.64 riyals to the dollar. The government of Qatar has not applied exchange controls. The riyal's link to the dollar has theoretically made U.S. exports more attractive in the last three years as the value of the dollar

has declined in relation to the currencies of other major industrial countries. Imports from the United States have in fact seen some increase in relative share of the Qatari market, but Japan has remained Qatar's largest supplier of imports, followed by the United Kingdom.

3. Structural Policies

The principal factor adversely affecting the volume of U.S. exports to Qatar has been the downturn in world oil prices. As a result, the government has been forced to cut back on a number of development and infrastructure projects. With the contraction in government spending and consequent decline in employment needs, a large number of foreign guest workers have been sent home. Demand for imported capital and consumer goods has accordingly diminished. Offsetting somewhat this downturn in overall demand for imported goods has been the growing price attractiveness of the U.S. products described above.

Most purchasing decisions are made by the largely unregulated private sector or by government ministries and parastatal organizations. We know of no established procedures which would skew these decisions to the detriment of U.S. exports.

The tax burden in Qatar is light. Qatari nationals are not subject to personal or corporate income taxation. Customs duties are also low. The regulatory burden on citizens of Qatar is correspondingly light. Neither fiscal policies nor locally based regulatory programs are known to prejudice the entry of U.S. goods into Qatar's domestic economy.

4. Debt Management Policies

Qatar's foreign debt is relatively insignificant, both in terms of gross domestic product (GDP) and net foreign reserves. Debt management policies therefore have no discernible implications for U.S. trade.

5. Significant Barriers to U.S. Exports

With a long tradition of international trading, the commercial sector in Qatar has a strong attachment to free trade. Qatar adheres to the Arab boycott of Israel; its laws and regulations in this regard are applied to all imports and to all firms doing business in the country. Customs duties are low (generally four percent), and although preference is shown to member states of the Gulf Cooperation Council (GCC), there is a low coincidence between affected items and potential exports from the U.S.

In contrast to a generally *laissez faire* attitude on goods trade, there are strict barriers to foreign investment. As outlined in section 1, foreign investment in large-scale industrial plants and commercial establishments is actively

discouraged. Limited exceptions apply to GCC nationals and to certain categories of light industry. The 1985 law mandating an end to 49 percent equity participation by foreigners amounts to forced disinvestment.

6. Export Subsidies Policies

The Government of Qatar does not effectively engage in a program of direct export subsidies. Investment incentives do exist, however, in cases involving the government and Qatari nationals. Such incentives may include the following: deferral, reduction, or cancellation of taxes; free land; free staff housing; and an exemption from customs duties on equipment. Also, infrastructure such as roads, docks and buildings can be built at government expense. Normally, Qatari nationals may obtain special low-interest government loans and/or grants of land for business investments, particularly for feasible light industrial projects. These incentives are arranged with the government on an ad hoc basis.

7. Protection of U.S. Intellectual Property

Qatar is a member of the World Intellectual Property Organization but is not a party to any of the major intellectual property conventions.

Patents and trademarks, once registered with the Ministry of Economy and Commerce, are protected, and international copyrights are observed. However, the U.S. motion picture industry estimates the home video market in Qatar is 100 percent pirate and is also concerned with unauthorized hotel video performances which are said to be common.

8. Worker Rights

a. The Right of Association

The right of association is strictly limited, and workers are prohibited from forming labor unions. Persons are allowed to establish organizations based on their professional or private interests. Membership in international professional organizations which criticize the Government of Qatar or any other Arab government would be frowned upon. The government would severely restrict operations of any organized group which it deemed detrimental to the national interest.

b. The Right to Organize and Bargain Collectively

Although workers in Qatar are prohibited from engaging in collective bargaining, there were, nevertheless, at least two organized work stoppages over unpaid wages in 1988. All disputes between workers and employees are handled in the local labor courts.

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There are no export processing or free trade zones in Qatar. Labor laws and regulations are applied uniformly throughout the country.

c. Prohibition of Forced or Compulsory Labor

There have been no reported instances of forced or compulsory labor.

d. Minimum Age for Employment of Children

The minimum age for the employment of children is 18, but expatriate children frequently begin working at younger ages in small family-owned businesses and shops.

e. Acceptable Conditions of Work

Qatar has enacted regulations concerning worker safety and health, but the enforcement of these regulations is lax, at best. There is no minimum wage in Qatar. The workweek is usually less than 48 hours.

f. Rights in Sectors with U.S. Investment

Workers in the petroleum sector, where there is some minimal U.S. investment, generally have employment conditions well above the norm.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		2
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		2

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Billions of Saudi Riyals Except As Otherwise Indicated

	1986	1987	1988(est)
Income, Production, Employment			
Real GDP	255.0	263.0	263.0
Real GDP Growth (pct)	-14.0	+2.0	0.0
GDP by Sector (pct)			
Oil	26.0	28.0	26.0
Non-Oil	74.0	72.0	74.0
Real per capita Income (1000's of riyals)	28.9	29.3	28.9
Size of Labor Force (mils)	4.3	4.4	4.5
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1)	83.3	87.8	88.0
Commercial Interest Rates (pct)	7.9	6 1	6.4
Savings/GDP (pct)	17.0	17.0	17.0
Investment/GDP (pct)	26.0	27.0	27.0
Consumer Price Index (1983=100)	92.4	90.9	92.2
Wholesale Price Index (1985=100)	103.0	110.0	N/A
Exchange Rate (SR/USD)	3.75	3.75	3.75
Balance of Payments and Trade ($ Billions)			
Total Exports fob	20.0	22.5	24.0
Total Exports to U.S.	4.1	4.9	6.0
Aid from U.S.	0.0	0.0	0.0
Aid from Other Countries	0.0	0.0	0.0
External Public Debt	0.0	0.0	0.0
Annual Debt Service	0.0	0.0	0.0
Gold and Forex Reserves	88.0	84.0	75.0
Balance of Payments	-12.8	-7.9	-9.0

1. General Policy Framework

Saudi Arabia has an open economy with a dominant government sector, whose regulations strongly favor Saudi citizens and the citizens of neighboring Gulf Cooperation Council (GCC) states. This bias is pervasive and reflected in virtually all government policies, including those affecting taxation, credit, investment, procurement, trade and labor. At the same time, other government objectives, including national development, defense and the technological advancement of the economy ensure that this bias never rises to the point of precluding, or even seriously threatening foreign participation in the economy.

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The overall scale of Saudi government financial operations have been cut back sharply over the past six years as oil revenues have declined and a number of major infrastructure projects were completed. Nevertheless, government fiscal operations remain the dominant factor in the economy. They account for more than 50 percent of gross domestic product (GDP), largely determine the level of non-oil GDP growth, and influence investment and resource allocation decisions throughout the economy. Revenues are now much lower (by approximately 75 percent) than they were during the early 1980s, but remain dominated by oil receipts and income from government offshore investments. Only 20 percent of government revenues are now derived from domestic taxes and fees. Finally, the budget has remained in deficit over the past five years despite sharp cuts in expenditures -- particularly public investment expenditures. Budget deficits since fiscal year 1983-84 have ranged from 13 percent to 26 percent of GDP. The government has, in turn, covered these deficits by drawing down its foreign assets (by a total of more than $60 billion between 1981 and 1988), and, beginning in 1988, through an $8 billion domestic bond issue.

The Saudi Arabian Monetary Authority (SAMA) oversees a financial sector which consists of 12 commercial banks, 5 specialized credit institutions and a variety of non-bank financial institutions. It also chairs a committee on bad debts and has used its influence to help banks and debtors settle bad debts. SAMA has the statutory authority to set legal reserve requirements, impose limits on total loans, and regulate the minimum ratio of domestic assets to total assets in each bank. However, it has not as yet applied these powers to affect materially the volume or distribution of bank credit in the economy. It has introduced two new financial instruments over the past three years -- Bank Deposit Security Accounts and Saudi Arabian Development Bonds -- but has not attempted to use either to adjust domestic liquidity or short term interest rates through open market operations. Rather, it has tended to allow the growth of the money supply to be dictated by the balance on government fiscal operations and the balance of payments outturn. Over the past five years, this has led to slow growth in the money supply.

Also important to the distribution of credit has been the operation of the specialized credit institutions, which were initially funded by government appropriations and which channel government funds interest free to Saudi public and private sector investors. There are five such agencies:

- the Real Estate Development Fund, which was established to provide finance for Saudi real estate ventures, both personal and commercial;

- the Saudi Industrial Development Fund, which provides credit to the Saudi private sector for industrial investments;

- the Public Investment Fund, which has financed the largest public and public/private joint venture projects;

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- the Saudi Arabian Agricultural Bank, which lends to Saudi agricultural interests; and

- the Saudi Credit Bank, which grants small scale loans for periods up to five years.

Together, these institutions dominate medium and long-term lending in Saudi Arabia. Their outstanding loans are triple those of the commercial banks, and while budgetary transfers to them have recently been limited, they have remained active by relending funds from previously repaid loans.

2. Exchange Rate Policies

There are virtually no exchange restrictions in Saudi Arabia, beyond a prohibition against the use of the currencies of Israel and South Africa. The Saudi riyal (SR) is officially pegged to the Special Drawing Right (SDR) at a rate of SR4.28255 equals SDR1 and, in principle, margins not exceeding 7.25 percent are allowed around the peg. These margins were suspended in 1981 and SAMA has ignored its SDR peg while maintaining a constant central rate against the dollar (now SR3.745 equals $1). This rate has remained unchanged since 1986. There are no controls on receipts or payments for current transactions by residents or non-residents. Nor are there any significant restrictions on capital movements, beyond a requirement that foreign direct investments be licensed by the Foreign Capital Investment Committee. The committee is chaired by the Deputy Minister of Industry and includes representatives of the Commerce, Finance, Agriculture, Planning and Petroleum Ministries. Gold may be freely bought and sold in Saudi Arabia, with the exception that imports of 14-karat or less fine gold are prohibited.

3. Structural Policies

The Saudi government has traditionally taken a laissez faire approach to pricing policy, with the exception of a number of basic utility, energy and farm products. Water and electricity are both heavily subsidized, with electricity being sold to industrial consumers at a flat rate of 1.3 cents per kilowatt hour. Water prices vary progressively with consumption, but run no higher than $1.07 per cubic meter versus production costs that can run as high as $12.00 per cubic meter at the margin for desalinated water. In addition petroleum products are sold at cost, leaving domestic prices well below world market levels; e.g., two to three cents per liter for diesel fuel and heavy fuel oil sold to industry. Similarly, natural gas used in petrochemical industries at Jubail and Yanbu is priced to cover collection costs (50 cents per 1000 cubic feet) in the absence of any alternative market.

In agriculture, government procurement prices for wheat are substantially above world market levels (now $400 to $534 per ton). This has increased wheat production to levels four

times domestic demand, and led to Saudi exports of wheat which totaled approximately two million tons in 1988. On the other hand, Saudi Arabia also subsidizes barley imports at a rate of about $27 per ton in an effort to build a domestic livestock industry. These subsidies have encouraged substantial imports from the United States. Recently, the government has begun to take steps to reduce both the wheat and barley subsidies; however, most local experts doubt that these subsidies will ever be completely eliminated.

Taxes in Saudi Arabia take three major forms: income taxes; various fees and licenses; and customs tariffs. Of these, the income tax is payable only by self-employed expatriates and foreign companies. The tax applied to self-employed expatriates ranges from a rate of five percent for a monthly income between SR6000 and SR10,000 to a maximum rate of 30 percent for a monthly income in excess of SR30,000. Other expatriates are not currently faced with an income tax, but the government reportedly is considering such a levy. Taxes on business income apply only to foreign companies and to non-Saudi shareholders in Saudi companies. The rate runs from 25 percent for profits of up to SR100,000 to a maximum rate of 45 percent for a net profit in excess of SR1 million. Meanwhile, Saudi and other GCC citizens are subject to the "zakat", an Islamic tax on assets, which is levied at a flat rate of 2.5 percent. This tax is voluntary for individuals, but mandatory for companies.

License and registration fees are also widely applied and can reach very high levels. For example, there is an initial work permit fee for expatriate workers of SR1000 which rises to SR2000 and SR3000 for subsequent renewals. Finally, import tariffs are levied at a general minimum rate of 12 percent _ad valorem_, with exceptions for essential commodities, and a higher rate (20 percent) on steel and cement which are deemed in compeition with local "infant industries."

There are also substantial tax incentives for foreign investors. These include a 10-year tax holiday for approved agricultural and manufacturing projects with a minimum 25 percent Saudi participation. For approved projects in other sectors such as contracting or the provision of other services, the tax holiday is five years. In addition approved projects are eligible for exemptions on customs duties on required capital equipment and raw material imports.

Saudi regulatory policies affect trade and investment in Saudi Arabia in three ways. First, the Foreign Capital Investment Code requires that foreign investments be "development " projects (that is, in line with the nation's development priorities), that they produce some technology transfer, and that they involve a minimum 25 percent Saudi equity participation. These requirements can be waived, but generally are applied to direct new foreign investment towards relatively high technology projects that are judged to be beyond the scope of local entrepreneurs.

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Secondly, Saudi Arabia and other GCC countries have adopted relatively uniform food health standards which can pose problems for U.S. exports. Food products must have detailed Arabic labeling which includes production and expiration dates, product name, net weight, ingredients, manufacturer's name and country of origin. In addition U.S. exporters have reported that the inconsistent application of these rules has created further problems.

Lastly, Saudi labor law requires that 75 percent of a firm's workforce and 51 percent of its payroll be Saudi, unless an exemption has been granted by the Ministry of Labor and Social Affairs. Potential investors are also required to show plans for recruiting and training Saudi employees and must document their manpower requirements, if they hire overseas. In fact regulations introduced in 1985 now require that the Ministry of Labor and Social Affairs certify that there are no qualified Saudis for a given job, before firms are permitted to recruit overseas.

4. Debt Management Policies

Saudi Arabia is a substantial net creditor on world financial markets with net official financial assets of approximately $75 billion. Saudi commercial banks similarly hold net foreign assets totaling about $20 billion. Saudi Arabia has also been a major source of development assistance, giving aid equivalent to 3.7 percent of its gross domestic product -- the highest ratio in the world. It has permanent seats on the Boards of Directors of the International Monetary Fund (IMF) and the World Bank and has participated in the funding of a number of special facilities aimed at helping deficit countries, including the IMF's General Agreements to Borrow.

Domestically, the Government of Saudi Arabia has recently begun to borrow, with a multi-billion bond program in 1988. However, there was market resistance to the terms and conditions of SAMA's initial offerings, in particular, the facts that yields were pegged at only a fraction of a percent above the U.S. Treasury's and that the resale market for the bonds was very limited. As a result, SAMA has been obliged to place the bulk of the bonds sold in 1988 with official entities. For 1989 SAMA has indicated that it may seek to adjust the bond program so that future issues will be more successful.

5. Significant Trade Barriers to U.S. Exports

Significant barriers to U.S. exports lie in several areas. First, while there are no import licensing requirements in Saudi Arabia, imports of selected products may be banned in the case of domestic over-capacity; at the moment, however, no such bans in effect. In addition there are protective tariffs, which can run as high as 20 percent in the case of industries such as cement and steel.

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Secondly, Saudi Arabia participates in the Arab boycott of Israel and bans products and investments from companies that are judged to contribute to Israel's economic or defense capabilities.

Thirdly, government procurement regulations strongly favor Saudi and GCC nationals. According to a 1983 decree, foreign contractors must sub-contract 30 percent of the value of the contract, including support services, to majority-owned Saudi firms -- a restriction which U.S. businessmen consider the Saudi Arabian Government's most serious barrier to exports of U.S. engineering and construction services. In addition in early 1987 Saudi Arabia put new regulations in force giving priority in government purchasing programs to GCC products. These items now receive up to a 10 percent price preference over non-GCC products in all government contracts, including subcontracts awarded by foreign contractors.

Fourthly, the government has taken steps to reserve certain services for government-owned companies. Included here are insurance services for government agencies and contractors, which are now reserved for the National Company for Cooperative Insurance, and air transport for government employees, which is reserved for Saudi Airlines under the "Fly Saudia Act".

Finally, standards and labeling regulations are also a problem area. Saudi Arabia and the other GCC countries have adopted food health and labeling standards which can pose problems for U.S. exports. As noted above, food products must have detailed Arabic labeling which includes production and expiration dates, product name, net weight, ingredients manufacturer's name and country of origin. In addition, U.S. exporters have complained about the lack of clarity in the regulations and inconsistencies in their application.

6. Export Subsidies Policies

Saudi Arabia has an extensive program of agricultural export subsidies, notably on wheat. Each year's wheat crop is now purchased in its entirety by the government-owned Grain Silos and Flour Mills Organization at prices which range from $400 per ton (for large producers) to $534 per ton (for small producers). The largest proportion of this crop (four-fifths in 1987) is then re-exported at world market prices, with the government picking up the cost of the organization's losses.

In contrast Saudi Arabia has no programs specifically targeted at supporting industrial exports, although many of its industrial incentive programs can be seen as indirectly supporting exports. The U.S. Department of Commerce has imposed countervailing duties against Saudi Arabia in one case where special government support programs were seen to give a Saudi producer of steel rods an unfair pricing advantage. In this case, the major factor was the interest-free financing offered by specialized credit institutions. In addition the government offers new investors other incentives, including exemptions from duties on capital equipment and raw material

inputs, income tax holidays for foreign joint venture partners, nominal rents on industrial property, and training subsidies.

7. Protection of U.S. Intellectual Property

Saudi Arabia is not a party to any major intellectual property accords and lacks comprehensive regulations to ensure intellectual property protection. The GCC is developing a regulatory framework to provide patent, trademark and copyright protection for all of its member states, but this effort is still in its initial stages.

Saudi Arabia also has no patent law, but plans to promulgate a law soon to be developed, in part, with the assistance of the World Intellectual Property Organization. In 1986 the GCC prepared unified patent regulations with the cooperation of the World Intellectual Property Organization (WIPO). These were reviewed by the Department of Commerce and found to be "reasonable, positive and useful". As yet, however, these regulations have not been implemented.

In 1984 Saudi Arabia passed regulations protecting foreign-owned product and service trademarks. Businesses are generally satisfied with the regulations, but complain about the high cost of registration. Antifraud regulations, also passed in 1984, offer additional protection. The Saudi Ministry of Commerce has closed several shops selling counterfeit products.

Saudi Arabia has no copyright legislation. The U.S. Motion Picture Association considers Saudi Arabia to be a prime consumer as well as a major export center of pirated U.S. films, videocassettes and sound recordings. The Saudi Ministry of Information has promised to try to enforce the rights of U.S. owners of newly released videocassette films, but there has been little practical evidence of this effort. Draft Saudi copyright laws covering books, music, audio and video recordings, art and computer software are under study, but it is unclear whether such rules, if promulgated, would be flexible enough to cover new and emerging technologies.

Intellectual property protection has been discussed at recent meetings of the U.S.-GCC economic dialogue, and the U.S. Government has urged the Saudi Arabia Government to take steps to strengthen intellectual property protection. While difficult to estimate, the losses to U.S. businesses because of the lack of effective patent, trademark and copyright rules is probably less than $10 million.

8. Worker Rights

a. The Right of Association

Government decrees prohibit the formation of labor unions and strike activity.

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b. The Right to Organize and Bargain Collectively

The right to organize and bargain collectively is not recognized in Saudi Arabia.

c. Prohibition of Forced or Compulsory Labor

Forced or compulsory labor is not known to exist in Saudi Arabia. In cases where employers try to exact services greater than those specified in the contract or otherwise violate a work contract's provisions, employees have recourse, in theory, to labor courts for adjudication.

d. Minimum Age for Employment of Children

There is no minimum age for those employed in agriculture, family enterprises, private homes, or repair of agricultural machinery. Children under 18 and women may not be employed in hazardous or unhealthy industries, such as mining or industries employing power-operated machinery. In other cases, the labor law provides for a minimum age of 13, which may be waived by the Ministry of Labor in certain areas with the consent of the juvenile's guardian. In general, enforcement is effective, and child labor does not appear to be a significant problem.

e. Acceptable Conditions of Work

There is no legal minimum wage. The labor law provides, however, that minimum wages may, if necessary, be set by the Council of Ministers on the recommendation of the Minister of Labor. The effective minimum wage is the amount required to induce foreign laborers to come to work at any given work site in Saudi Arabia at any given time. Saudi labor law establishes a maximum 48-hour workweek at regular pay and allows employers to require up to 12 additional hours of overtime at time and a half. Employees may volunteer for additional overtime.

The 1969 Saudi Labor Law requires employers to protect most workers from job-related hazards and disease. Domestic employees and workers employed in enterprises with fewer than five employees are not covered in the labor code. Labor Ministry inspectors and the labor courts are seeking with some success to enforce the labor code, but foreign nationals report frequent failures to enforce health and safety standards. Saudi authorities reportedly have enjoyed greater success in enforcing contract terms and working hours.

Saudi Arabia has a generous social security program. Most foreign workers formerly were eligible to participate in this program on the same basis as Saudis, but were excluded from participation in March 1987. Some foreign workers, particularly those in unskilled positions, such as lower-level construction workers and housemaids, have been subjected to abuse due to their ignorance of the labor code, inability to understand Arabic, lack of written contracts, or fear of retribution from their employers. Such labor problems can be settled in labor courts, which have the reputation of being

reasonably fair, if at times slow. But the poorest employees may face insuperable practical and financial obstacles in trying to take advantage of these courts. Moreover, labor courts have no compulsory enforcement powers. In 1986 the government increased its authority over recalcitrant employers through a written code that permits it to attach assets. Still, during 1988 there were reports of conditions facing expatriate workers from several countries which included meager wages, squalid labor camps where conditions are deteriorating, and harassment from employers, with allegations of sexual abuse.

f. Rights in Sectors with U.S. Investment

Major U.S. companies operating in sectors of the Saudi economy such as petroleum or chemicals and related products seek to be known as good corporate citizens. In practice this means strict adherence to the Saudi labor law, including the ban on union activity and strikes. There is no collective bargaining. On the other hand, there is also no forced or compulsory labor and any required overtime is compensated, normally at time and a half rates. Similarly, while the minimum age for employment in Saudi Arabia is 13, the practice among U.S. firms generally is to recruit intermediate school graduates (age 16) or high school graduates (age 18) even for entry level positions.

Conditions of work at major U.S. firms are generally as good or better than those available elsewhere in the Saudi economy. U.S. firms normally work a five and one-half day week (44 hours) with paid overtime. There is no minimum wage, but overall compensation tends to be at levels that make employment in U.S. firms very attractive. Major U.S. firms generally offer very competitive salaries, medical insurance, generous termination benefits and, in some cases, housing and transportation allowances to their employees. In addition several U.S. companies provide low interest loans for employees under company-managed home ownership programs.

Finally, safety and health standards in major U.S. firms in Saudi Arabia compare well with standards anywhere in the world. According to U.S. managers, accident rates are as low or lower than rates elsewhere in the world.

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Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		1,079
Total Manufacturing		163
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	40	
Machinery, except Electrical	(*)	
Electric & Electronic Equipment	6	
Transportation Equipment	0	
Other Manufacturing	(D)	
Wholesale Trade		(D)
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

(*)-Under $500,000

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

SRI LANKA

Key Economic Indicators

Millions of Rupees Unless Otherwise Indicated

	1986	1987	1988 (proj)
Income, Production, Employment			
GDP (current factor costs)	163,713	177,731	200,000
GDP (constant 1982 factor costs)	114,261	115,922	120,000
GDP by Sector			
Agriculture	N/A	27,409	N/A
Tea	N/A	2,750	N/A
Rubber	N/A	765	N/A
Coconut	N/A	2,967	N/A
Paddy	N/A	5,423	N/A
Other	N/A	15,504	N/A
Mining and Quarrying	N/A	3,112	N/A
Manufacturing	N/A	18,748	N/A
Tree Crop Processing	N/A	3,340	N/A
Other	N/A	15,408	N/A
Construction	N/A	8,338	N/A
Services	N/A	58,315	N/A
Fixed Capital Formation	42,326	45,752	51,400
Real GDP Growth Rate	4.3	1.5	3.5
Real GNP Growth Rate	4.5	1.6	4.0
Income per capita ($)	354	360	370
Population (mid-yr millions)	16.1	16.4	16.6
Labor Force (millions)	6.7	6.8	7.0
Unemployment Rate (pct)	17	19	21
Money and Prices			
Investment (pct of GDP)	23.7	23.3	N/A
Domestic Savings (pct of GDP)	12.0	12.8	N/A
National Savings (pct of GDP)	14.5	15.3	N/A
Revenue	31,272	35,127	39,785
Expenditure	59,194	63,059	72,534
Government Deficit (pct of GDP)	17	15	18
Growth Rate M1	12.9	18.4	N/A
Growth Rate M2	5.1	14.7	15
Retail Price Index	8	8	12
Wholesale Price Index	-3	13.4	N/A
Balance of Payments and Trade			
Exports	34,072	41,133	46,255
Exports to U.S.	8,480	10,434	11,962
Imports	54,559	60,517	67,787
Imports from U.S.	3,291	3,358	3,828
Trade Balance	-20,486	-19,889	-21,532
Current Account Balance	-11,909	-10,537	-11,165
Foreign Aid (grant and loan)	16,531	15,102	16,550
Aid from U.S.	54	45	N/A

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	1986	1987	1988(proj)
External Debt (yr-end)	116,429	144,531	169,070
Debt Service Ratio (pct)	26.4	28.5	30.0
External Assets	9,547	8,869	8,772
Exchange Rate (Rs/$)	28.02	29.44	31.90

Sources: Central Bank of Sri Lanka, Customs Department, and U.S. Embassy estimates

Foreign Aid Disbursements (1987 - millions of rupees)

Japan	2,990
IDA	2,458
Asian Development Bank	1,440
United States	1,309
Federal Republic of Germany	895
France	558
Sweden	540
Finland	455
The Netherlands	434
Other Countries	3,363
Total	14,442

Source: Ministry of Finance and Planning, External Resources Department

1. General Policy Framework

The election of the United National Party (UNP) government in 1977 marked a watershed in Sri Lankan economic history. Reversing the policies of their predecessors, UNP leaders introduced a number of reforms designed to open the economy and stimulate growth. They liberalized price and foreign exchange controls, streamlined import regulations, and cut some consumer subsidies. The UNP government repeatedly emphasized the importance of the private sector in development and actively courted foreign investors.

The new policies produced impressive results, stimulating international and domestic trade, and increasing economic growth to an average rate of five percent annually through the mid-1980s. They did not, however, succeed in altering the government's dominance of the economy, or ease Sri Lanka's heavy dependence on foreign aid. Government expenditures, including assistance to inefficient state-owned enterprises, currently amount to about 40 percent of gross domestic product (GDP). International aid grants and loans fund about 25 percent of imports.

One reason for the mixed success of the UNP economic reforms was Sri Lanka's lingering ethnic dispute. The insurgency not only required the diversion of scarce financial resources to the military, but also distracted attention of policymakers away from economic issues. Fiscal and monetary policy, to a significant degree, became hostage to the defense budget as immediate security concerns were given priority over less pressing economic questions.

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On January 1989 Ranasinghe Premadasa succeeded J.R. Jayewardene as President of Sri Lanka. Like Jayewardene, Premadasa is a member of the UNP. Premadasa stressed populist economic policies during his campaign for the presidency. It is likely, however, that his government will pursue the generally open policies of the 1977 to 1988 period.

In sum, past government policies created more favorable conditions for foreign trade and investment at the microeconomic level. Political and security developments, however, slowed the momentum of reform. Meanwhile, macroeconomic concerns have had to take a back seat to the needs of the military. These trends are likely to continue to influence economic policy making in the medium-term.

2. Exchange Rate Policies

Sri Lanka has a managed, floating exchange rate. The central bank determines spot buying and selling rates for a basket of currencies on a daily basis. The dollar has a heavy weight in the basket and in practice the rupee is closely linked to the dollar.

Exchange controls are administered by the central bank. The controller of exchange is charged with regulation and implementation of exchange control requirements. The following are some of the major exchange control regulations:

- persons other than authorized dealers are not permitted to buy, borrow, or lend foreign exchange;

- foreign exchange basically may only be taken abroad for purposes of travel, education, emigration or expatriation of dividends;

- inward remittances of foreign exchange proceeds must be surrendered; certain payments require exchange control approval;.

- proceeds from the liquidation of investments not approved by the government may not be transferred abroad, but may be re-invested with the approval of the controller of exchange.

Central bank approval limits for travelers are complex and vary with the destination and the purpose of the trip. Amounts range from a low of $300 per person once every two years (for holiday travel to South Asian countries) to a high of $150 per person per day for a maximum of 30 days (for business travel to western countries by senior executives). Emigrants are allowed a basic amount of Rs. 150,000 per person, but the final amount and the modalities of expatriation must be worked out in consultation with the Department of Inland Revenue.

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Dividend expatriation depends on terms established in the joint venture agreements which require prior approval by the ministry of finance. Dividend expatriation is generally allowed by the central bank and has not been a significant problem for U.S. firms.

3. Structural Policies

The Government of Sri Lanka has a variety of tools at its disposal for controlling prices. In practice, however, they have been applied largely to staple goods. Price controls are, in most cases, not a problem for foreign traders and investors.

Sales taxes, including excise taxes on liquor and tobacco, provide roughly 45 percent of government tax receipts. Import and export duties account for about 20 percent and corporate taxes roughly 15 percent. Foreign investors can frequently obtain tax holidays, especially for export-oriented ventures.

The greatest barrier to U.S. exports in the regulatory area is the network of protective measures which the government has established for its state-owned enterprises. Many of these firms have been granted monopolies in areas which are left to the private sector in the United States. The government plans to privatize many of the state-owned enterprises and open their markets to competition, but has not as yet been able to get beyond the preparatory stages.

4. Debt Management Policies

Sri Lanka's debt service ratio is currently running at about 30 percent. Most of the loans were obtained from foreign governments and international lending institutions on concessional terms. Sri Lanka has never had to reschedule its debt, but signed a three-year structural adjustment program with the International Monetary Fund (IMF) in March 1988.

5. Significant Barriers to U.S. Exports

International trade in Sri Lanka is relatively free, but special import licenses are necessary for some items including motor vehicles, pharmaceuticals, textiles, gold and machinery. The controller of imports is responsible for issuing import licenses. the government retains an import monopoly for a few key commodities, including wheat, rice and petroleum.

The government limits foreign equity participation in investments outside the free trade zones to 49 percent. Restrictions on the number of foreign personnel may be levied on a case-by-case basis.

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All packages must be labeled in large bold lettering using indelible ink or paint. Shipping marks should show consignee, order number and port of entry. New regulations may soon require pharmaceutical packaging to display the generic name in equal prominence with the trade name of any drug.

6. Export Subsidies Policies

The Sri Lanka Export Development Board provides a variety of incentives, assistance schemes, and facilities to promote exports. One scheme offers financial assistance to export oriented investments at concessional rates of interest. Another provides short-term funding to cover working capital requirements. Other export incentives include tax holidays, customs duty rebates, export expansion grants, bridging loans, export insurance schemes, and assistance for pioneering projects. Special concessions are also given to non-traditional export industries.

Firms which export more than 50 percent of their output are exempted from import duties on all machinery, apparatus, appliances and accessories directly used in the production such goods. Special concessions for enterprises in the free trade zones include tax holidays, exemptions of duty on machinery and raw materials, investment relief, and relief from double taxation.

7. Protection of U.S. Intellectual Property

Sri Lanka is a member of the World Intellectual Property Organization (WIPO) and party to the Berne and Paris Conventions and the Patent Cooperation Treaty.

Intellectual property is protected under Sri Lankan law. Trademarks registered with the government are protected for ten years. Protection can be renewed at ten year intervals. Patent protection is limited to 15 years and is subject to the payment of renewal fees after the second year. As a member of the Berne Copyright Convention, Sri Lanka grants copyright protection for the life of the author plus 50 years.

Despite the generally favorable treatment of intellectual property rights under Sri Lankan law, enforcement is a problem given the government's limited resources. Pirated audio and video tapes, for example, are readily available on the local market. Most of these appear to be imported, however, and there appears to be little pirating taking place in Sri Lanka itself.

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8. Worker Rights

a. The Right of Association

The Constitution provides for freedom of assembly and association and the right to form and join trade unions. Any seven workers may form a union, draw up their own procedures, elect their own representatives, and formulate programs. Workers' rights, including the right to choose representatives, publicize views, and determine programs, are protected by law. Public service employees have no right to strike and are not provided arbitration machinery. Other workers are free to strike and have done so frequently. Unions may and do affiliate internationally. Sri Lanka is a member of the International Labor Organization (ILO). It sends a tripartite labor, government, and employer team to participate in ILO meetings.

Under the Essential Services Act, the President may declare any business to be an essential service, making a strike illegal. President Jayewardene used this power extensively during the last months of the year to counter the violent efforts of the People's Liberation Front (the JVP -- a group of disaffected radical youth) to shut down essential services and overthrow the government.

Although there are a few independent unions, most large worker organizations are affiliated with political parties and play a significant role in the political process. Despite constraints arising from their political affiliations, Sri Lankan unions generally have been vigorous in advocating improved conditions for workers.

b. The Right to Organize and Bargain Collectively

Workers are expressly granted the right to bargain collectively by formation of workers' councils to promote voluntary worker-employer dialogue. Department of Labor officers may arbitrate when workers and employers are not able to resolve a dispute. These officers are stationed throughout the country to assure that employers fulfill their legal and contractual obligations to workers and to be available for mediation in minor local disputes. About 1,000 labor unions and federations together represent about 1/3 of the 5.5 million-strong labor force.

Workers in the nonplantation agricultural sector and most of those employed in small businesses, as well as workers in the free trade zones, are not represented by unions. Unionization in the zones is not prohibited by law but is, according to union leaders, discouraged in practice. However, zone employees participate in labor-management company associations. Workers in the unorganized agricultural sector are not covered by labor laws, although the Government may investigate individual complaints.

c. Prohibition of Forced or Compulsory Labor

There is no forced labor in Sri Lanka.

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d. Minimum Age for Employment of Children

Under Sri Lankan laws, employment of children under age 12 is prohibited. Those between ages 12 and 14 are called child workers and may not be employed in industry or dangerous occupations. Employment of young persons between 15 and 18 is subject to certain restrictions. Employees under age 18 cannot be required to work outside specified hours. In addition, employers are required to provide annual leave, rest periods, and meal breaks. In practice, however, there is a work force of children, probably numbering at least several thousand, who work illegally, mostly at jobs in rice cultivation, as domestics, or as street peddlers. Efforts to address this problem have been hampered by the fact that in some cases child workers are a major source of family income.

e. Acceptable Conditions of Work

There is no national minimum wage, but wage boards for 37 different trades set minimum wages and working conditions. Most permanent full-time workers are covered by laws which provide that they shall work no more than 45 hours per week, no more than 9 hours per day, and no more than 5 1/2 days per week, and that they will receive a 14-day paid annual holiday. Minimum conditions for the protection of the safety and health of workers are set forth in legislation passed by Parliament and implemented by the Department of Labor, which employs a staff of engineers and inspectors for this purpose. The Department also educates workers about minimum standards for different workplaces and encourages the use of safety equipment such as earplugs, but union leaders allege that government enforcement of health and safety standards is poor.

f. Rights in Sectors with U.S. Investment

Other manufacturing (textiles) is the only goods producing sector in Sri Lanka with significant U.S. capital investment. U.S.-owned garment factories are concentrated in the free trade zones (FTZ). There is no legal difference in the treatment of worker rights inside or outside the FTZs; the same legal protections apply equally to all sectors of the national labor market. In practice, however, because access to the FTZs is restricted, government monitoring of labor practices has been insufficient and protection of worker rights may be less complete inside the FTZs than outside.

Work hour laws for Sri Lanka are generally observed in textile plants in the FTZs. Trade union leaders allege that enforcement of minimal health and safety standards by government inspectors inside the FTZs is insufficient.

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Constitutional guarantees providing for freedom of assembly and the right to form and join trade unions apply within the FTZs, as well as legal protection of the right to strike. There have been some spontaneous strikes within the FTZs, but union leaders contend that strike organizers have been punished for their activities by being barred from the FTZs, and thus their jobs.

Constitutional guarantees of the right to organize and join trade unions apply in the FTZs. According to union leaders, however, there are no unions in any of the textile factories in the FTZs. Access to the FTZs is restricted to those who hold passes issued by the Greater Colombo Economic Commission (GCEC). Unionists claim the GCEC routinely denies passes to anyone it suspects is intent on organizing a union within the FTZs. These sources report that the GCEC once denied a pass to the general secretary of the International Textile, Leather and Garment Workers Federation (ITLGWF). On another occasion, the GCEC reportedly denied a pass to the Government of Sri Lanka's own administrator of womens' affairs. Labor leaders contend that such practices have the effect of abridging the right to organize of workers within the FTZs.

Minimum age laws are generally observed in the FTZs.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
Petroleum		0
Total Manufacturing		(D)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	(D)	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade	0	
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

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Key Economic Indicators

Millions of Syrian Pounds Unless Otherwise Indicated

	1986	1987	1988
Income, Production, and Employment			
GDP (1980 prices)	57,717	52,374	N/A
Agriculture (1980 prices)		10,762	N/A
Real GDP Growth (pct)	- 1.2	- 9.3	N/A
GDP per capita (1980 prices)	5,439	4,775	N/A
Size of Labor Force	N/A	N/A	N/A
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1 current pcs)	62,423	67,242	N/A
Commercial Interest Rate(1)			
Savings Rates(1)			
Investment Rate(1)			
CPI (Damascus) (1970 = 100)	714	1,139	N/A
Wholesale Price Index (1980 = 100)	229	336	N/A
Exchange Rate (Syrian Pounds/$)			
Official	3.95	3.95	11.20
Promotional	10.00	23.29	20.25
Free Market	14 - 24	25 - 37	30 - 50
Balance of Payments and Trade(2)			
Total Exports	5,199	15,192	N/A
Exports to U.S.	1.7	88	N/A
Total Imports	10,709	27,915	N/A
Imports from U.S.	472	1,471	N/A
Aid from U.S.	0	0	0
Aid from Other Countries(3)			
External Public Debt (est)	9,444	13,443	N/A
Annual Debt Service (est)(4)	1,173	1,481	N/A
ForEx Reserves (est gross convertible - excludes gold)	38	403	N/A
Balance of Payments	-833	-699	N/A

(1) All banks in Syria are nationalized and interest rates are set by law, ranging from two percent for financing of the export and storage of barley to nine percent for certain private sector loans. Savings rates range from two percent on public sector "current accounts and sight deposits" to nine percent on "other investment bonds". Most rates have not changed in 20 years.
(2) Using exchange rate valid for the year noted, i.e. 3.95 in 1986 and 1987.
(3) Estimates in millions of Syrian pounds using 3.95 Syrian pounds/dollar -- 2,133-2,528 in aid for 1986 and 2,133-2-2,528 in aid for 1987.
(4) Not known if due or paid.

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Sources: All statistics except those for the free market exchange rate, aid, total U.S. direct investment, external public debt, annual debt service, gold and foreign exchange reserves and the balance of payments are taken from the official Syrian statistical abstract or from official foreign trade statistics. The balance are Embassy estimates based on a variety of sources. We do not consider any of the statistics to be totally reliable and are aware that there may be discrepancies. These result in part from the use of different exchange rates (there were as many as six in existence up until 1987) in different periods. Further, we do not know precisely how Arab aid to Syria is allocated. We believe the figures cited for debt service and foreign exchange reserves should be regarded as maximums while those for the balance of payments deficit are minimums.

1. General Policy Framework

Syria has a highly centralized socialist economy, with a small but vigorous private sector. Virtually all large industry, including the banking and insurance sectors, is nationalized.

The overriding barrier to U.S. exports to Syria is a severe foreign exchange shortage, although various sanctions imposed against Syria pose additional constraints. Moreover, the highly centralized nature of Syria's economic structure means that with minor exceptions, the only mechanism through which exports legally enter the market is the central government.

U.S. trade controls due to Syria's involvement with terrorism were first imposed in 1979. They were expanded in 1986 following Syria's implication in the attempted bombing of an Israeli airliner at London Heathrow airport. Among the affected items are aircraft, aircraft parts, and computers of U.S. origin or containing U.S.-origin components and technologies. The Syrians have sought alternate suppliers of these products. Under the 1986 sanctions, Syria is also ineligible for concessional financing of U.S. wheat exports, thus rendering U.S. wheat uncompetitive in the Syrian market.

Given that interest rates are fixed by law, that most rates have not changed in the last twenty years, and that there is no local securities market, most tools of monetary policy are not practicable in Syria. The national budget is the main fiscal policy tool. Although budgets have shown negative growth in real terms in recent years, they are nonetheless in deficit, with deficits financed through borrowing from the central bank and by printing money. Basic foodstuffs are heavily subsidized, social services are made available free or for minimal charges, and many state industries operate at a loss with the loss made up from the state treasury. The expense of maintaining a large standing army plus the Syrian presence in Lebanon pushes government expenditures even higher.

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2. Exchange Rate Policies

The official exchange rate is pegged at 11.2 Syrian pounds (SP) per $1.00. The "promotional rate" is SP20.25/$1.00 and the black market rate was between SP40 and SP45/$1.00 in November 1988.

Exchange controls are strict. Syrian pounds may not be taken out of the country, although they may be physically imported. Almost all exchange transfers must be by letter of credit authorized by the central bank and the prime ministry. Private transfers of funds are not permitted. Private exporters may retain 75 percent of their export earnings in foreign exchange with the balance in Syrian pounds. Prior to 1986 private exporters were not allowed to retain any of their earnings and had to apply to the central bank for all exchange authorizations. Syrian travelers may take $1,000.00 per trip out of the country to non-contiguous countries. The impact on the price competitiveness of American exports of these policies is minimal.

There is a substantial black market in Syria in currency, in the sale of locally produced items at free market rather than controlled price levels, and in active commodity smuggling trade from Lebanon.

3. Structural Policies

Syria has a highly centralized state socialist economy. Officially all imports, except those financed by private exporters from their export earnings, are government controlled. Prices for virtually everything are subject to controls. Farmers are permitted to retain a portion of production for their own use, but the balance must be sold to the government at official procurement prices. Most industry is nationalized and a web of public sector companies exists to procure and distribute both agricultural and industrial output. Given the nature of this structure, it is difficult to assess the impact on U.S. or any other exports. With minor exceptions, the only legal entry into the Syrian market is via government tender. These are open and international with no restrictions other than language pertaining to the Arab boycott of Israel. Awards are heavily influenced by such factors as willingness to accept bartered goods and credit facilities, in addition to price. It is possible that if Syria had a free, open system, and if it had sufficient foreign exchange, U.S. exports would increase. On the other hand, given the exchange constraint, it is difficult to assess the extent to which the economic structure constitutes a trade barrier.

Given Syria's economic structure, tax policies have but limited relevance to economic growth. There are no corporations in the sense the term is understood elsewhere. Anything that might qualify is a public sector enterprise, whose profits go to the government or whose losses are made up from the national treasury. Investment decisions are made by the State Planning Commission. Salaried employees are subject

to a 14 percent wage tax; "professionals" and private entrepreneurs or partnerships are subject to rates as high as 90 percent on their profits.

The structure described above is that delineated by Syrian law and regulation. A substantial parallel economy exists outside the official structure. Goods ranging from luxuries to refrigerators and steel reinforcing bars for use in concrete construction flow across the border from Lebanon. In this market U.S. exports compete on the basis of price and quality alone. Pricing is based on the free market rate for Syrian pounds, that rate being apparently a function of the supply and demand for these pounds. The Syrian Government has been unwilling or unable to exert effective control over this parallel economy, although there are periodic anti-corruption and anti-black market campaigns.

4. Debt Management Policies

Syria manages its debt by indefinite deferment. Very little of this debt is held by the United States. Payments on supplier credits and official development assistance are badly in arrears to all creditors. Disbursed public and publicly guaranteed civilian debt is estimated at over $3 billion. Debt to the Soviet Union and Iran (both clearing account arrangements) is estimated to be at least $15 billion. Syria is badly in arrears with its payments to the World Bank and narrowly escaped having formal default proceedings brought against it in the summer of 1988. Payments ceased in March 1988. If an acceptable agreement is not reached, a formal default may yet be declared. Tales of unpaid bills abound, and many suppliers have stopped responding to government tenders.

5. Significant Barriers to U.S. Exports

Import licenses are required for all items. Banking and insurance are Syrian Government monopolies. Legal services are handled by private lawyers, but one must be Syrian to practice law in Syria. Motion pictures are distributed by a government agency and subject to censorship. There is no stock exchange in Syria. Standards, testing, labeling, and certification are generally fairly administered. Most industry is nationalized and foreign investment is limited to 49 percent.

Joint ventures with the Syrian Government are possible. The number and position of foreign employees in a company is usually negotiated when the contract or agreement is signed. There are no strict restrictions apart from the fact that foreign personnel, particularly in managerial positions, represent the extent of equity participation. Land ownership laws are complex. In principle only Syrians may own land. The law permits Palestinians to own houses, though not agricultural land. Other exceptions have been made for foreign governments, institutions, and private individuals. Repatriation of capital is legally possible, yet may be in

fact impossible due to the foreign exchange constraint. Government approval is required for all investments and any downstream services would have to be explicitly negotiated. Local sales would be subject to price controls.

Given the centralized structure, specific "buy national" laws do not exist. What the government cannot produce for itself, it procures on the international market if it can afford it. Syria does not tender for goods it produces itself, even if the international price is lower. Tendering is open and international. Syria prefers countertrade agreements.

Customs procedures are cumbersome and tedious. Delays result mostly from complex, formalistic regulations.

6. Export Subsidies Policies

Major exports are crude oil, refined products, and cotton. The government markets virtually all of Syria's exports so levels of subsidies are difficult to quantify.

7. Protection of U.S. Intellectual Property

Syria is a member of the Paris Convention for the Protection of Industrial Property, but has no trademark or copyright laws. There appear to be no major infringement problems. Local courts would likely give plaintiffs a fair hearing, but any financial award would be in Syrian pounds. Requests for payment in foreign exchange could 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 infringement is not a known problem. There are, however, individual entrepreneurs who copy records, cassettes, and videos and sell them. These operations are not sanctioned by the Syrian Government. The amount of lost revenue is minimal and enforcement would be next to impossible.

The U.S. motion picture industry estimates the home video market in Syria is 100 percent pirate and is also concerned with unauthorized hotel video performances which are said to be common.

Given the lack of technical sophistication of Syrian industry and strict government control of communications and data processing, infringements on new technologies are not a problem.

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8. Worker Rights

a. The Right of Association

The government uses the Syrian General Federation of Trade Unions (GFTU) as its framework for controlling nearly all aspects of union activity. Workers are not free to form labor unions independent of the government-prescribed structure. While unions are used to transmit instructions and information to the labor force from the Syrian leadership, there are indications that elected union leaders, as members of the Ba'ath Party, also act as a conduit through which workers' dissatisfaction is transmitted to the leadership. The head or deputy head of the GFTU, for example, participates in all cabinet sessions. In addition, by law at least 51 percent of the members of Syria's Parliament must be workers or peasants.

While strikes are not prohibited under Syrian law (except in the agricultural sector), in practice they are effectively discouraged.

The GFTU is affiliated to the International Confederation of Arab Trade Unions and the Soviet-controlled World Federation of Trade Unions. It also represents Syrian workers in the International Labor Organization (ILO).

Under the 1973 Constitution, the people have the right to form trade unions. Syrian labor unions are organized sectorally and at local, provincial, and national levels. Under Syrian labor law, any group of 50 or more workers in a particular profession or sector may form a guild committee. These local committees may join to form a provincial union. These provincial unions may join with others in the same profession to form a national syndicate or union. Officials at all levels are elected, and the provincial unions reportedly are financially independent of the national syndicate.

However, the ILO's independent Committee of Experts on the Applications of Conventions and Recommendations has observed that only one trade union can be set up for the same occupation within the same province and that the unions in a province can only group themselves into one provincial federation of workers.

Of the 198 national unions in Syria, all but 8 are part of the GFTU structure. The government maintains that the unions which belong to the GFTU chose voluntarily to do so because "the central affiliation system enables the workers to attain their objectives and their ambitions of having partner status in negotiations." The GFTU is charged with providing opinions on legislation, devising rules for workers and labor, and to organize labor. The elected president of the GFTU is a senior member of the ruling Ba'ath Party. The secretaries general of the eight nonaffiliated associations, some of whom are not Ba'ath Party members, are also elected officials.

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The ILO's Committee of Experts in its 1987 and 1988 reports concluded that the GFTU structure amounted to a legally mandated system of trade union unity. It observed that under the law the GFTU has the right to dissolve the executive committee of any trade union. Other observations of the committee had to do with restrictions on the right of foreign workers to join or form trade unions of their own choosing; the interference of public authorities in trade union administration; the supervision of their financial accounts; the right of the GFTU to dissolve the executive committee of any trade union; and the prohibition of strikes in the agricultural sector.

b. The Right to Organize and Bargain Collectively

In the public sector, unions do not normally bargain collectively on wage issues, but their representatives participate with the representatives of the respective employer and ministry in establishing sectoral minimum wages. Moreover, in a country whose major industries are publicly held, workers make up the majority of each board of directors and always include union representation on those boards. They 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. The guilds, under the law, can undertake negotiations for collective contracts with employers. They can sue and be represented in court.

There is no information currently available regarding Syrian labor practices inside Syrian free trade zones.

c. Prohibition of Forced or Compulsory Labor

There have been no indications of forced or compulsory labor in Syria.

d. Minimum Age for Employment of Children

The minimum age in the predominant public sector is 14, though it is higher in certain industries. The minimum age varies more widely in the private sector; the absolute minimum age is 12, while parental permission is required for children under age 16 to work. Children are forbidden from working at night. The Labor Ministry is responsible for enforcing minimum ages, but the number of labor investigators is low, and violations of the law may be extensive.

e. Acceptable Conditions of Work

The government provides minimum and maximum wage limits in the public sector. Salaries are set on a monthly scale. The wages were set in 1985 and revised in 1987. The lowest salary scale for an entry position, with no experience or credentials and engaging in no physical labor, is approximately $75 per month at the official rate of exchange. The highest public sector starting salary is approximately $167 for someone with a Ph.D. degree.

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There is no fixed minimum wage in the private sector for permanent employees. However, the monthly minimum would not be less, in practice, than that in the public sector. According to the 1959 labor law, minimum wages in the private sector are fixed by the Minister of Social Affairs and Labor. Recommendations are put to him by a committee, formed by a representative of the Ministry of Industry or of Economy and Commerce plus a representative of the employers and of the employees (union or guild).

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, an issue which the employee may take to court. It has become a truism and an economic problem that workers, once hired, cannot easily be fired. One exception to the well-regulated labor field is that of 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.

The 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. Employees are guaranteed 15 days of paid leave per year during the first 5 years, rising to 30 days per year for persons over age 50 or with 20 years' employment. Employers are required to provide limited medical care, and establishments with more than 100 employees must hire a nurse and offer access to a physician when necessary.

Public laws mandate safety standards in all sectors, although actual enforcement depends on individual managers and may, therefore, vary. The Government provides disability insurance for job-related injuries. Permanently disabled workers who do not return to their job receive severance pay of up to 70 percent of their last salary, with a sliding scale based on the extent of the disability. Employees often experience delays in receiving compensation but have recourse to the legal system in the event of nonpayment.

Guest workers theoretically receive the same benefits, but are often reluctant to press claims because worker permits may be withdrawn at any time. Moreover, many work illegally and are not covered by the government system.

Women may not engage in jobs involving heavy labor and must obtain permission to work at night. A woman may take maternity leave of 2-1/2 months at full salary, 1 month at 80 percent of salary, and up to 4 years' leave without pay, after which she may rejoin the work force in her former job.

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f. Rights in Sectors with U.S. Investment

U.S. oil drilling companies do operate in Syria on a contractual basis. There is little U.S. equity investment in Syria.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		2
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

TUNISIA

Key Economic Indicators

Millions of Tunisian Dinars

	1986	1987	1988(est)
Income, Production, Employment (constant prices)			
GDP	4,278	4,524	4,569
GDP Growth Rate (pct change)	-1.8	+5.8	+1.0
GDP by Sector			
Agriculture	570	670	509
Manufacturing Industries	613	636	672
Non-Manufacturing Industries	709	690	693
Services	1,358	1,462	1,526
Real per capita Income	578	595	585
Size of Labor Force (millions)	2.2	2.3	2.4
Unemployment Rate (pct)	16.5	17.0	17.5
Money and Prices			
Money Supply	2,058	2,110	2,235
Commercial Interest Rates	14.0	17.0	12.5
Savings Rate (pct of GNP)	15.6	18.4	18.1
Investment Rate (pct of GNP)	23.8	21.0	21.7
Consumer Price Index (1983=100)	123.8	132.7	142.9
Wholesale Price Index (1970=100)	337.0	349.9	362.0
Exchange Rate (1 TD=$)	$1.27	$1.2	$1.2
Balance of Payments and Trade (current prices)			
Total Exports fob	2,161	2,725	3,045
Total Exports to U.S.	9.7	32.0	20.0
Total Imports cif	2,671	2,965	3,325
Total Imports from U.S.	160.7	149.1	240.0
Aid from U.S.	N/A	N/A	N/A
External Debt	4,150	4,470	4,572
Debt Service Paid	693	843	900
Gold and ForEx Reserves	164	350	650
Balance of Payments	-509	-240	-280

1. General Policy Framework

Tunisia is in the middle of a far reaching structural adjustment of its economy. Liberalization of prices and imports, lower customs tariffs, and fiscal reform are called for by the seventh Economic and Social Development Plan (1987-91). After weathering a severe balance of payments crisis in 1986, when exchange reserves fell to three weeks' import cover, Tunisia turned to a new fiscal and monetary policy designed to curb domestic demand and, through a lower exchange rate, make its exports more attractive. Results were immediately encouraging. Coupled with an excellent

performance in 1987 by the highly volatile agricultural sector, which produced a record cereals harvest, the economy expanded by 5.8 percent after the 1.8 percent drop in 1986.

Overall the economy has stagnated during 1988. Growth will be slightly under one percent, mainly due to a disastrous cereals harvest. Tunisia is suffering a severe drought and cereal production is only one quarter of early estimates, with total agricultural production down by nearly 25 percent. Locusts are a continuing threat to all sectors of agriculture.

Soft oil prices have done little to help the overall picture, although the level of petroleum revenues is becoming less significant with Tunisia only two or three years away from becoming a net importer of petroleum products.

Investment levels remain disappointingly low, although late year indications are that an improvement may be on the way. Imports of capital goods are up 22 percent for the first eight months of the year and the development banks have reported a doubling of total approvals so far this year.

The saving grace in 1988 has been the tourism sector. A total of more than three million visitors are expected during the year, compared with just under two million in 1987. Recently opened frontiers with Libya are entirely responsible for the massive increase in the number of visitors. Total foreign currency income from tourism will reach well over Tunisian dinars (TD) 1,000 million this year, more than double the 1987 total.

Export promotion is now of paramount importance. Tunisia is striving to put its economy on a more solid foundation, with less dependence on variable factors like weather conditions and its neighbors' travel plans. Economic expansion fueled by the export of manufactured goods will require higher levels of imports to feed industry, and to encourage this, the import of raw materials and semi-finished goods has been liberalized. Enterprises which export more than 15 percent of their production may now freely import all the materials and equipment required for production.

Tunisia's European partners have taken advantage of easier import regulations and almost every major trading partner except the United States has been quick to offer packages consisting mainly of mixed credits for merchandise and service purchases.

Tunisia's state budget for 1988 aims to restrain real spending below the levels of the previous year. Operating expenditures should increase minimally in real terms but capital outlay is expected to show a four percent drop. Total spending will be in the region of TD2,960 million, resulting in a deficit of TD550 million. Domestic and foreign borrowing will almost equally share the burden of covering the deficit.

Tunisia is maintaining its general pattern of revenue sources with indirect taxes, oil-related parastatal income, and direct taxes providing about 90 percent of income (55

percent, 21 percent, and 15 percent respectively in 1988). These proportions will change somewhat with the introduction of a single income tax scheduled for 1989 and the new value added tax (VAT), which began to come into effect in mid-year. The VAT replaces a myriad of production, consumer, and service taxes. Although the Government of Tunisia fully expected the introduction of the VAT to cost them money in the short term, in fact, the opposite has happened.

Changes in Tunisia's import tariffs (the maximum rate has been reduced from 220 percent to 43 percent, and will decrease further, to 25 percent, by 1991). The removal of the five percent customs formalities fee, will certainly reduce government revenue initially, but the loss will be easily made up by the increased volume of imports.

To coincide with the first anniversary of Tunisia's new government (November 7, 1988), President Ben Ali announced a string of fiscal reforms, all designed to inject life into a still sluggish economy. The new measures include a reduction in customs duties on capital goods, bringing the tariff down from 25 percent to 10 percent, and lower bank interest rates (a 2 percent cut at development banks and a 1.5 percent drop at commercial banks). Suppression of the consumption tax on a large range of consumer goods, and a VAT reduction on some agribusiness activities have also been announced. Nearly 700 small private enterprises in difficulty have also received a shot in the arm. Their bank debts have been converted into long-term bank loans and unpaid social security fund contributions have been written off.

The double goal of Tunisia's monetary policy is to stimulate the economy while keeping a tight rein on prices and inflation. The government's use of adjusted discount rates to promote expansion in key sectors of the economy is reflected in the special eight percent rate applicable to agriculture, small and medium-sized enterprises, and exports. For other sectors, the rate is up to 12 percent.

2. Exchange Rate Policies

Foreign payments are made in convertible currency via the central bank or through foreign-held accounts in the form of convertible Tunisian dinars. Foreign accounts denominated in convertible dinars or convertible foreign currency may be held by non-residents or Tunisians. These accounts may be debited with any payment made in Tunisia, with transfers to other foreign accounts, with purchases of foreign convertible currency at the central bank, and with foreign transfers to nonresidents.

Convertibility of the Tunisian dinar is still a long term goal. The 10 percent devaluation in 1986 put the official seal on an unofficial devaluation of something like 40 percent, and the dinar is now operating at a fairly realistic exchange rate. Convertibility is an essential part of the overall plan for financial liberalization of the economy. The suppression of exchange controls and the elimination of obstacles to

foreign financial institutions entering the local market will clear the way for them to play a effective role in financing Tunisia's economy.

3. Structural Policies

Price controls have been removed in several sectors of Tunisia's economy. The freer market has already led to considerably higher price levels. Subsidies in key sectors (cereals, sugar, tea) have kept the consumer price index under control. The government has a special subsidies fund for these basic products (Caisse Generale de Compensation), which currently costs the country over TD160 million per year. Small pay increases have recently been agreed on for both the public and private sector (wages have been frozen for the past five years) and the government will probably seize this as an opportunity to raise the prices of some of the subsidized items.

The only taxes having significant effect on U.S. exports to Tunisia are import tariffs. The current maximum tariff in operation is 43 percent, and this will be reduced to a maximum of 25 percent on all except a few luxury goods by the end of the Seventh Development Plan (1987-91). Tunisia is in the final phase of negotiating its entry to the General Agreement on Tariffs and Trade (GATT). A major requirement has been that all non-tariff barriers be removed. All taxes remaining on imports also apply to locally produced goods and are not therefore tariff barriers. The only additional minor charge on imports is a very small fee charged by the customs authorities for using its data transmission system for making a customs declaration. The present fee is two dinars per declaration.

4. Debt Management Policies

The improvement in Tunisia's current account and balance of payments has been highly commendable. The goal of the structural adjustment plan was to gradually reduce the current account deficit from eight percent of gross domestic product (GDP) in 1986 to three percent in 1991. In 1987 the current account deficit fell to just 1.4 percent of GDP, an 80 percent improvement over the previous year. Booming export earnings from the sales of goods and services and more restrained growth in imports narrowed the deficit sharply, resulting in a TD110 million current account deficit against a figure of TD560 million in 1986. This low 1987 figure will be hard to sustain in 1988 and the current account deficit is likely to rise by between TD125 million and TD200 million. Early year government estimates put the figure at TD320 million, but much greater than anticipated tourist revenues are likely to shave the figure to TD200 million.

Resources to finance this deficit, plus TD580 million in scheduled principal repayments on Tunisia's external

obligations, are assured by a combination of grants, foreign direct investment and medium and long-term borrowing. Tunisia has also decided to maintain its relationship with the International Monetary Fund (IMF) following the expiration of the highly successful standby agreement signed two years ago. An Extended Fund Facility will allow the Tunisian Government to draw down about $80 million in each of the next three years. This renewed vote of international confidence is the best evidence of the strength of Tunisia's commitment to structural adjustment.

With regard to capital account transactions, Tunisia borrowed considerable sums during the first half of the 1980s in an effort to finance an unsustainable external deficit. Since mid-1986 it has taken on additional debt, but as part of a series of medium-term measures designed to create a firm economic basis for the forthcoming decade. At the end of 1987 Tunisia's official medium and long-term debt was $5.4 billion (TD4.5 billion). The largest single item in Tunisia's capital budget (which totalled TD1,118 million in 1988) is debt repayment, expected to be around TD450 million dinars this year. Military investment is in second place with TD107.5 million.

5. Significant Barriers to U.S. Exports

The level of U.S. exports to Tunisia remains disappointingly low despite the non-existence of any real barriers to trade. Total Tunisian imports in 1987 were $3,100 million (1TD/$1.20) with 27.4 percent of all imports coming from France. The Federal Republic of Germany was in second place (12.6 percent) and Italy third (11.4 percent). Total imports from the United States were $178.8 million, or just under six percent of the total.

Cereals, financed by guaranteed credits, dominated U.S. exports to Tunisia in 1987, accounting for almost half the total. Nonagricultural sales continued to decline. Tunisian imports are going up, and the country's European trading partners have been quick to take note. Virtually every major trading partner except the United States has linked aid programs to trade by offering packages consisting mainly of mixed credits for merchandise and service purchases

There are real possibilities for increasing nonagricultural U.S. exports in several areas. The United States is already well represented in mechanical and electronic equipment, military hardware, and raw materials for the fertilizer industry.

Most major purchases by the Tunisian Government are made through international tender and the lead time for bid submission is often very short. An interested U.S. firm may have to obtain documents, translate them from French, prepare a bid and translate it into French for submission in as little as one month. A local agent who can respond quickly to government tenders and maintain contacts with clients is a necessity. Imports into Tunisia fall into three categories --

they can either be imported freely, are subject to quotas, or are forbidden. Free imports do not need preliminary authorization and can be done upon presentation of an import certificate, valid for six months. Items subject to quotas need either an import license or can be imported as part of an annual authorization. Annual quotas are granted to industries and organizations supplying basic necessities. Import licenses are valid for six months and are required for a very wide range of products.

About 25 percent of all importing is done by state organizations (50 percent of the total is energy-related purchases). The major importers are the Office de Commerce (sugar, coffee and tea), Ellouhoum (meat) and the National Oils Office (vegetable oils). Certain other products are imported by national organizations (tobacco, alcoholic drinks, and pharmaceutical and medical products).

Tunisia has recently revised its Industrial Investment Codes, greatly improving conditions for companies producing for export, particularly non-resident enterprises. Regulations effectively create free-zone conditions with duty-free imports, tax exemptions, and generous repatriation terms. Similar new regulations also apply to the tourism and agricultural sectors. The ownership of land by foreigners remains prohibited but the new law contains a 40-year land leasing system to permit agricultural development by foreigners.

Special regulations encourage oil exploration by foreign companies (the largest area of U.S. investment) and the installation of offshore banks. Tunisia can be a base for companies serving Mediterranean, Middle Eastern or sub-Saharan Africa markets. It offers an abundance of semi-skilled labor, moderate wages and preferential access to the European Community and many Arab and African markets. Increasing numbers of young managers are being trained in the United States. The financial infrastructure is one of the best developed in the region.

6. Export Subsidies Policies

Tunisia has a wide range of export subsidy policies, including a special Export Promotion Fund (FOPRODEX) which provides preferential financing and funding to improve the productivity and competitiveness of companies producing for export. Transport subsidies include 50 percent for air freight and 33 percent for sea freight. The Tunisian Government is also installing a system to provide long-term financing for exports of capital goods and durable consumer goods.

A government agency to promote exports, the Export Promotion Centre, (CEPEX) was created over 15 years ago but has only recently begun to play an active role in Tunisia's export drive.

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7. Protection of U.S. Intellectual Property

Tunisia is a party to the Berne, Paris and Universal Copyright Conventions.

The Tunisian National Institute of Standardization and Industrial Property (INNORPI) processes and grants patents, trademarks, and registration of designs. INNORPI is only six years old but appears to be a relatively dynamic organization. There are no current intellectual property disputes involving Tunisia.

8. Worker Rights

a. The Right of Association

Tunisia's Constitution stipulates the right to organize a union and to strike. The roughly 20 percent of Tunisia's work force that is unionized includes most public sector workers and those in large private establishments.

Tunisia's tradition of free trade unions came under attack under the previous government, and by 1987 government pressure had led to the removal of the executive board of the General Union of Tunisian Workers (UGTT) and the installation of a new board. The deposed members were loyal to the labor leader, Habib Achour, who was at the time under house arrest. The new board adopted a charter that sought to restrict collective bargaining and strikes. The new procedure for sanctioning strikes requires a majority vote of all UGTT member unions, not just the affected syndicate as before. This procedure remains on the books but is often ignored. Many UGTT-member local unions stage short wildcat strikes without interference from the Government.

In 1988 the UGTT began to normalize its operations and its relations with international labor organizations, notably including its membership in the International Confederation of Free Trade Unions. At the end of the year, the UGTT was preparing for shop elections, leading to an extraordinary congress scheduled for January 1989. In the interim, a mixed labor commission was examining labor issues, and bipartisan sectoral and regional commissions were established to oversee the elections.

b. The Right to Organize and Bargain Collectively

Many UGTT-member local unions engage in collective bargaining at the shop level without interference from the government. Export promotion zones per se do not exist. The government does offer, however, fiscal incentives to firms producing for export. The labor law is the same for exporters and nonexporters, but exporters -- emboldened by the government favor they enjoy -- are more likely to challenge unionizing and collective bargaining. Unionized workers deem managers of exporting companies recalcitrant, and a number of strikes have occurred against such firms.

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c. Prohibition of Forced or Compulsory Labor

Under Tunisian judicial practice, prison sentences may include confinement at forced labor. In 1981 the International Labor Organization (ILO) criticized Tunisia for this practice. While Tunisia continues to use compulsory labor as a sentence, it reportedly resolved ILO concerns on this issue in 1983 in a comprehensive report. The ILO has continued to urge Tunisia to bring its legislation on rehabilitation work and civic service into conformity with the Convention on Forced Labor. In November President Ben Ali stated his intention to submit draft legislation to abolish forced labor.

d. Minimum Age for Employment of Children

Child labor is prohibited prior to the age of 16. The Ministry of Social Affairs oversees the provisions affecting child labor. However, children perform a great deal of the agricultural work in rural areas, and children in Tunis can also be seen vending food and other goods.

e. Acceptable Conditions of Work

Tunisia has a labor code, dating from independence in 1956, that sets standards, including a 48-hour workweek and minimum wage, for some 60 percent of the labor force working in the civil service, public sector companies, and professions such as teaching. A considerable amount of labor, however, takes place in the informal economy outside the government's control. Such labor includes both moonlighting in occupations covered by the labor code and activities such as residential construction falling outside the code's purview. Work standards in the informal sector are often below government norms. The labor code also serves as an indirect model for the larger private sector companies. However, in general the government does not enforce the minimum wage law, particularly in the nonunionized sectors of the economy.

Employees who are covered by the minimum wage law should also receive other benefits, including social security, disability and health insurance, transportation and family allowances, and paid leave, but sometimes do not. The labor code requires employers to pay overtime, a night work differential, and holiday pay. In the major urban areas, a minimum wage employee with a family of four nets between $170 and $210 per month when allowances are included. In agriculture the base wage was increased to about $3.85 per day, although this directly applies only to 37 percent of the agricultural work force and does not cover migrant agricultural workers.

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The Ministry of Social Affairs has an office with responsibility for improving health and safety standards in the workplace. In many hazardous jobs -- mining, petroleum engineering, and construction, for example -- the Government has established new regulations. These regulations are enforced more strictly in Tunis than in the rest of the country, where much work, especially in construction, is done in the informal sector. It is estimated that there are about three work-related deaths per week in Tunisia, 300 cases of workers suffering disabling injuries each year, and 250,000 workdays per year lost due to work-related accidents.

Sectoral collective bargaining conventions frequently go beyond the benefits prescribed by the code. The minimum legal wage in industry is TD110 per month. For agricultural workers, the figure is slightly less.

f. Rights in Sectors with U.S. Investment

Tunisian law provides that any group of workers can form a union and guarantees the union's right to operate a closed shop once it has enrolled the majority of the workers in a given firm. Less than 20 percent of the workforce is unionized, primarily in the public sector. Phosphate mining is a unionist stronghold, while the petroleum sector has both union and non-union firms. Many foreign firms, incorporated under special tax incentive privileges, often negotiate special agreements which prohibit their employees forming unions.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		(D)
Total Manufacturing		(D)
Food & Kindred Products	(D)	
Chemicals & Allied Products	0	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	0	
Electric & Electronic Equipment	0	
Transportation Equipment	2	
Other Manufacturing	0	
Wholesale Trade		4
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988

UNITED ARAB EMIRATES

Key Economic Indicators

Millions of Current Dirhams Unless Otherwise Indicated

	1986	1987	1988(est)
Income, Production, Employment			
GDP	80,400	88,100	93,200
Nominal GDP Growth Rate (pct)	-20.9	9.2	5.5
GDP by Sector:			
Oil	26.2	32.2	N/A
Government Services	11.0	11.7	N/A
Trade	8.8	8.7	N/A
Manufacturing	8.4	8.3	N/A
Construction	8.1	8.2	N/A
Finance and Insurance	4.2	5.9	N/A
Transport, Storage, and Communication	4.0	4.4	N/A
Water and Electricity	2.3	2.1	N/A
Agriculture and Fisheries	1.5	1.6	N/A
Other	5.9	5.0	N/A
Income per capita (current dirhams)	54,000	59,000	62,000
Size of Labor Force	623,000	610,000	610,000
Unemployment Rate	(- -	negligible	- -)
Money and Prices			
			(June)
Money Supply (M1)	9,201	10,096	10,639
Commercial Interest Rates (avg lending rate pct)	10.24	9.61	9.0
Savings Rate (avg time deposit rate)	N/A	N/A	N/A
Investment Rate	N/A	N/A	N/A
Consumer Price Index (Abu Dhabi city)	132.0	137.0	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate (dirhams/$1)	3.671	3.671	3.671
Balance of Payments and Trade (millions of US$)			
Total Exports fas	10,300	12,000	12.600
Total Exports to U.S.	390.4	723.5	800
Total Imports cif	6,400	7,100	7,800
Total Imports from U.S.	491.8	549.3	750
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0
External Public Debt	0	0	0
Annual Debt Service Payments	0	0	0
Gold and ForEx Reserves (US$)	3,455	4,652	N/A
Balance of Payments (US$)	2,400	3,814	3,900

UNITED ARAB EMIRATES

1. General Policy Framework

The United Arab Emirates (UAE) is a federation of seven small principalities, each ruled by a "shaikh" and each retaining considerable autonomy. The country, whose per capita income (about $17,000 in 1988) is one of the world's highest, entered the ranks of the wealthy more recently than its Gulf neighbors. Oil, the source of this wealth, was first exported from Abu Dhabi in 1962 and from Dubai in 1969, but it was not until the 1973 leap in oil prices that the economy of the newly-formed UAE really took off. Huge strides in development, which transformed the UAE from a poor desert country to a modern state, have been made through the investment of a good part of the oil revenues back into the domestic hydrocarbons sector and in infrastructure and other projects on both the federal and emirate level. The economic boom peaked in 1982, when oil prices reached their highest levels.

Although less so than in the past, the UAE economy remains highly dependent on the country's hydrocarbon resources. UAE recoverable petroleum reserves were reassessed by the government in 1987 and are now officially estimated to be about 100 billion barrels, of which about 95 percent are inside Abu Dhabi Emirate. Reserves of this magnitude would last another 200 years at recent rates of production.

Emirate governments still retain control over most local affairs, including taxation, mineral resources, and commercial activities. Indeed, until the early 1980s, there was almost no federal regulation of business activity; regulation was conducted in a traditional, ad hoc manner by individual rulers, who remain highly reluctant to relinquish regulatory authority to central institutions.

After four years of relative recession which reached its nadir in 1986, the turn up of oil prices in 1987 marked the start of a new phase of economic growth for the UAE. Gross domestic product (GDP) at factor cost increased from $21.9 billion in 1986 to $24.0 billion in 1987, a growth rate of nine percent. The improvement of crude oil prices, which resulted in increased government revenues and better economic performance in the sectors of manufacturing, construction, banking, and trade, was the main factor behind this increase in the UAE's GDP. Oil revenues sagged along with prices in 1988 but are still above 1986 levels. Depreciation of the UAE's dollar-linked currency has caused a considerable increase in the costs of imports from Europe and the Far East, but this has been largely offset by lower import volumes due to cost-cutting in both labor and material and by the completion of most major infrastructural projects.

Despite repeated calls by UAE financial authorities for substantial budget reductions, central bank figures show that the ever-growing consolidated current expenditures of the federal and emirate governments further increased in 1987 over the previous year to $6.92 billion (dirhams 25.4 billion) from $6.76 billion in 1986. Total public expenditure for both

levels of government, which includes debt servicing, slightly increased from $9.23 billion in 1986 to $9.29 billion in 1987. Total government revenue went up in 1987 to $6.32 billion from $5.45 billion in 1986. As a result the deficit in the UAE's consolidated accounts narrowed to a total of $2.97 billion in 1987 as compared to $3.79 billion in 1986.

In 1987, 80 percent of government revenues were from oil. The rest came principally from fees, the federal communications monopoly Etisalat, and borrowing. There are no taxes collected in the UAE aside from taxes on oil firms and import duties. All oil revenues accrue to the emirate governments, which are obligated under the UAE's provisional constitution to contribute 50 percent of this income to the federal government. The Emirate of Abu Dhabi contributes more than 50 percent of its oil revenue to the federal government, including the funds it expends on the defense and police budgets. In addition, Abu Dhabi provides the funds to cover the federal deficit, which it borrows in part from the local banking sector and ultimately pays for by dipping into accumulated reserves. In 1988 federal expenditures will probably remain quite close to 1987 levels.

Because of the relatively small size of the UAE economy and the government's firm commitment to open currency markets, the UAE Government in effect does not use tools to control the money supply. With vast amounts of private assets held abroad and flowing freely into and out of the country, there is no effective government control of the money supply through direct measures. The government in effect relies on market forces, which have worked in a reasonably satisfactory manner to restrain excessive fluctuations in the money supply.

2. Exchange Rate Policies

Since the end of 1980 the UAE dirham has been pegged at 3.6710 per U.S. dollar. The dirham is freely convertible at this rate and there are no other official or parallel market rates. Because of the dirham's close linkage with the U.S. dollar, U.S. exports to the UAE have become increasingly competitive as the dollar has fallen in relation to Japanese and European currencies.

3. Structural Policies

Most purchasing decisions in the UAE are made either by private entities or by parastatal enterprises which function almost like private entities in this regard. There are virtually no government controls or subsidies affecting prices and therefore no resulting effects on U.S. exports to the UAE.

All federal ministries of the UAE procure public works construction products or services, with the Ministry of Public Works and Housing responsible for approximately half of federal projects. However, the majority of public works projects, are undertaken by individual emirate governments.

UNITED ARAB EMIRATES

Each emirate's Department of Public Works generally is responsible for the largest number of projects, but each emirate's other governmental departments also undertake public works projects on their own.

The UAE has virtually no taxes, except on petroleum production, and has only nominal customs duties on most goods other than cigarettes and liquor. In general the federal and emirate governments are committed to essentially free market economic policies involving minimal regulation of investments, with the main regulation consisting of requirements for UAE citizen participation in all investments except those undertaken in free zones established by some emirates.

4. Debt Management Policies

The UAE has no net external debt.

5. Significant Barriers to U.S. Exports

Commerce in the United Arab Emirates is based on a strong commitment to free trade and, except for UAE adherence to the Arab boycott of Israel, there are no significant barriers, tariff or non-tariff, to imports, and no regulations which are applied in a discriminatory fashion against U.S. exports. There is no duty on the import of goods containing at least 40 percent materials originating in Gulf Cooperation Council (GCC) countries or on industrial, agricultural and natural products of at least 40 percent Iraqi origin. It should be borne in mind, however, that the maximum duty on any of these products (other than cigarettes and liquor) would be four percent, so the effects of these exemptions on U.S. exports are negligible.

6. Export Subsidies Policies

We are not aware of any export subsidies offered by the UAE.

7. Protection of U.S. Intellectual Property

The UAE is not a party to any of the main intellectual property accords. In keeping with its *laissez faire* approach to the economy in general, and commerce in particular, the UAE has virtually no laws or regulations protecting intellectual property, except for Ras al-Khaimah Emirate.

The UAE and individual emirates do, however, attempt to enforce the rights of local licensees of foreign companies for exclusive rights within the emirates to the sale of products bearing the trademarks of their licensors. There is a significant amount of commerce in pirated versions of U.S. videos, audio cassetes, and computer software. Due to their generally poor quality, their impact on sales of genuine items is somewhat limited. The general prosperity of the emirates

ensures that there is a large proportion of customers who are willing to pay higher prices for genuine articles rather than buying cutrate and inferior copies.

8. Worker Rights

a. The Right of Association

There is no legal provision for the right of workers to organize unions, or to strike. Foreign workers attempting to strike almost certainly would be deported.

b. The Right to Organize and Bargain Collectively

There is no legal provision for the right of workers to engage in collective bargaining. For the resolution of work-related disputes, workers have access to conciliation committees, organized by the Ministry of Labor and Social Affairs, and to special labor courts.

c. Prohibition of Forced or Compulsory Labor

There is no forced or compulsory labor in the UAE.

d. Minimum Age for Employment of Children

Labor regulations prohibit employment of youths below age 18 and restrict hours of work to 8 hours per day, 6 days per week. Since the children of UAE nationals have little incentive to work and only adult foreign workers are allowed in the country, there is virtually no child labor.

e. Acceptable Conditions of Work

Foreign nationals from Pakistan, India, the Philippines and Sri Lanka continue to seek work in the UAE in large numbers because wages are far higher than in their own countries. There is no minimum wage. Most foreign workers remit as much of their salaries as possible to their families in their home countries. The pool of foreign workers, most of them actively recruited from abroad, meets the demand in the UAE for domestic and service workers and manual laborers.

UAE law provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. Though not a legal requirement, it is common practice for employers to give as a fringe benefit an annual roundtrip airplane ticket for the employee to return home. A foreign worker must get permission from the previous employer to move to a new job with a different employer. The government has adopted minimal occupational safety standards, but these are not strictly enforced.

UNITED ARAB EMIRATES

f. Rights in Sectors with U.S. Investment

There is significant U.S. capital investment in the following sectors: petroleum; food and related products; chemicals and related products; primary and fabricated metals.

In all industries in which there is major U.S. investment, wages tend to be above average for the UAE. Within the UAE, workers have in general no legally guaranteed right of association nor right to organize and bargain collectively, although there are numerous social organizations operating freely.

The UAE will not issue work permits to any foreigner under the age of 16, and due to a high level of government subsidies to families, there is no incentive for children of UAE nationals to work.

While there are no minimum wages set by the government in the UAE, the relatively high wage levels prevailing here are responsible for attracting workers from all over the world (expatriates form approximately 90 percent of the UAE workforce). Hours of work are not regulated in the private sector, but industries with U.S. investment are in general characterized by shorter working hours than other sectors of the private economy. The UAE and individual emirates regulate and monitor occupational safety and health. In these areas, too, the sectors in which U.S. capital is invested are noted for higher than average safety and health standards and records.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category		Amount
Petroleum		595
Total Manufacturing		20
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Metals, Primary & Fabricated	0	
Machinery, except Electrical	(D)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	-3	
Wholesale Trade		60
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		675

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce, Survey of Current Business August 1988, Vol. 68, No. 8, Table 13

YEMEN ARAB REPUBLIC

Yemeni Rials Unless Otherwise Stated

Key Economic Indicators

	1986	1987	1988(N/A)
Income, Production, Employment			
GDP (current prices) (mils rials/yr)	38,389	43,559	N/A
Real GDP Growth (pct)	9.4	4.8	N/A
GDP by Sector (pct)			
Agriculture	19.5	19.0	N/A
Light Industry	11.6	12.0	N/A
Trade	12.0	11.8	N/A
Transportation/Communication	12.0	12.6	N/A
Government Services	10.9	11.6	N/A
Income per capita	5,122	5,587	N/A
Size of Labor Force (estimated 25 percent of the 8.71 million pop.)			
Unemployment Rate	N/A	N/A	N/A
Money and Prices			
Money Supply (M1) (millions)	22,977.6	25,724.6	N/A
Commercial Interest Rates (pct)	15.0	15.0	N/A
Savings/GNP	3.6	4.2	N/A
Investment Rate (pct)	13.0	14.6	N/A
Consumer Price Index (base year 1977-1978)	294.8	359	N/A
Wholesale Price Index	N/A	N/A	N/A
Exchange Rate			
Commercial (/$1)	8.5	N/A	N/A
Official (/$1)	7.24	N/A	N/A
Unified Rate in 1987	N/A	9.75	9.75
Balance of Payments and Trade			
Total Exports (millions)	153	497.8	N/A
Total Exports to U.S. (mils)	0.6	3.0	N/A
Total Imports (millions)	7,973.3	13,304.4	N/A
Total Imports from U.S. (mils)	620.1	989.7	N/A
Aid from U.S.($1)	36.9	40.5	N/A
Aid from Other Donors ($2)	99	74	N/A
External Public Debt (mils $)	2,052	3,069	N/A
(disbursed and outstanding)	N/A	N/A	N/A
Debt Service Ratio	9.4	23.9	N/A
Net Foreign Assets (mils)	3,519.5	4.420.1	N/A
Balance of Payments (mils)	1,619.4	-614.7	N/A

(1Including PL-480, source USAID.
(2) Source U.N. Development Program.

Sources: All other figures from Yemen Central Bank or Central Planning Organization. Figures for 1988 are not available.

YEMEN ARAB REPUBLIC

1. General Policy Framework

The economy of the Yemen Arab Republic (YAR) is composed of formal and informal sectors. When combined, the two sectors have a total yearly value perhaps exceeding $6 billion. However, the formal economy, estimated at $4.3 billion, represents only three-fourths of this figure. The informal economy consists of bartering and other exchanges outside the statistical base and control of the government. The single largest component of this informal economy is the widespread and centuries old practice of growing and selling an indigenous agricultural product known for its mild psychotropic qualities. Qat, is a small bush, the leaves of which when chewed yield a mild amphetamine-like effect. Unrecorded sales are estimated at upwards of $1 billion. Another important component of the informal economy is the smuggling of goods through borders or coastal areas. While accurate statistics are unavailable, estimates are that this segment of the economy may amount to as much as $1 billion in unrecorded imports. Most remittances also enter in this informal and unrecorded fashion. Government efforts to stem the inflow of smuggled goods have not been successful. The net result has been the creation of a separate market which provides consumer goods as the market demands and which results in a net outflow of foreign exchange largely outside the government's control.

The formal economy has been primarily a mixed market economy with the government setting limits on and regulating economic activity. Commerce is conducted primarily by a group of about 20 entrepreneurial families. Numerous small and middle-sized businesses fill the gaps. Agricultural activity is the largest and most important single component because the bulk of the population (more than 70 percent by some estimates) lives in rural areas. The larger Yemeni companies are commonly owned and managed as family operations with family members serving as the heads of subsidiary companies. In the past few years, the major Yemeni companies have shifted emphasis away from the traditional import business to small scale industrial manufacturing production and commercial agriculture.

There has been increased interest in agribusiness development with some of the largest companies having received development acreage from the government. These tracts sometimes amount to several thousand hectares and are the focus of much economic and political interest. The government's third five-year plan places heavy emphasis on agricultural development and is expected to include tax and other incentives for this sector. Typically, Yemeni businessmen complain not of the shortage of capital but of the lack of investment opportunities and the right advice on how to proceed. Foreign exchange controls have severely hampered the business community's capacity to carry out investment plans for which they have sufficient local currency assets. Beginning in December 1987 the Yemen Government has netted significant oil revenues estimated at $380 million in 1988, giving it increasing influence in shaping the economy.

YEMEN ARAB REPUBLIC

Against this backdrop of increased revenues, the government has unsuccessfully made efforts to reduce its fiscal deficit by curtailing spending, as it seeks to widen its sources of revenue and improve its methods of collection. Some limited infrastructure development will likely be undertaken by the government, such as construction of dams, roads, and electrification grids. Additional revenues also will be earmarked for meeting current expenditures. There will be increasing competition among ministries and tribal regional groups for the limited oil revenues.

The Yemeni Government's economic policy focuses in the near term on resolving the foreign exchange problem through reducing and controlling imports and by consolidating foreign exchange under central bank control. Efforts continue to balance the budget and to contain government spending. In a shift from previous practice the government has begun to accept short and medium-term loans on a concessionary basis to cover its most pressing needs. In Yemen adjusting fiscal policy means adjusting government spending. The government has more control over its expenditures than its revenues. Over the period 1982 to 1986 the government sharply reduced outlays relative to gross domestic product (GDP) with spending falling from 26 percent to 10 percent. In 1987 fiscal policy became more expansionary; government spending rose to 22 percent of GDP.

The government intended in 1988 to slow the rate of increase in outlays to five percent. Government monetary policy from 1982 to 1986 was highly expansionary. Inflation rose as the government monetized its debt, that is, printed money to cover its deficit spending. In 1987 to cut inflation by reducing demand for goods and services, the government increased reserve requirements for commercial banks. Adjusting bank reserve requirements, and printing or not printing money, have been the government's main tools in managing its monetary policies. Government fiscal and monetary policies are closely connected to Yemen's external position. When foreign exchange grows critically short, the government clamps down on demand by cutting spending and by increasing reserve requirements. When the government anticipates growth in foreign exchange reserves -- dollars from its share of crude oil sales, for example -- it relaxes fiscal policies and its controls over the economy.

2. Exchange Rate Policies

The Yemeni rial is pegged to the U.S. dollar at the rate of YR9.75/$1.00. The government in the past maintained multiple exchange rates; these have been unified. The government has designated the central bank as the sole banking system buyer and seller of foreign exchange in Yemen. Government controls on foreign exchange allocations for imports do not affect price competitiveness of U.S. products. However, the government has moved to reduce imports from all sources, including from the United States, because of persistent foreign exchange shortages.

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3. Structural Policies

The government through its import licensing system, must approve all foreign products that are legally imported into Yemen. Because foreign exchange is tightly rationed for imports, demand for consumer and industrial products is far higher than is supply. This increases prices to consumers. However, pricing, tax, and regulatory policies do not discriminate against U.S. exports.

4. Debt Management Policies

Yemen's 1987 debt service ratio stood at 24 percent, up markedly from the 9 percent levels recorded in earlier years. The increase is explained by Yemen's increasing reliance on suppliers' credits to finance imports of raw materials and machinery, in order to improve industrial capacity utilization. To check further increases in debt servicing, Yemen is insisting on long-term, concessionary financing for almost all public sector projects. The government is also pressing importers to obtain long-term financing from suppliers on commercial transactions. Yemen is trying to shift loan repayments in hard currency to outyears, when, the government reasons, increased oil revenues will be in hand to settle debts.

5. Significant Barriers to U.S. Exports

Import licenses are a significant barrier to imports from all countries, including from the United States. Import licenses are needed for almost all goods imported into Yemen.

6. Export Subsidies

Aside from oil, exports have been negligible. The government offers no effective subsidies to exporters.

7. Protection of U.S. Intellectual Property

Yemen is not a signatory to any major intellectual property agreements and has not taken a strong position on intellectual property rights in international fora.

The Government of Yemen has passed legislation to protect patents. However, trademarks are less well protected and the local market abounds with names that are similar to well-known brands overseas: "Tite" detergent; "Knickers" and "Milky Day" candy bars. Some U.S. companies say that, because Yemen has been such a small market, the costs of protecting name brands have exceeded the benefits. However, at least one U.S. exporter says that imports from a Gulf country of products bearing a name similar to his well-known brand have cut into his sales.

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8. Worker Rights

a. The Right of Association

Under the YAR Labor Code, a union may be set up by 10 or more workers upon application to and approval by the government authorities. The Labor Code prescribes a single union system with one union committee per enterprise, one union branch per locality, one general union per economic sector, and one national umbrella organization, which is the Yemeni Trade Union Confederation. Government employees and some categories of farm workers are excluded from union membership. According to the Labor Code, unions are prohibited from engaging in any political activity and their financial records are subject to government oversight. Trade unions are reported to be under heavy NSO influence and have not been known to challenge the government.

Labor-related legislation neither allows nor disallows strikes but union-sanctioned strikes do not occur. Wildcat strikes have occurred occasionally. There have been no reports of government or employer harassment of wildcat strikers or their leaders and no prosecutions. Oil tanker drivers struck for 2 weeks in September for higher transport fees and, largely due to the political influence of the truck owners, won a compromise increase. The drivers do not belong to the established truckers' union and reportedly were discouraged from forming one of their own.

The Yemeni Trade Union Confederation is affiliated to the International Confederation of Arab Trade Unions and to the Communist-controlled World Federation of Trade Unions. The YAR is a member of the ILO and the labor confederation participates in its meetings. The YAR ratified ILO Convention 87 on Freedom of Association and Convention 98 on Collective Bargaining in 1976.

In 1987 the ILO Committee of Experts found that the conditions imposed on unions by the Labor Code conflicted with the provisions of ILO Convention 87 calling for workers to have the possibility of establishing organizations of their own choosing. Other shortcomings were noted in the Labor Code as well regarding freedom of association and the right to bargain collectively.

b. The Right to Organize and Bargain Collectively

Although the YAR Labor Code calls on employers to treat workers correctly, it does not contain provisions to ensure worker protection against acts of discrimination by employers, nor does it provide a legal framework for a free collective bargaining system. There is no bargaining and there are no collective agreements in force. There is no export processing zone in the YAR.

c. Prohibition of Forced or Compulsory Labor

There are no reports of forced or compulsory labor in the YAR.

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d. Minimum Age for Employment of Children

There is no minimum age for employment, but compulsory education requirements sometimes have the same effect. In general, however, these requirements are ignored. Child labor, sanctioned by family custom, is common.

e. Acceptable Conditions of Labor

The rights of workers are enunciated by law, but labor regulations are virtually unenforceable. Hiring often depends on family and tribal connections, and there is no minimum wage. The prevailing daily wage for unskilled workers is about $10. YAR legal codes prescribe a maximum 8-hour workday (6 hours during Ramadan), but many factories operate 10- or 12-hour shifts.

Local production is largely based on agriculture and cottage industries. While working conditions are sometimes harsh, consistent with the prevailing subsistence economy, the government has set general safety requirements for larger concerns and occasionally checks to see if they are being observed.

f. Rights in Sectors with U.S. Investment

U.S. investment in Yemen is at this point confined to the petroleum industry. Employees have the right of association, but are not guaranteed the right to bargain collectively. U.S. investors obey local laws and the Embassy has observed no use of compulsory or child labor in the petroleum sector.

Extent of U.S. Investment in Goods Producing Sectors

U.S. Direct Investment Position - 1987
(Millions of U.S. dollars)

Category	Amount	
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Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
TOTAL PETROLEUM/MANUFACTURING/WHOLESALE TRADE		(D)

(D)-Suppressed to avoid disclosing data of individual companies

Source: U.S. Department of Commerce
Bureau of Economic Analysis, November 1988