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COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES

REPORT

SUBMITTED TO THE

COMMITTEE ON FOREIGN RELATIONS
COMMITTEE ON FINANCE

OF THE

U.S. SENATE

AND THE

COMMITTEE ON INTERNATIONAL RELATIONS
COMMITTEE ON WAYS AND MEANS

OF THE

U.S. HOUSE OF REPRESENTATIVES

BY THE

DEPARTMENT OF STATE

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

APRIL 2000

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COUNTRY REPORTS*

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

FOREWORD

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

Modeled on the State Department's annual reports on country human rights practices, the reports are intended to provide a single, comparative analysis of the economic policies and trade practices of countries with which the United States has significant economic or trade relationships. Because of the increasing importance of, and interest in, trade and economic issues, these reports are prepared to assist Members in considering legislation in the areas of trade and economic policy.

JESSE HELMS,
Chairman, Committee on Foreign Relations.

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

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

BILL ARCHER,
Chairman, Committee on Ways and Means.

LETTER OF TRANSMITTAL

U.S. DEPARTMENT OF STATE,
WASHINGTON, DC, *March 6, 2000.*

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

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

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

Hon. DENNIS HASTERT,
Speaker, House of Representatives.

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

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

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

Sincerely,

BARBARA LARKIN,
Assistant Secretary, Legislative Affairs.

Enclosure.

INTRODUCTION

Country Reports on Economic Policy and Trade Practices

The Department of State is submitting to the Congress its Country Reports on Economic Policy and Trade Practices in compliance with Section 2202 of the Omnibus Trade and Competitiveness Act of 1988. As the legislation requires, we have prepared detailed reports on the economic policy and trade practices of countries with which the United States has significant economic or trade relationships. This is the Department of State's 11th annual report. It now includes reports on 76 countries, customs territories and customs unions.

Each report contains nine sections.

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

—The first (subsections a through e) outlines the country's laws and practices with respect to internationally recognized worker rights.

—The second (subsection f) highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested.

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

The country reports are based on information supplied by U.S. Embassies, which is analyzed and reviewed by the Department of State in consultation with other U.S. Government agencies. The reports are intended to serve as general guides to economic conditions in specific countries. We have worked to standardize the reports, but there are unavoidable differences reflecting large variations in data availability. In some cases, access to reliable data is limited, particularly in countries making transitions to market economies. Nonetheless, each report incorporates the best information currently available.

RYAN SAMUEL,
Acting Assistant Secretary of State for Economic and Business Affairs.

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

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

1. The macroeconomic policies of the country and their impact on the overall growth in demand for United States exports;
2. The impact of macroeconomic and other policies on the exchange rate of the country and the resulting impact on price competitiveness of United States exports;
3. Any change in structural policies [including tax incentives, regulation governing financial institutions, production standards, and patterns of industrial ownership] that may affect the country's growth rate and its demand for United States exports;
4. The management of the country's external debt and its implications for trade with the United States;
5. Acts, policies, and practices that constitute significant trade barriers to 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

*In 1995, the Committee on Foreign Affairs changed its name to the Committee on International Relations.

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

NOTES ON PREPARATION OF THE REPORTS

Subsections "a." through "e." of the Worker Rights section (section 8) are abridged versions of section 6 in the *Country Reports on Human Rights Practices for 1999,* submitted to the Committees on International Relations of the House of Representatives and on Foreign Relations of the U.S. Senate in January 1999. For a comprehensive and authoritative discussion of worker rights in each country, please refer to that report.

Subsection "f." highlights conditions of worker rights in goods-producing sectors where U.S. capital is invested. A table cites the extent of such investment by sector where information is available. The Bureau of Economic Analysis of the U.S. Department of Commerce has supplied information on the U.S. direct investment position at the end of 1997 for all countries for which foreign direct investment has been reported to it. Readers should note that "U.S. Direct Position Abroad" is defined as "the net book value of U.S. parent companies' equity in, and net outstanding loans to, their foreign affiliates" (foreign business enterprises owned 10 percent or more by U.S. persons or companies). Where a figure is negative, the U.S. parent owes money to the affiliate. The table does not necessarily indicate total assets held in each country. In some instances, the narrative refers to investments for which figures may not appear in the table.

SOME FREQUENTLY USED ACRONYMS

ADB—Asian Development Bank
BIS—Bank for International Settlements
CACM—Central American Common Market
CARICOM—Caribbean Common Market
CAP—Common Agricultural Policy (of the EU)
CCC—Commodity Credit Corporation (Department of Agriculture)
EBRD—European Bank for Reconstruction and Development
EFTA—European Free Trade Association
EMS—European Monetary System (of the EU)
ERM—Exchange Rate Mechanism (of the EU)
ESAF—Enhanced Structural Adjustment Facility
EU—European Union
EXIMBANK—U.S. Export-Import Bank
FOREX—foreign exchange
FY—fiscal year
GATS—General Agreement on Trade in Services
GATT—General Agreement on Tariffs and Trade
GDP—gross domestic product
GNP—gross national product
GSP—Generalized System of Preferences
IBRD—International Bank for Reconstruction and Development (World Bank)
IFIs—international financial institutions (IMF, World Bank and regional development banks)
ILO—International Labor Organization (of the United Nations)
IMF—International Monetary Fund
IDB—Inter-American Development Bank
IPR—intellectual property rights
LIBOR—London Interbank Offer Rate
MFN—most favored nation
NAFTA—North American Free Trade Agreement
NGOs—non-government organizations
NIS—Newly Independent States (of the former Soviet Union)
OECD—Organization for Economic Cooperation and Development
OPIC—U.S. Overseas Private Investment Corporation
PTT—Post, Telegraph and Telephone
SAP—Structural Adjustment Program (of the IMF/World Bank)
SDR—Special Drawing Rights (of the IMF)
STF—Structural Transformation Facility
TRIPs—WTO Agreement on Trade-Related Aspects of Intellectual Property Rights

UR—Uruguay Round of trade negotiations in the GATT
USD—U.S. Dollar
VAT—value-added tax
WIPO—World Intellectual Property Organization
WTO—World Trade Organization

AFRICA

GHANA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	6,884	7,630	N/A
Real GDP Growth (pct) [3]	4.2	4.6	4.5
GDP by Sector:			
Agriculture	2,574	3,090	N/A
Manufacturing	640	656	N/A
Services	1,976	2,220	N/A
Government	730	832	N/A
Per Capita GDP (US$)	385	41[illegible]	N/A
Labor Force (000's)	8,240	8,480	8,734
Unemployment Rate (pct)	22	20	20
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	40.8	17.6	3.9
Consumer Price Inflation (end-of-period)	20.8	15.7	12.6
Exchange Rate (Cedis/US$ annual average) Interbank (mid-rate)	2,250	2,346	3,100
Balance of Payments and Trade:			
Total Exports FOB [4]	1,491	1,830	1,880
Exports to U.S. [4]	154	144	140
Total Imports CIF [4]	2,128	2,213	2,253
Imports from U.S. [4]	314	223	253
Trade Balance [4]	–637	–383	–373
Balance with U.S.	–160	–79	–113
External Public Debt	5,651	5,922	5,750
Fiscal Deficit/GDP (pct)	2.6	2.3	N/A
Current Account Deficit/GDP (pct)	8.5	3.5	N/A
Debt Service Payments/GDP (pct)	8.6	8.4	N/A
Gold and Foreign Exchange Reserves	508	508	364
Aid from U.S.	52	58	60
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on most recent data available.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Data not available.

1. General Policy Framework

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

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

Since 1983 Ghana has pursued an economic reform agenda aimed generally at reducing government involvement in the economy and encouraging private sector development. Inflationary pressures as a result of government expenditure overruns prior to 1992 and 1996 presidential and parliamentary elections have been contained to some extent. However, fiscal performance by government in the third quarter of 1999 is the basis for concern since government has resorted to heavy domestic borrowing to make up for shortfalls from mainly non-tax revenue, leading to rising domestic interest rates.

The Bank of Ghana is currently pursuing a tight monetary policy in an attempt to absorb excess liquidity in order to sustain the downward trend in inflation. Inflation, measured at about 71 percent at the end of 1995, has consistently declined to 9.4 percent at the end of May, 1999, the lowest for 20 years before rising to 12.6 percent in October of 1999. Following the steady fall in inflation, the Central Bank cautiously made reductions in the bank rate or rediscount rate from 45 percent in 1995, to 27 percent in April, 1999. Lending rates, which fell accordingly, have started rising as the Bank intensifies its open market operation to keep money supply within target. Increases in domestic prices of petroleum products to make up for corresponding increases in world crude oil prices, and the rapid depreciation of the local currency against major foreign currencies, are exerting intense inflationary pressures.

The government's economic program has focused on the development of Ghana's private sector, which historically has been weak. Privatization of state-owned enterprises continues, with about two-thirds of 300 enterprises sold to private owners. Despite the energy crisis in 1998, Ghana achieved real economic growth of 4.6 percent as against 4.2 percent recorded in 1997. Growth in 1999 is expected to be lower than the government projection of 5.5 percent due to the effect of terms of trade shocks in 1999 arising from a decline in world prices of cocoa and gold and increases in oil prices. Agriculture (which still accounts for about 41 percent of GDP and employs about 60 percent of the work force) and manufacturing have recorded much slower growth. Other reforms adopted under the government's structural adjustment program include the elimination of exchange rate controls and the lifting of virtually all restrictions on imports. The establishment of an Interbank Foreign Exchange Market has greatly expanded access to foreign exchange. The elimination of virtually all local production subsidies is further indication of the government's intention to move toward a market orientation for the economy.

2. Exchange Rate Policy

The foreign exchange value of the Ghanaian cedi is established independently through the use of Interbank Market and Foreign Exchange bureaus, and currency conversion is easily obtained. The foreign exchange auction procedure was abandoned in 1992. Ghana fully accedes to Article IV of the IMF convention on free current account convertibility and transfer. Through the Bank of Ghana's intervention, the cedi depreciated by about 13 percent in 1998 as compared to an annual average of about 25 percent during 1993 to 1997. Depletion of the Bank's foreign exchange reserves in 1999, mainly as a result of higher oil import bills and shortfall in external program assistance, has resulted in a sharp depreciation of the cedi and a shortage of major foreign exchange. In general, the exchange rate regime in Ghana does not have any particular impact on the competitiveness of U.S. exports. This may change, however, if the euro continues its fall in relation to the dollar.

3. Structural Policies

Ghana progressively reduced import quotas and surcharges as part of its structural adjustment program. Tariff structures are being adjusted in harmony with the ECOWAS Trade Liberalization Program. With the elimination of import licensing in 1989, importers are now merely required to sign a declaration that they will comply with Ghanaian tax and other laws. Imported goods currently enjoy generally unfettered access to the Ghanaian market.

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

The government successfully reintroduced value-added tax (VAT) in December, 1998, at a ten-percent rate. Government has proposed an increase to 12.5 percent to make up for anticipated revenue shortfalls in 2000. Additionally, government is expected to broaden the tax base and enhance compliance. All these, although significant, are not enough to reduce net domestic borrowings in order to ease pressure on inflation and domestic interest rates. In 1998, government's domestic interest payments were about 30 percent of its domestic revenue, more than the local budget for both health and education.

Despite successful structural reform in other parts of the economy, one disappointment in Ghana's recent efforts has been that of its divestiture program. The Divestiture Implementation Committee (DIC) published an action plan in April 1999 detailing an agenda for the divestiture of several major enterprises and outlined specific annual targets for receipts. Since then, the actual implementation has included only two divestitures, that of the State Transport factory and that of GHACEM, a cement factory, totaling US$31.5 million.

4. Debt Management Policies

Ghana's total outstanding external debt, including obligations to the IMF, totaled approximately USD 5.7 billion at the end of the second quarter of 1999. Outstanding obligations to the IMF under medium-term facilities stood at USD 305 million at the end of the same period. At that time, outstanding long-term debt was about USD 5 billion (about 88 percent of total debt), of which USD 1.5 billion and USD 3.5 billion were owed to bilateral and multilateral institutions, respectively. The size of external debt as a proportion of GDP continues to decrease from its 1994 level of 97 percent to 79 percent of GDP in 1998. Ghana's debt service ratio in 1998 was 31 percent. In 1991 Ghana cleared all external debt arrears. Ghana is a heavily indebted poor country (HIPC) but has not asked to be the beneficiary of debt relief or rescheduling in recent times. To better manage its debt portfolio, since August, 1997, government has applied a moratorium on public and public guaranteed non-concessional borrowings.

Persistent balance of payments deficits have resulted in a continuing increase in foreign indebtedness. Swings in commodity prices, especially gold and cocoa, have a dramatic impact on Ghana's export revenues. In 1999, Ghana suffered from external shocks not only from the falling prices of these commodities but also the increase in the world price of crude oil. These are estimated to cumulatively affect the balance of payments by about 370 million dollars in 1999. This deficit is reflected in reduction in imports, lower GDP, and exchange rate adjustments. The government is expected to sustain its present level of external program assistance and increase receipts from the divestiture of state-owned enterprises to moderate the volatility of the cedi.

5. Significant Barriers to U.S. Exports

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

Services Barriers: The Ghanaian investment code prohibits foreign participation in the following sectors: small-scale wholesale and retail sales, taxi and car rental services with fleets of fewer than ten vehicles, lotteries, and barber and beauty shops. Current insurance law requires at least 40 percent Ghanaian ownership of insurance firms in Ghana.

Standards, Testing, Labeling, and Certification: Ghana has promulgated its own standards for food and drugs. The Ghana Standards Board, the national testing authority, subscribes to accepted international practices for the testing of imports for purity and efficacy. Under Ghanaian law, imports must bear markings identifying in English the type of product being imported, the country of origin, the ingredients or components, and the expiration date, if any. Non-complying goods are subject to government seizure. Several highly publicized seizures of goods (pharmaceuticals and food items) with expired shelf-life dates are occasionally carried out. The thrust of this law is to regulate imported food and drugs; however, by its terms the law applies to non-consumable imports as well. Locally manufactured goods are subject to comparable testing, labeling, and certification requirements. Four pre-shipment inspection firms contracted by government also perform testing and price verification for some selected imports that are above USD 5,000.

Investment Barriers: The investment code guarantees repatriation of dividends, loan repayments, licensing fees and repatriation of capital. It also provides guarantees against expropriation or forced sale and sets forth dispute arbitration processes. Foreign investors are not subject to differential treatment on taxes, access to foreign exchange and credit, or importation of goods and equipment. Separate legislation covers investments in mining and petroleum and applies equally to foreign and Ghanaian investors. The investment code no longer requires project approval from the Ghana Investment Promotion Center (GIPC). The U.S. Embassy reports growing problems related to government violations of private sector landowning rights and property rights.

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

6. Export Subsidies Policies

The Government of Ghana does not directly subsidize exports. Exporters are entitled to a 100 percent refund for duty paid on imported inputs used in the processing of exported goods. Bonded warehouses have been established which allow importers to avoid duties on imported inputs used to produce merchandise for export. Firms involved in exports enjoy some fiscal incentives such as tax holidays and preferential tax/duty treatment on imported capital equipment. Firms under the export processing zones all benefit from the same incentives.

7. Protection of U.S. Intellectual Property

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

Patents (Product and Process): Patent registration in Ghana presents no serious problems for foreign rights holders. Registration fees vary according to the nature of the patent, but local and foreign applicants pay the same rate.

Trademarks: Ghana has not yet become a popular location for imitation designer apparel and watches. In cases where trademarks have been misappropriated, the price and quality disparity would be apparent to all but the most unsuspecting buyer.

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

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

8. Worker Rights

a. *The Right of Association:* Trade unions are governed by the Industrial Relations Act (IRA) of 1958, as amended in 1965 and 1972. Organized labor is represented by the Trades Union Congress (TUC), which was established in 1958. The IRA confers power on government to refuse to register a trade union, but the current government or the previous military regime has not exercised this right. No union leaders have been detained in recent years, nor has the right of workers to freely associate otherwise been circumscribed.

b. *The Right to Organize and Bargain Collectively:* The IRA provides a framework for collective bargaining and protection against anti-union discrimination. Law prohibits civil servants from joining or organizing a trade union. However, in December, 1992, the government enacted legislation which allows each branch of the civil service to establish a negotiating committee to engage in collective bargaining for wages and benefits in the same fashion as trade unions in the private sector. While the right to strike is recognized in law and in practice, the government has on occasion taken strong action to end strikes, especially in cases involving vital government interests or public order. The IRA provides a mechanism for conciliation and arbitration before unions can resort to industrial actions or strikes. Over the past four years there have been several industrial actions involving salary increase demands, conditions of service, and severance awards. 1999 saw a number of short-lived "wild cat" strikes by doctors and industrial workers.

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

d. *Minimum Age of Employment of Children:* Labor legislation in Ghana sets a minimum employment age of 15 and prohibits night work and certain types of hazardous labor for those under 18. The violation of child labor laws is common and young children of school age can often be found during the day performing menial tasks in the agricultural sector or in the markets. Observance of minimum age laws is eroded by local custom and economic circumstances that compel children to become wage earners at an early age. Inspectors from the Ministry of Labor and Social Welfare are responsible for enforcement of child labor laws. Employers who violate laws prohibiting heavy labor and night work by children are occasionally prosecuted.

e. *Acceptable Conditions of Work:* In 1991 a Tripartite Commission composed of representatives from government, organized labor, and employers established minimum standards for wages and working conditions. The daily minimum wage combines wages with customary benefits such as a transportation allowance. The current daily minimum wage is Cedis 2,900, about 85 cents at the present rate of exchange. This sum does not permit a single wage earner to support a family and frequently results in multiple wage earners and other family-based commercial activity. A much-vaunted, government-commissioned study on reform of the civil service (including a serious revision of grades and salary levels) was implemented in June, 1999. By law the maximum workweek is 45 hours, but collective bargaining has established a 40-hour week for most unionized workers.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

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

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

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

NIGERIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production, and Employment:			
Nominal GDP [2]	50.1	52.0	N/A
Real GDP Growth (pct) [3]	3.2	2.4	N/A
GDP by Sector (pct):			
Agriculture	31.5	32.3	N/A
Manufacturing	6.3	6.1	N/A
Services	9.7	9.6	N/A
Per Capita GDP (US$)	250	250	240
Labor Force (millions)	43.0	40.0	N/A
Unemployment Rate (pct)	2.6	3.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	15.0	15.6	N/A
Consumer Price Inflation	8.5	10.0	8.0
Exchange Rate (Naira/US$ annual average)			
Official	22	82	95
Parallel	55	85	101
Balance of Payments and Trade:			
Total Exports FOB [4]	15.2	9.0	N/A
Exports to U.S. [5]	6.3	4.2	N/A
Total Imports FOB	10.3	9.9	N/A
Imports from U.S. [5]	0.8	0.8	N/A
Trade Balance	4.9	−2.0	N/A
Trade Balance with U.S. [5]	5.5	3.4	N/A
Current Account Deficit/GDP (pct)	1.2	−3.5	N/A
External Public Debt	27.1	28.7	N/A
Debt Service Payments/GDP (pct)	1.8	1.4	N/A
Fiscal Deficit/GDP (pct)	0.2	4.7	N/A
Gold and Foreign Exchange Reserves	7.6	7.1	N/A
Aid from U.S. (US$ millions)	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures, except exchange rates, are all estimates based on available monthly data in November.
[2] GDP at factor cost. Conversion to U.S. dollars done with official exchange rate of 82 naira to the dollar for 1998/99.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through November 1999.

1. General Policy Framework

Nigeria is Africa's most populous nation and the United States' fifth largest oil supplier. It offers investors a low-cost labor pool, abundant natural resources, and one of the largest domestic markets in sub-Saharan Africa. On the other hand, inadequate infrastructure, corruption, and inconsistent regulations mean that considerable time, money and managerial effort are needed for a firm to begin operation and earn profits in Nigeria. Nigeria's basic infrastructure is extensive but inadequate for a population of over 100 million. Roads and bridges are crumbling, telephone service is erratic, and there are recurring shortages of water and electricity. Social unrest in some areas, widespread unemployment, a stagnant economy depressed by over-reliance on oil, the lack of effective due process, and serious fraud and violent crime problems complicate business in Nigeria.

After a period of moderate fiscal austerity in the late 1980s, the Nigerian government ran budget deficits of up to 12 percent of GDP beginning in 1990. The deficit decreased to seven percent in 1994 and, by postponing government spending (including for debt service), in 1995 shrank to negligible proportions. In 1996, the budget had a surplus of 1.6 percent of GDP. For the majority of 1997, the budget ran a reported surplus. The deficit reduction and ensuing surplus came about primarily through austerity—e.g., foregoing government projects and infrastructure maintenance—as well as stronger-than-expected oil revenue. Recommendations by international financial institutions include reducing large government fuel price subsidies (the official price of gasoline is currently about 20 cents per liter), shelving a number of government projects which are of doubtful economic value, and reducing leakage from government income due to corruption.

In previous years, monetary policy had been driven by the need to accommodate the government's budget deficit and a desire to reduce the inflationary impact of the budget deficit on the economy. Deficits at the federal level had been financed primarily by borrowing from the Central Bank of Nigeria (CBN), which held 85.1 percent of the government's domestic debt at the end of 1997. Since the Central Bank monetizes much of the deficit, budgetary shortfalls have a direct impact on the money supply and on price levels, which had risen rapidly for several years but have since slowed. In 1996, the government also began releasing money from an extra-budgetary account called the Petroleum Trust Fund (PTF) for infrastructure and other projects. President Obasanjo has scrapped the fund and constituted a winding up committee to look into the activities of the PTF.

In 1999, Nigeria has continued the policy of "guided deregulation" and privatization instituted in the 1995 budget. The former head of state, General Sani Abacha, had abandoned the 1986 structural adjustment program reforms and instituted tight government control over key economic variables. In response to the economic downturn caused by those measures, Abacha's 1995 budget abandoned the tightly regulated economic policies enacted in 1994. Under the new policy, the Nigerian government reopened the Autonomous Foreign Exchange Market (AFEM), loosened controls on foreign investment and reduced tariffs and bans on some imports. The 1999 budget continued the trend of fiscal austerity and the slow deregulation of the economy. On the demise of General Abacha, General Abdulsalami Abubakar, also reiterated the government's intention to privatize major parastatals, including telecommunications and electricity (NITEL and NEPA respectively.) The 1998 budget promised privatization with 40 percent equity for the government, 20 percent equity for Nigerian citizens, and unrestricted sale of the remaining 40 percent. Invitations to invest were to be made to specific investors with relevant expertise. The 1998 budget also targeted the reorganization of the electricity generating parastatal (NEPA.) In 1999, the government repealed and amended eleven decrees that inhibited competition or conferred monopoly powers on public enterprises in the petroleum, telecommunications, power and mineral sectors. However, the promised privatization exercise has not occurred and its present prospects are unclear. The Obasanjo government has declared its conditional support for eventual privatization and promised a transparent privatization program after evaluating and rehabilitating the parastatals' assets.

In November 1999, the Obasanjo government released a Year 2000 budget of 500 billion Naira (USD 5 billion). The budget was predicated on an oil price of $18 per barrel as against the $16.5 used in the 1999 budget. The education sector got the highest allocation of 40.3 billion Naira. Next in allocation is the Defense Ministry with an allocation of 34.1 billion Naira. Nigeria's external debt servicing is retained at $1.5 billion and external debt stood at $28.54 billion as at September 30, 1999. External debt arrears currently stand at $18.86 billion, while the debt service commitment for the year 2000 is expected to be $1.98 billion.

2. Exchange Rate Policy

In 1999, the autonomous foreign exchange market (AFEM) was fully deregulated. Dual exchange rates were scrapped and only AFEM rate prevails. Companies can now hold domiciliary accounts in private banks, with unfettered use of the funds. Foreign investors may bring capital into the country without Finance Ministry approval, and may service foreign loans and remit dividends. Bureau de change offices are functioning and transactions in the bureau de change offices have been increased to $10,000 per transaction. In addition, oil companies are allowed to sell foreign exchange directly to interested banks and private organizations. The Central Bank has continued to intervene at the weekly AFEM.

3. Structural Policies

As stated in the December 1986 circular "Industrial Policy of Nigeria," the Nigerian government maintains a system of incentives to foster the development of particular industries, to encourage firms to locate in economically disadvantaged areas, to promote research and development in Nigeria, and to favor the use of domestic labor and raw materials. The Industrial Development (Income Tax Relief) Act of 1971 provides incentives to "pioneer" industries deemed beneficial to Nigeria's economic development. Companies given "pioneer" status may enjoy a non-renewable tax holiday of five years, or seven years if the pioneer industry is located in an economically disadvantaged area.

In 1995, Nigeria promulgated the Nigerian Investment Promotion Commission Decree to replace the Enterprises Promotion Act. This decree liberalized the foreign investment regime, allowing 100 percent foreign ownership of firms outside the petroleum sector. Investment in the petroleum sector is still limited to the existing joint venture agreement or production-sharing contracts with the Nigerian government, though there has been discussion of the Nigerian government selling off some small parts of its joint venture equity. A foreign enterprise may now buy shares of any Nigerian firm except those on the "negative list": production of firearms, ammunition and narcotics, military and paramilitary apparel. The Investment Promotion Decree provides for the creation of an Investment Promotion Commission that will register companies for foreigners after incorporation under the Companies and Allied Matters Decree of 1990. The decree also abolishes the expatriate quota system (except in the oil sector) and prohibits any nationalization or expropriation of a foreign enterprise by the Nigerian government except for such cases determined to be in the national interest.

Nigeria has partially implemented the 1995 money laundering decree, which introduced bank reporting procedures designed to inhibit this practice. There is also a decree against advance-fee fraud (called 419 fraud after the relevant section of the Nigerian criminal code.) However, as of 1999, there has been only limited success in reducing financial fraud despite improving law enforcement actions against fraud perpetrators. The broad scope of business fraud has brought international notoriety to Nigeria and constitutes a serious disincentive to exporters.

4. Debt Management Policies

Nigeria's foreign debt ballooned from $13 billion in 1981 to $24 billion in 1986, when sharply lower oil revenues and continued high import levels escalated balance of payments deficits. Debt service obligations including payment of arrears, are projected to be over $8 billion annually for the next several years. However, according to the 1998 Central Bank of Nigeria's Annual Report, Nigeria's total external debt stock at the end of 1998 amounted to $28.774 billion, compared with $27.09 in 1997. The exact debt figure with multilateral financial institutions is still in dispute. The 1999 budget allowed only $2 billion for foreign debt payments, thus ensuring continued build-up of arrears.

In January 1992, in an effort to reduce its external debt, the Nigerian government concluded an agreement with the London club that gave commercial banks a menu of options from which to choose in reducing Nigeria's commercial debt. The menu included debt buy backs (currently at 45 cents to the dollar), new money bonds, and collateralized par bonds. As a result of the agreement, Nigeria was able to reduce its external debt by $3.9 billion since 1992, but the accumulation of arrears on other debt (especially Paris Club debt), which currently represent 70 percent of total debt stock, has kept external debt levels high.

From 1986 to early 1992, on the basis of a comprehensive structural adjustment program, Nigeria reached three standby agreements with the IMF. The last one lapsed in 1992. Discussions with the IMF since then have shown some progress, as evidenced by the 1996 decapping of interest rates and removal of the mandatory sectoral credit allocations for banks. In 1999 Nigeria and the IMF resolved most issues standing in the way of a new standby arrangement. Nigeria's inadequate servicing of Paris Club debt remains a principal obstacle.

Nigeria's most recent rescheduling agreement with the Paris Club expired at the same time as its standby agreement with the IMF, and debt repayment obligations on Paris Club debt have continued to grow. (Nigeria has kept up to date on its multilateral and London Club debt.) In 1992 Nigeria made payments of $2.7 billion against interest and principal payment obligations of $5 billion. However, faced with similar obligations in the following years, external debt service payments were only budgeted at $1.6 billion for 1993, $1.8 billion for 1994, and $2 billion yearly from 1995 to 1998. In 1997, actual debt service payments were $503.5 million (or 25.2 percent) lower than the $2 billion budgeted. Although discussions with the IMF and World Bank continued on a medium term economic program, and Nigeria is making some progress at meeting their criteria, no new rescheduling agreement will be reached until an IMF program is in place.

5. Significant Barriers to U.S. Exports

Nigeria abolished all export licensing requirements and cut its list of banned imports in 1986. However, as of November 1999, the importation of approximately 13 items is still banned. These bans were initially implemented to restore Nigeria's agricultural sector and to conserve foreign exchange. Although widespread smuggling compromises the bans, reduced availability of grains has raised prices for both banned commodities and locally produced substitutes. The government discontinued fertilizer subsidies for farmers in 1997, but reintroduced them in 1999. Widespread fertilizer shortages persist.

In 1995, Nigeria announced a new tariff structure for the next five years. Revisions aimed to narrow the range of custom duties, increase rate coverage in line with WTO provisions, and decrease import prohibitions. In the 1999 budget, Nigeria's 1998 revised higher tariffs were reduced, but excise duties eliminated in 1998 were restored for certain goods. Excise duties of 40 percent were restored for cigarettes, cigars, tobacco, and spirits. Other commodity duty rates are: rice, 50 percent; day-old chicks and parent stock, 5 percent; sparkling wines, wine coolers, and champagne, 100 percent; fruits and fruit juices, reduced from 75 to 55 percent; jute, 10 percent; cotton, 60 percent; fertilizers, 5 percent; textile fabrics 65 percent; and garments, 75 percent. For 1999, the 25 percent import duty rebate that was granted importers in late 1997 was abolished. Poultry and eggs, beer and stout, barley and malt, and mineral and similar waters, removed from the prohibited import list in 1998, never qualified for the rebate. However, duty rates for live, chilled or frozen poultry and eggs were slashed from 150 to 55 percent to reduce smuggling for these products and the consequent loss of significant duty revenue.

Other import restrictions apply to aircraft and ocean-going vessels. A government authorized inspection agent must inspect all imported aircraft and ocean-going vessels. In addition, performance bonds and offshore guarantees must be arranged before either down payments or the Ministry of Finance authorizes subsequent payments.

In 1996, to reduce congestion and corruption in Nigerian ports and following a reported shortfall in customs receipts, the Nigerian government changed the procedures by which goods enter or leave the country. All unaccompanied imports and exports regardless of value require pre-shipment inspection (PSI). Imports must be accompanied by an import duty report (IDR). The Nigerian government will confiscate goods arriving without an IDR. The PSI was abandoned temporarily in early 1999 in favor of destination inspection, but the new scheme was fraught with problems and was soon shelved for the PSI again. In addition, all goods are assessed a one-percent surcharge to cover the cost of inspection. The Obasanjo Administration has made some progress on its pledge to practice open and competitive contracting. Anti-corruption is an energetic and central plank of the new government's policy. Foreign companies incorporated in Nigeria receive national treatment. Currently, tenders are published in newspapers for prospective contractors. Approximately five percent of all government procurement contracts are awarded to U.S. companies.

6. Export Subsidy Policies

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

The NEPC also administers the export expansion grant program, a fund that provides grants to exporters of manufactured and semi-manufactured products. Grants are awarded on the basis of the value of goods exported, and the only requirement for participation is that the export proceeds be repatriated to Nigeria. Though the grant amounts are small, ranging from two to five percent of total export value, they may constitute subsidies as defined by the WTO and raise questions about compliance with WTO obligations. In the 1999 budget, the government announced that the incentive schemes will be replaced by a non-cash incentive scheme termed "negotiable duty credit certificate" (NDCS), under which exporters' claims are credited against future imports. This measure will save the government from making annual budgetary allocations to the scheme and is in conformity with the WTO.

7. Protection of U.S. Intellectual Property

Nigeria is a signatory to the Universal Copyright Convention and the Berne Convention. In 1993, Nigeria became a member of the World Intellectual Property Organization (WIPO), thereby becoming party to most of the major international agreements on intellectual property rights. Cases involving infringement of non-Nigerian copyrights have been successfully prosecuted in Nigeria, but enforcement of existing laws remains weak, particularly in the patent and trademark areas. Recently, Nigeria's active participation in international conventions has yielded positive results.

Law enforcement agents occasionally carry out raids on suspected sites for production and sale of pirated tapes, videos, computer software and books. Piracy is widespread, but prosecution under the copyright law is slow. However, since the TRIPS (Trade Related Intellectual Property Rights) agreement was signed under the Uruguay round in 1993, the Nigerian Copyright Council has intensified efforts to combat piracy by organizing workshops for law enforcement agents on copyright issues.

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

The Copyright Decree of 1988, based on WIPO standards and U.S. copyright law, criminalizes counterfeiting, exporting, importing, reproducing, exhibiting, performing, or selling any work without the permission of the copyright owner. Progress on enforcing the 1988 law is slow. The expense and time necessary to pursue a copyright infringement case discourage prosecution of such cases.

Few companies have sought trademark or patent protection in Nigeria because it is generally perceived as ineffective. Losses from piracy are substantial, although the exact cost is difficult to estimate. Most recordings sold in Nigeria are pirated, and the video industry is based on the sale and rental of pirated tapes. Satellite signal piracy is also common. Violation of patents on pharmaceuticals is a problem.

8. Worker Rights

a. *The Right of Association:* Nigerian workers may join unions with the exception of members of the armed forces, police force, or government employees of the following departments and services: customs, immigration, prisons, currency printing and minting, central bank and telecommunications. A worker engaged in an essential service is required under penalty of law to provide his employer 15 days' advance notice of his intention to cease work. Essential service workers include federal and state civilian employees in the armed services, and public employees engaged in banking, telecommunications, postal services, transportation and ports, public health, fire prevention, and the utilities sector. Employees working in an export processing zone may not join a union for a period of ten years from the start-up of the enterprise.

Under the law, a worker under a collective bargaining agreement may not participate in a strike unless his representative has complied with the requirements of the Trade Disputes Act, which include provisions for mandatory mediation and for referring the labor dispute to the government. The Act allows the government in its discretion to refer the matter to a labor conciliator, arbitration panel, board of inquiry, or the National Industrial Court. The Act also forbids any employer from granting a general wage increase to its workers without prior government approval. In practice, however, the Act does not appear to be effectively enforced as strikes, including in the public sector, are widespread, and private sector wage increases are not submitted to the government for prior approval.

Nigeria has signed and ratified the International Labor Organization's (ILO) convention on freedom of association, but Nigerian law authorizes only a single central labor body, the Nigeria Labor Congress (NLC). Nigerian labor law controls the admission of a union to the NLC, and requires any union to be formally registered before commencing operations. Registration is authorized only where the Registrar of Trade Unions determines that it is expedient in that no other existing union is sufficiently representative of the interests of those workers seeking to be registered.

b. *The Right to Organize and Bargain Collectively:* Nigerian labor laws permit the right to organize and bargain collectively. Collective bargaining is common in many sectors of the economy. Nigerian law protects workers from retaliation by employers (i.e. lockouts) for labor activity through an independent arm of the judiciary, the Nigerian Industrial Court. Trade unionists have complained, however, that the judicial system's slow handling of labor cases constitutes a denial of redress. The government retains broad authority over labor matters, and often intervenes in disputes it feels challenge its key political or economic objectives. However, the era of government appointed "sole administrators" of unions is now over, and the labor movement is increasingly active and vocal on issues seen to attest the plight of the common worker, such as deregulation, privatization, and the government's failure to advance its poverty alleviation program.

c. *Prohibition of Forced or Compulsory Labor:* Section 34 of the 1999 Constitution, and the 1974 Labor Decree, prohibit forced labor. Nigeria has also ratified the ILO convention prohibiting forced labor. However, there are occasional reports of instances of forced labor, typically involving domestic servants. The government has limited resources to detect and prevent violations of the forced labor prohibition.

d. *Minimum Age for Employment of Children:* Nigeria's 1974 labor decree prohibits employment of children under 15 years of age in commerce and industry and restricts other child labor to home-based agricultural or domestic work. The law further stipulates that no person under the age of 16 may be employed for more than eight hours per day. The decree allows the apprenticeship of youths under specific conditions. Primary education is compulsory in Nigeria, though rarely enforced. Actual enrollment is declining due to the continuing deterioration of public schools. Increasing poverty and the need to supplement meager family incomes have forced also many children into the employment market, which is unable to absorb their labor due to high levels of unemployment. The use children as beggars, hawkers, or elsewhere in the informal sector is widespread in urban areas.

e. *Acceptable Conditions of Work:* Nigeria's 1974 labor decree established a 40-hour workweek, prescribed 2 to 4 weeks of annual leave, set a minimum wage, and stipulated that workers are to be paid extra for hours worked over the legal limit. The decree states that workers who work on Sundays and legal holidays must be paid a full day's pay in addition to their normal wages. There is no law prohibiting excessive compulsory overtime. In 1998, the federal government raised for all federal employees the minimum monthly wage (salary and allowances) to N5, 280.00 (USD 60) from N450 (USD 5.00). The government later reversed the decision and reduced the minimum wage to N3,500.00 (USD 35) for federal workers and N3000.00 (USD 30) for state workers. However, many states are unable, or unwilling to pay the new minimum wage. Widespread reports of empty state treasuries inherited by the new civilian government threaten their ability to pay the new salary. Despite this, the Obasanjo government is considering plans to further increase the minimum wage. The 1974 decree contains general health and safety provisions. Employers must compensate injured workers and dependent survivors of those killed in industrial accidents but enforcement of these laws by the ministry of labor is largely ineffective.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,696
Total Manufacturing		56
Food & Kindred Products	(1)	
Chemicals & Allied Products	20	
Primary & Fabricated Metals	-1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(1)	
Other Manufacturing	0	
Wholesale Trade		1
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		4
TOTAL ALL INDUSTRIES		1,925

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

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

SOUTH AFRICA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999 (est)
Income, Production and Employment: [1]			
Nominal GDP (at nominal prices)	147.9	134.5	146.0
Real GDP Growth (pct)	2.5	0.5	0.9
GDP by Sector:			
Agriculture	5.2	4.3	4.6
Mining and Quarrying	8.9	7.7	8.3
Manufacturing	27.5	23.0	25.1
Wholesale/Retail Trade	18.5	15.7	17.1
Financial Services	20.6	18.5	20.1
Government	17.6	15.0	16.3
Per Capita GDP (US$)	2,987		N/A
Labor Force (millions)	9.8	10 (est)	N/A
Unemployment Rate (pct)	22.9	23.0 (est)	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.7	13.6	10
Consumer Price Index	8.6	6.9	5.5
Exchange Rate (Rand/US$ annual average) [1]			
Unified	4.6	5.5	6.2
Balance of Payments and Trade:			
Total Exports FOB [2]	25.6	24.6	23.4
Exports to U.S. [3]	2.5	3.0	3.0
Total Imports CIF [2]	28.9	27.4	23.1
Imports from U.S. [3]	3.0	3.6	2.4
Trade Balance [2]	–3.3	–2.5	0.3
Trade Balance with U.S. [3]	–0.5	–0.6	0.6
External Public Debt [4]	3.3	2.7	N/A
Fiscal Deficit/GDP (pct)	4.2	5.5	N/A
Current Account Deficit/GDP (pct)	1.5	–1.6	–0.5
Debt Service Payments/GDP (pct)	6.1	6.7	N/A
Gold and Foreign Exchange Reserves	3.7	7.6	6.5
Aid from U.S. (US$ millions) [5]	110.5	71.3	53.4
Aid from Other Countries [6]	N/A	N/A	N/A

[1] The following exchange rates were used in the calculations: $1:R4.61 for 1997, $1:R5.80 for 1998, and an estimated $1:R6.15.

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

[3] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

[4] From IMF Yearbook, September 1999.

[5] The figures represent aid from USAID only.

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

1. General Policy Framework

South Africa is a middle-income developing country with well-developed financial, legal, communications, energy, and transport sectors, a stock exchange which ranks among the 20 largest in the world, and a modern infrastructure supporting an efficient distribution of goods to major urban centers throughout the region. More than five years since the historic election of President Nelson Mandela in the country's first multi-racial elections, South Africa remains the largest economy in Africa, and is very important to U.S. trade and investment.

Decades of apartheid-era policies resulted in the inefficient use of human resources, under-investment in human capital, labor rigidities, large budgetary outlays for duplicative layers of government and facilities, extensive governmental interference in the economy, and a lack of foreign investment and imported goods resulting from international sanctions. In the lead up to the 1994 elections, the South African economy started enjoying a period of recovery after more than four years of negative real GDP growth from 1988-1992. The economy has posted real GDP growth rates of 2.5 percent in 1994, 3.1 percent in 1995, 4.2 percent in 1996 and 2.5 percent in 1997. The 1998 growth rate however came in at 0.5 percent largely due to the financial turmoil which hit almost all emerging markets. Some recovery is expected in 1999 with many predicting a real GDP growth rate of 0.9 percent.

South Africa faces daunting developmental problems resulting from apartheid-era policies. The government's objectives today are growth, jobs, black economic empowerment, promotion of small, medium, and micro enterprises, and the extension of telecommunications, transportation, and other infrastructure links to underserved rural and urban areas .

The government demonstrated its commitment to open markets, privatization, and a favorable investment climate with the release of its macroeconomic strategy, GEAR, in June 1996. This strategy includes expansion of infrastructure, restructuring of state assets, conservative fiscal and monetary targets and continued reduction of tariffs to promote greater competition and industrial revitalization. These efforts, together with South Africa's implementation of its World Trade Organization (WTO) obligations, show that South Africa is moving steadily towards free market principles.

Over the last decade, quantitative credit controls and administrative control of deposit and lending rates have largely disappeared. The South African Reserve Bank (SARB) now operates in much the same way as western central banks, influencing interest rates and controlling liquidity through its rates on funds provided to private sector banks, and to a lesser degree through the placement of government paper. In the past five years, restrictive monetary policy, through the maintenance of relatively high central bank lending rates, has curbed domestic spending on imports and reduced inflation to its lowest rates in twenty years.

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

2. Exchange Rate Policy

Under South African exchange regulations, the SARB has substantial control over foreign currency. Exchange controls are administered by the SARB's Exchange Control Department and through commercial banks that have been authorized to deal in foreign exchange. All international commercial transactions must be accounted for through these "authorized foreign exchange dealers." In addition, the SARB is a marketing agent for gold, which accounts for roughly 18 percent of export earnings. This provides the SARB wide latitude for determining short-term exchange rates. Monetary authorities normally allow the rand to adjust in an attempt to stabilize external accounts.

While the SARB recognized that the low level of hard currency reserves necessitated continued inflow of long-term capital, the government of national unity eliminated the previous dual exchange rate and established a unified exchange rate on March 20, 1995. Nonetheless, South Africa still maintains several capital controls to prevent large capital outflows. The government is more likely to approve foreign exchange purchases for investment abroad if the foreign partner of the South African party conducts an asset swap, whereby an equivalent amount of foreign exchange is invested in South Africa by the foreign partner. Although domestic as well as foreign business concerns have lobbied hard for the lifting of the asset swap requirement, it is unlikely that the government will do so until foreign reserve levels approach the three-month coverage level. While foreign reserves are currently at about $6.5 billion, the SARB maintains a large Net Open Forward Position of $15.6 billion as of the end of September 1999.

3. Structural Policies

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

The main sources of government revenue in South Africa are income taxes and the Value-Added Tax (VAT). The VAT rate is 14 percent.

The government has undertaken some measures in the past two years to ease the tax burden on foreign and domestic investors. It has steadily reduced the corporate primary income tax rate from 40 percent in 1994 to 30 percent in 1999. In addition, the Secondary Tax on Corporate Dividends was halved to 12.5 percent in March 1996.

4. Debt Management Policies

At the end of 1998, the SARB reported that total foreign (public and private) debt amounted to approximately $38.8 billion. The ratio of total foreign debt to GDP has remained steady at around 26 to 30 percent over the past three years, while interest payments as a percentage of total export earnings have remained at levels ranging from 7.3 percent in 1995 to 8.4 percent in 1998.

South Africa is a member of the World Bank and International Monetary Fund (IMF) and continues Article IV consultations with the latter on a regular basis. In December 1993, after 27 years of economic isolation, South Africa obtained an $850 million IMF facility, which replenished South Africa's strained foreign exchange reserves and normalized its international financial relations. South Africa is also obtaining a modest World Bank loan, and is in discussions regarding other small grants or loans as well as greater use of World Bank advisory and training assistance to help with its ambitious development objectives.

5. Aid

There is no comprehensive audit of the total aid given to SA to date. Besides the aid of $53.4 from USAID noted in the front table, the U.S. also provides military aid estimated at $1.65 million for FY 1998/99.

6. Significant Barriers to U.S. Exports

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

The government remains committed to the simplification and eventual reduction of tariffs within the WTO framework, and maintains active discussions with that body and its major trading partners.

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

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

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

7. Export Subsidies Policies

The Export Marketing Assistance Scheme (EMA) offers financial assistance for the development of new export markets, through financing for trade missions and market research. The new Export Finance Guarantee Scheme for small exporters promotes small and medium exporters through credit guarantees with participating financial organizations. Provisions of the Income Tax Act also permit accelerated write-offs of certain buildings and machinery associated with beneficiation processes carried on for export, and deductions for the use of an export agent outside South Africa.

8. Protection of U.S. Intellectual Property

Patents may be registered under the Patents Act of 1978 and are granted for 20 years. Trademarks can be registered under the Trademarks Act of 1973, and are granted for ten years with a possible renewal of an additional ten years. New designs may be registered under the Designs Act of 1967, which grants copyrights for five years. Literary, musical and artistic works, cinematographic films and sound recordings are eligible for copyrights under the Copyright Act of 1978. This act is based on the provisions of the Berne Convention as modified in Paris in 1971 and was amended in 1992 to include computer software. The government passed two IPR-related bills in parliament at the end of 1997: the Counterfeit Goods Bill and the Intellectual Property Laws Amendment Bill, bringing South Africa's laws largely into conformity with its international trade obligations under the Trade Related

Intellectual Property Agreement of the WTO. The Patents, Trademarks, Designs, and Copyrights Registrar of the Department of Trade and Industry administers these acts.

South Africa is a member of the Paris Union and acceded to the Stockholm Text of the Paris Convention for the Protection of Industrial Property. South Africa is also a member of the World Intellectual Property Organization.

Although South Africa's intellectual property laws and practices are generally in conformity with those of the industrialized nations, firms do experience some problems. The trademarks of a number of U.S. companies were misappropriated under the former government, when local firms took advantage of inadequate protection for famous marks. In April 1995, the U.S. Trade Representative placed South Africa on the "Special 301" Watch List in an attempt to resolve these cases. South Africa was removed from the list in 1996 due to progress on several fronts. In May 1998, however, South Africa was placed back on the Watch List, in part because of a lack of adequate protection of undisclosed data and a law, passed in December 1997, which appeared to empower the Minister of Health to abrogate patent rights for pharmaceuticals. After extensive consultations, the US and South African governments reached an understanding on this Act in September 1999. USTR removed South Africa from the Watch List in December 1999.

Software piracy occurs frequently in South Africa. The Business Software Alliance (BSA) estimates that as much as 50 percent of South Africa's business software is pirated, resulting in a loss of over $74.9 million to computer companies. Piracy in the video and sound industry is also an issue of concern, with a sound piracy rate of 40 percent and a video piracy rate of 16 percent. Total annual losses due to audiovisual piracy in South Africa during 1998 are estimated to be $24.0 million.

9. Worker Rights

a. *The Right of Association:* Freedom of association is guaranteed by the constitution and given statutory effect by the Labor Relations Act (LRA). All workers in the private sector and most in the public are entitled to join a union. Moreover, no employee can be fired or prejudiced because of membership in or advocacy of a trade union. Unions in South Africa have an approximate membership of 3.4 million or 35 percent of the economically active population. The right to strike is guaranteed in the constitution, and is given statutory effect by the LRA. The International Labor Organization (ILO) readmitted South Africa in 1994. There is no government restriction against union affiliation with regional or international labor organizations.

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

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

d.*Minimum Age for Employment of Children:* Employment of minors under age 15 is prohibited by South African law. The LRA, however, grants the Minister of Welfare discretionary powers to permit employment of children under carefully described conditions in certain types of work, such as in the agricultural sector. Child labor is also used in the informal economy.

e. *Acceptable Conditions of Work:* There is no legally mandated national minimum wage in South Africa. Instead, the LRA provides a mechanism for negotiations between labor and management to set minimum wage standards industry by industry. In those sectors of the economy not sufficiently organized to engage in the collective bargaining processes which establish minimum wages, the Basic Conditions of Employment Act, which went into effect in December 1998, gives the Minister of Labor authority to set wages, including for the first time wages for farm or domestic workers. Occupational health and safety issues remain a top priority of trade unions, especially in the mining and heavy manufacturing industries which are still considered hazardous by international standards.

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

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Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		864
Food & Kindred Products	139	
Chemicals & Allied Products	193	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	37	
Electric & Electronic Equipment	112	
Transportation Equipment	(1)	
Other Manufacturing	293	
Wholesale Trade		145
Banking		(1)
Finance/Insurance/Real Estate		247
Services		162
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,363

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

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

EAST ASIA AND THE PACIFIC

AUSTRALIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated][1]

	1997	1998	[2] 1999
Income, Production and Employment:			
Nominal GDP [3]	405.2	364.0	390.7
Real GDP Growth (pct)	5.2	4.6	3.0
GDP by Sector: [4]			
Agriculture	12.0	10.5	10.7
Manufacturing	96.3	85.0	88.9
Services	274.7	247.8	269.2
Government	16.7	14.2	14.6
Per Capita GDP (US$)	22,500	19,700	20,500
Labor Force (000's)	9,220	9,345	9,461
Unemployment Rate (pct)	8.5	8.0	7.3
Money and Prices (annual percentage growth):			
Money Supply (M3)	6.3	7.6	8.8
Consumer Price Inflation	–0.2	1.6	2.5
Exchange Rate (Aust$/US$ annual average)			
Official	N/A	N/A	N/A
Parallel	1.36	1.59	1.56
Balance of Payments and Trade:			
Total Exports FOB	62.5	55.9	60.4
Exports to U.S.	4.6	5.3	7.0
Total Imports CIF	61.5	60.9	64.3
Imports from U.S.	13.4	13.6	14.8
Trade Balance	1.0	–4.9	–3.8
Balance with U.S.	–8.7	–8.3	–7.7
External Public Debt	44.2	33.7	25.7
Fiscal Deficit/GDP (pct)	–0.2	–0.5	–0.8
Current Account Deficit/GDP (pct)	3.1	4.8	5.5
Debt Service Payments/GDP	2.2	1.8	1.8
Gold and Foreign Exchange Reserves	17.2	15.5	15.9
Aid from U.S.	0	0	0
Aid from Other Countries	0	0	0

[1] Exchange rate fluctuations must be considered when analyzing data. Percentage changes calculated in Australian Dollars.
[2] 1999 figures are estimates based on available monthly data in November.
[3] Income measure of GDP.
[4] Production measure of GDP. "Manufacturing" includes manufacturing, mining, utilities, and construction.

1. General Policy Framework

Australia's developed market economy is dominated by its services sector (65 percent of GDP), yet it is the agricultural and mining sectors (7 percent of GDP combined) that account for the bulk (58 percent) of Australia's goods and services exports. Australia's comparative advantage in primary products is a reflection of the natural wealth of the Australian continent and its small domestic market: 19 million people occupy a continent the size of the contiguous United States. The relative size of the manufacturing sector has been declining for several decades, and now accounts for just under 12 percent of GDP.

The Asian economic downturn has yet to have a significant impact on economic growth, despite forcing many exporters to target alternative markets. With inflation well under control (Australia recorded annual price deflation for the first time in 35 years in 1997), the task for economic policy makers is to lower the unemployment rate, which remains stubbornly mired in the 8.0 percent range.

The Liberal/National coalition government continued its program of fiscal consolidation in its budget for the 1999-2000 fiscal year, announcing a budget surplus of $3 billion.

2. Exchange Rate Policies

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

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

3. Structural Policies

The government is continuing a program of economic reform, begun in the 1980s, that includes the reduction of import protection and microeconomic reform. Initially broad in scope, the program now focuses on industry-by-industry changes and reform of the labor market. The government is also continuing with the privatization of public assets. Federal Government ownership in telecommunications carrier Telstra has been reduced (via two public floats) to 51%.

The General Tariff Reduction Program, begun in March 1991, has reached its conclusion, with most existing tariffs now at 5 percent. However, the passenger motor vehicles and textiles, clothing and footwear industries are still protected by high tariffs (17.5 and 17-28 percent respectively). These tariffs are scheduled to decline to 15 and 25 percent respectively by 2000 (where they will remain, pending further review, until 2005).

The Liberal/National coalition government recently passed legislation altering the structure of Australia's income and sales tax system, and currently has before parliament legislation reforming the business taxation system.

4. Debt Management Policies

Australia's net foreign debt has averaged between 30 and 45 percent of GDP for the past decade, and in mid-1998 totaled $145 billion (39 percent of GDP). Australia's net external public debt is $28 billion, or 7 percent of GDP. The public sector accounts for 19 percent of Australia's external debt; the remainder is the responsibility of the private sector. The Federal Government is using its privatization receipts and budget surpluses to further reduce its debt obligations. The net debt-service ratio (the ratio of net income payable to export earnings) has remained at or below 10 pct since 1997, down from 21 percent in 1990.

5. Significant Barriers to U.S. Exports

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

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

Local content regulations also require that 55 percent of a commercial television station's weekly broadcasts between the hours of 6:00 a.m. and midnight must be dedicated to Australian-produced programs (The U.S. regrets that this requirement was recently increased from 50 percent). Regulations governing Australia's pay-TV industry require that channels carrying drama must devote 10 pct of program expenditure to new Australian-produced content (though they are not required to actually screen the programs produced).

Standards: Australia became a signatory to the GATT Technical Barriers to Trade Agreement in 1992. However, Australia still maintains restrictive standards requirements and design rules for automobile parts, electronic and medical equipment, and some machine parts and equipment. Currently, all Australian standards are being rewritten to harmonize them where possible to international standards, with the objective of fulfilling all obligations of the GATT Technical Barriers to Trade Agreement.

Labeling: Federal law requires that the country of origin be clearly indicated on the front label of some types of products sold in Australia. Various other federal and state labeling requirements are being reconsidered in light of compliance with GATT obligations, utility and effect on trade. The Federal and State Health Ministries, working with the Government of New Zealand, are currently reviewing proposals to label products containing genetically modified organisms and have agreed to consider issues of consumer information, health, implementation costs of a labeling regime, and potential impact on Australian exports.

Commodity Boards: Several national and state commodity boards control the marketing and export of certain Australian agricultural products. Activities for these marketing authorities are financed by the producers, but some boards enjoy export monopoly powers conferred by the federal or state government. While some of the boards' domestic activities have been deregulated, the export of wheat and rice remains under the exclusive control of commodity boards. The government has indicated that the Australian wheat board (which strictly regulates wheat marketing abroad) may have its export monopoly reviewed during 2000, though the terms of the review have yet to be announced. The export of barley from certain states likewise remains strictly regulated.

Sanitary and Phytosanitary Restrictions: Australia's geographic isolation has allowed it to remain relatively free of exotic diseases. Australia imposes extremely stringent animal and plant quarantine restrictions. The WTO SPS agreement requires, among other things, that Australia's restrictions undergo a risk assessment to ensure that any restrictions are science-based, rather than disguised non-tariff barriers. Concerns remain with Australia's restrictions on chicken (fresh, cooked and frozen), pork, California table grapes, Florida citrus, stone fruit, apples, Pacific North-West cherries, timber and corn.

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

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

Government Procurement: Since 1991, foreign information technology companies with annual sales to the Australian Government of A$10-40 million (US$6-24 million) have been required to enter into Fixed Term Arrangements (FTAs), and those with sales greater than A$40 million into Partnerships for Development (PFDs). Under an FTA, a foreign company commits to undertake local industrial development activities worth 15 percent of its projected amount of government sales over a four year period. Under a PFD, a foreign firm agrees to invest 5 percent of its annual local turnover on research and development in Australia; export goods and services worth 50 percent of imports (for hardware companies) or 20 percent of turnover (for software companies); and achieve 70 percent local content across all exports within the seven year life of the PFD.

Recent changes to Australian Government procurement policies have seen a significant decentralization of purchasing procedures, with the introduction of Endorsed Supplier Arrangements (ESA). Companies wishing to supply information technology (IT) products and major office machines to the Australian government must gain endorsement under the ESA. The industry development component of the new ESA requires evidence of product development, investment in capital equipment, skills development and service support, and sourcing services and product components, parts and/or input locally. In addition, applicants must demonstrate performance in either exports, research and development, development of strategic relationships with Australian or New Zealand suppliers/customers, or participation in a recognized industry development program.

The Australian Government maintains its commitment to source at least 10 percent of its purchases from Australian small to medium size enterprises. The government will continue to require tenderers to include industry development objectives in tender documents, with model guidelines to be developed in consultation with industry.

Motor Vehicles: The import of used vehicles manufactured after 1973 for personal use is banned, except where the car was purchased and used overseas by the buyer for a minimum of three months. Commercial importers must apply for a "compliance plate" costing A$20,000 for each make of car imported. Left hand drive cars must be converted to right hand drive (only by licensed garages) before they may be driven in Australia.

6. Export Subsidies Policies

Australia is a member of the WTO Agreement on Subsidies and Countervailing Measures.

The coalition government has severely curtailed assistance schemes to Australian industry as part of its fiscal consolidation program. Under the Export Market Development Grants Scheme, the government gives grants to qualifying firms of up to A$200,000 to assist in offsetting marketing costs incurred when establishing new export markets. There are also schemes available for drawbacks of tariffs and sales and excise taxes paid on the imported components of exported products. Such schemes are available in the passenger motor vehicle and the textiles, clothing and footwear industries. Grants schemes and tariff concessions have also been subject to expenditure reductions. The Research and Development Tax Concession (available to firms undertaking eligible R&D) was reduced from 150 percent to 125 percent. The only remaining bounty (production subsidy) assists shipbuilders, and is due to expire on December 31, 2000.

The Pharmaceutical Industry Investment Program is designed to compensate manufacturers of pharmaceutical products for the effects of the federal government's intervention (through the national health system) in the market for consumer pharmaceuticals. Under the scheme, approved producers receive higher prices for selected products in return for commitments to undertake domestic drug research and development.

7. Protection of U.S. Intellectual Property

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

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

Test Data: In 1999, the government passed legislation providing five years of protection of test data for the evaluation of a new active constituent for agricultural and veterinary chemical product. No protection is provided for data submitted in regard to new uses and formulations.

Trademarks and Copyrights: Australia provides TRIPs compatible protection for both registered and unregistered well known trademarks under the Trademark Act of 1995. The term of registration is ten years. Copyrights are protected under the Copyright Act of 1968 for a term of the life of the author plus 50 years. Computer programs can receive copyright protection. The Australian Copyright Act provides protection regarding public performances in hotels and clubs. In recent years, the government has passed legislation removing parallel import protection for sound recordings and for goods whose protection was based on the copyright of packaging and labeling, and allowing the decompilation of computer software.

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

8. Worker Rights

a. *The Right of Association:* Workers in Australia fully enjoy and practice the rights to associate, to organize and to bargain collectively. In general, industrial disputes are resolved either through direct employer-union negotiations or under the auspices of the various state and federal industrial relations commissions. Australia has ratified most major international labor organization conventions regarding worker rights.

b. *The Right to Organize and Bargain Collectively:* Approximately 32 percent of the Australian workforce belongs to unions. The industrial relations system operates through independent federal and state tribunals; unions are currently fully integrated into that process. Legislation reducing the powers of unions to represent employees and of the Industrial Relations Commission to arbitrate settlements was passed by Federal Parliament in November 1996. Further changes in industrial relations are under consideration in draft legislation currently before Parliament.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory and forced labor are prohibited by conventions which Australia has ratified, and are not practiced in Australia.

d. *Minimum Age for Employment of Children:* The minimum age for the employment of children varies in Australia according to industry apprenticeship programs, but the enforced requirement in every state that children attend school until age 15 or 16 maintains an effective floor on the age at which children may be employed full time.

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

f. *Rights in Sectors with U.S. Investment:* Most of Australia's industrial sectors enjoy some U.S. investment. Worker rights in all sectors are essentially identical in law and practice and do not differentiate between domestic and foreign ownership.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4,344
Total Manufacturing		6,387
Food & Kindred Products	662	
Chemicals & Allied Products	2,749	
Primary & Fabricated Metals	359	
Industrial Machinery and Equipment	586	
Electric & Electronic Equipment	173	
Transportation Equipment	581	
Other Manufacturing	1,278	
Wholesale Trade		2,057
Banking		2,595
Finance/Insurance/Real Estate		8,347
Services		2,198
Other Industries		7,748
TOTAL ALL INDUSTRIES		33,676

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

PEOPLE'S REPUBLIC OF CHINA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	903.1	960.8	1,016.8
Real GDP Growth (pct) [2]	8.8	7.8	6.9
GDP by Sector: [3]			
Agriculture	168.7	172.7	176.1

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Manufacturing	444.1	472.8	510.7
Services	267.9	291.0	304.3
Government	22.3	24.3	25.7
Per Capita GDP (US$)	734.2	772.0	797.0
Labor Force (millions)	697.0	705.0	713.0
Unemployment Rate (pct)[4]	3.1	3.1	3.1
Money and Prices (annual percentage growth):			
Money Supply (M2)	19.6	14.8	15.3
Consumer Price Inflation	2.8	–0.8	–1.4
Exchange Rate (RMB/US$ annual average)	8.3	8.3	8.3
Balance of Payments and Trade:			
Total Exports FOB[5]	182.7	183.7	198.4
Exports to U.S.	62.5	71.2	81.9
Total Imports CIF[5]	142.4	140.2	156.0
Imports from U.S. FAS	12.8	14.3	15.0
Trade Balance	40.3	43.5	42.4
Balance with U.S.	49.7	56.9	66.9
External Public Debt	131.0	146.0	149.0
Fiscal Deficit/GDP (pct)	1.5	3.5	3.2
Current Account Surplus/GDP (pct)	4.5	3.1	0.0
Debt Service Payments/Exports (pct)	7.3	10.9	9.0
Payments/GDP (pct)	1.5	2.4	2.4
Gold and Foreign Exchange Reserves	139.9	145.0	152.0
Aid from United States	0	0	0
Aid from All Other Sources	0.4	0.6	0.6

[1] Estimated from third quarter and end October 1999 data.

[2] Official growth rate published by State Statistical Bureau based on constant renminbi (RMB) prices using 1978 weights. All other income and production figures are converted into dollars at the exchange rate. Economic experts continue to debate the accuracy of these figures, with some arguing that real growth may be half or less the official rate.

[3] Production and net exports are calculated using different accounting methods and do not tally to total GDP. Agriculture includes forestry and fishing; manufacturing includes mining.

[4] "Official" urban unemployment rate; agricultural laborers are assumed to be totally employed in China's official labor data. Many economists believe the real rate is much higher.

[5] U.S. Department of Commerce (U.S.-China bilateral trade data for U.S. trade; PRC Customs (Chinese global trade data and 1999 estimates.)

Sources: State Statistical Bureau Yearbook, People's Bank of China quarterly Statistical Bulletin, U.S. Department of Commerce Trade Data, Embassy estimates.

1. General Policy Framework

China's official GDP growth rate was 7.4 percent for the first three quarters of 1999, continuing the gradual slowdown from the double-digit economic growth of the early 1990s. Consumer spending languished despite a special two-year infrastructure spending program and a separate social welfare and civil service spending increase in mid-1999. State-Owned Enterprise (SOE) reform may have slowed, particularly in terms of shifting employment from the over-invested state-owned manufacturing sector to the underdeveloped services sector. Price deflation has persisted in 1999, with the retail price index down 2.6 percent in October from a year earlier (up from a low of –3.5 percent in the second quarter of 1999.) New bank lending grew more slowly in 1999, perhaps reflecting increased prudence on the part of the dominant state-owned banks, whose poor financial condition was a major concern.

Export growth was the one bright spot in the overall economic picture. Exports grew 2.1 percent in the third quarter after consecutive declines through the end of June. China has maintained competitiveness in many of its major export products, although there are signs of weakness in textiles and steel. Chinese imports increased by 15.8 percent in the first three quarters, as China implemented an anti-smuggling campaign announced in late 1998 and official statistics captured former gray market imports. Real import levels are widely believed to have remained stable, and may have actually declined in some sectors. Inflows of foreign direct investment slumped by about ten percent, year on year, through the end of July. New commitments dropped even more substantially, by 20.5 percent through the end of July.

Since late 1998, the Chinese government has employed a deficit-financed fiscal stimulus program to encourage the expansion of the domestic economy. The stimulus program financed efforts to broaden the social safety net for retired and laid off workers, salary and pension increases for government workers, and infrastructure expenditures. In addition, the government experimented with policies to curb falling prices, stimulate household consumption, and promote exports and investment. While the program has had limited impact on economic expansion so far, the National People's Congress agreed in August of 1999 to have the central government issue an additional RMB 60 billion in treasury bonds to underwrite more projects.

As part of its effort to increase the profit making capability of state-owned enterprises, the Chinese government has experimented with administrative measures to counter falling prices for SOE products. The Government announced in mid-1999 that it would prosecute enterprises selling at below cost and limit approvals to build additional capacity in a range of over-saturated industries. Firms in industries in which competition has led to excessive price cuts have also been encouraged to limit production. An anti-smuggling campaign, begun in the fall of 1998, has shut down black and gray market competition for domestically-produced products such as televisions and home entertainment systems.

China is committed to reforming its financial system in order to allocate the large amount of savings in the economy more efficiently. The failure of the Guangdong Trust and Investment Corporation (GITIC) in late 1998 prompted the Chinese government to rein in the operations of more than 200 other trust and investment companies and toughen the supervision of domestic banks, securities, insurance, and other financial institutions. The huge stock of non-performing loans to SOE's has complicated attempts to commercialize the state-owned banks. New lending to non-agricultural SOE's was about $72 billion in 1998, or 64 percent of total lending. This percentage seemed to drop in 1999, a sign that banks were trying to find other customers. China's four large state banks also set up asset management companies in 1999, to liquidate or restructure older, non-performing loans.

Increased access to China's financial markets for foreign institutions has grown slowly. China now has 165 foreign bank branches and sub-branches, including 20 U.S. bank branches. These offices are concentrated in coastal areas and large inland cities such as Beijing and Chengdu. Chinese authorities have expanded the number of provinces in which foreign banks are allowed to conduct local currency (Renminbi) business but severely circumscribe the activities in which foreign banks may engage. Foreign securities firms have also been barred from underwriting or trading domestic stocks or bonds. A few insurance firms have been granted experimental licenses.

2. Exchange Rate Policies

Foreign-invested Enterprises (FIEs) and authorized Chinese firms have generally enjoyed liberal access to foreign exchange for trade-related and approved investment-related transactions. FIEs may set up foreign currency deposits for trade and remittances. Since late 1997, Chinese firms earning more than 10 million dollars a year in foreign currency have been allowed to retain in foreign currency up to 15 percent of their receipts. However, the Asia-wide economic slowdown and the growing evidence of unauthorized capital outflows prompted the government to tighten documentation requirements in mid-1998. U.S. firms reported that the extra delays caused by these measures had ended for the most part by mid-1999. China introduced currency convertibility for current account (trade) transactions in December 1996 (in accord with the IMF charter's Article VIII provisions). Capital account liberalization has been postponed indefinitely.

The current exchange rate is described as a "managed float" by the authorities; it has behaved more like a pegged rate for the past three years. Since 1996, the renminbi has traded consistently at about RMB 8.3 per U.S. dollar. China uses the RMB/dollar exchange rate as the basic rate and sets cross rates against other currencies by referring to international markets. The central bank sets interest rates on all deposits and loans. Local interest rates in 1999 were now considerably lower than in the United States. As a result, "black market" trading is a small albeit regular feature of the Chinese system. Forward rates are available in the small, offshore market.

3. Structural Policies

In 1994, China issued a "Framework Industrial Policy for the 1990s." The framework included plans to issue policies for the key automotive, telecommunications, transportation, machinery, electronics, high technology, and construction sectors. Of these, only the automotive industrial policy has been published to date. Evidence suggests that the government may develop policies for the other industries that combine local content and other performance requirements and tax and investment incentives. In addition, regulations promulgated in July, 1995 established guidelines for buyer's and seller's credit programs operated by the Export and Import Bank of China (China EXIM). China EXIM announced in early 1999 that it would expand its program to finance the export of mechanical and electrical products, particularly to Africa and South East Asia.

China announced in August of 1999 that it was considering new measures to attract additional foreign direct investment. The State Council is currently reviewing new investment stimulus measures that would provide tax breaks for high-technology industries, incentives to invest in China's central and western regions, and streamlined oversight of foreign investor operations. Frequent changes to and poor publication of investment guidelines contribute to a lack of transparency and uneven implementation. In the promotion of foreign investment, the Chinese government puts major emphasis on the so-called "pillar industries," i.e., capital-intensive and technology-intensive manufacturing industries. Foreign investment is restricted or prohibited in some areas including agricultural, forestry, telecommunications, and news media.

The Chinese government, as part of its comprehensive reform of the economy, is gradually phasing out price controls. It nevertheless continues to influence prices of certain sensitive goods such as grain. To curb surplus production in 1999, grain and cotton prices were allowed to fall by as much as 20 percent, bringing domestic prices much closer to international levels. China maintains discriminatory pricing practices with respect to some services and inputs offered to foreign investors in China. On the other hand, foreign investors benefit from investment incentives, such as tax holidays and grace periods, which allow them to reduce substantially their tax burden.

China provides to domestic and foreign investors a comprehensive program of tax incentives and concessions based primarily on such considerations as total investment, output, export potential, economic management and development, technology development, and general conduciveness to China's economic goals. Both foreign and domestic enterprises pay either value-added tax (VAT) or business tax depending on the nature of the their business and the type of products involved. The VAT of 17 percent applies to enterprises engaged in import-export, production, distribution or retailing activities. Under current regulations, different types of VAT refund methods apply to different enterprises. In an attempt to stimulate exports, the State Tax Administration increased VAT rebates several times in 1999, up to a full 17 percent for certain kinds of processed goods.

4. Debt Management Policies

In mid-1999, China's external debt stood at $149 billion, or 78 percent of exports, according to official Chinese data. In the context of China's export performance, investment inflows, and high foreign exchange reserve levels (projected at $153 billion by the end of 1999), the debt burden should remain in acceptable limits, absent external shocks that could force a devaluation. Still, the debt service ratio (principal and interest payments as a percentage of foreign exchange receipts) jumped four percentage points in 1998 to 11 percent.

China's local bond market is in its infancy, with virtually no secondary market. This prevents the central bank from effectively regulating the money supply through indirect means. Interest rates on government bonds are fixed at about one percentage point above the comparable bank deposit rates, which are also fixed. As the government has increased its deficit, the percentage of the budget devoted to debt servicing has increased to about 28 percent of total expenditures.

5. Aid

The United States has provided occasional disaster-relief assistance to China to help flood relief and other humanitarian efforts in recent years. In 1999, the U.S. Government donated $500,000 to the International Federation of the Red Cross to assist in flood relief efforts in the Yangtze River Valley. In addition, the United States operates a modest Peace-Corps-affiliated English-language training program in southwestern China's Sichuan and Guizhou provinces. China is a major recipient of assistance from other countries and multilateral donors. China's largest bilateral aid donor is Japan. Multilateral assistance includes but is not limited to programs operated by the World Bank; the World Food Program; United Nations Development Program and other United Nations-affiliated agencies and programs; and the Asian Development Bank. Non-governmental organizations have also expanded their presence in recent years, thanks in part to the promulgation of a new law in 1998 giving them official status.

6. Significant Barriers to U.S. Exports

China concluded a bilateral market access agreement with the United States on November 15, 1999, but is not yet a member of the WTO. Once it becomes a member, it must fulfill its commitments to reduce current substantial barriers to the entry into China of U.S. goods and services. Meanwhile, China continued in 1999 its own unilateral reform efforts—a round of tariff cuts, reductions in the number of products subject to import quotas, a huge increase in the number and type of firms granted trading rights, an improved system of distribution rights, and an increase in the number of cities in which foreign bank branches are allowed to conduct Renminbi banking business. These measures improved access for U.S. goods and services, but liberalization of China's import regime still lags far behind that for exports.

Despite considerable progress in the 1990s, non-tariff barriers to trade and trade-distorting measures persist. Non-tariff barriers (NTBs) include quotas, tariff rate quotas, import licensing, import substitution and local content policies, and unnecessarily restrictive certification and quarantine standards. Extra-legal trade barriers, such as export performance requirements, still distort trade. Foreign Invested Enterprises (FIEs) continue to report being forced to accept export performance requirements in investment contracts; they say that failure to meet these requirements can result in loss of licenses for foreign exchange or contract termination. Similarly, some firms report being forced to accept contracts mandating increased "local content;" government agencies strongly encourage firms under their control to "buy Chinese."

China's Customs General Administration announced an anti-smuggling campaign in the fall of 1998. The campaign has reduced trade through black and gray market channels and resulted in an increase in imports through legitimate channels. It has not, however, addressed the tariff and non-tariff barriers that created an environment conducive to smuggling in the first place. Further, in an effort to control illegal foreign exchange transactions and prevent capital flight, the Ministry of Finance announced regulations in late 1998 that place strict controls on foreign exchange transactions by foreign-invested firms.

New regulatory initiatives announced in 1999 may also create significant barriers to the entry of U.S. goods and services into the Chinese market. Examples of these include:

The Chinese government banned the import of nine generic medicines, including several varieties of antibiotics, pain relievers, and Vitamin C, in mid 1999 in an effort to control falling prices in the domestic market. In addition, in late 1998, it implemented price caps on pharmaceuticals, claiming it was doing so to contain health care costs. The regulations may drive some multinationals and bulk pharmaceutical exporters out of the $12-billion Chinese pharmaceutical market and push others into the red. The price caps are calculated on each drug's production costs, ignoring research spending and other shared overheads.

For manufactured goods, China requires quality licenses before granting import approval, with testing based on standards and specifications often unknown or unavailable to foreigners and not applied equally to domestic products. For example, in mid-1999, the Ministry of Health imposed strict testing standards on imports of cosmetic products containing sunscreens, skin lighteners or hair restorers. Industry sources say the testing requirements create an effective import barrier as they are both obscure and expensive to carry out.

Regulations published by the State Statistical Bureau (SSB) in July, 1999, require all foreign companies conducting market surveys in China to go through an annual registration process. Furthermore, the regulations stipulate that all survey activities undertaken by foreign institutions, or domestic agencies employed by foreigners, must first be approved by provincial statistical bureaus or the SSB. Finished survey results must also be cleared with the approving agency. The regulations are alarming not only because they will be expensive and time consuming to comply with but also because they have the potential to limit the freedom of legitimate firms to conduct market research. In addition, the potential for compromise of confidential business information is substantial.

Regulations implemented in June 1999 further restrict the importation of certain commodities related to the processing trade. These measures are designed to shift the direction of China's processing trade towards products with higher technological content and higher value added potential. The regulations prohibit the import of used garments, certain kinds of used publications, toxic industrial waste, junk cars, used automobiles or components, seeds, seedlings, fertilizers, feed, additives, or antibiotics used in the cultivation or breeding of any export commodity. The regulations also restrict imports of plastic raw materials, raw materials for chemical fibers, cotton, cotton yarn, cotton cloth, and some steel products.

7. Export Subsidies

China abolished direct subsidies for exports on January 1, 1991. Nonetheless, many of China's manufactured exports receive indirect subsidies through guaranteed provision of energy, raw materials or labor supplies. Exports of agricultural products, particularly corn and cotton, currently benefit from direct export subsidies. China has agreed to stop such subsidies once it becomes a member of the WTO, however. Other indirect subsidies are also available, for example bank loans that need not be repaid.

8. Protection of U.S. Intellectual Property

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

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

Although China has revised its laws to provide criminal penalties for IPR violations, the United States remains concerned that penalties imposed by Chinese courts do not act as a deterrent. Some U.S. companies estimate losses from Chinese counterfeiting equal 15 to 20 percent of total sales in China. One U.S. consumer products company estimates that it loses $150 million annually due to counterfeiting. The destructive effect of counterfeiting has discouraged additional direct foreign investment and threatened the long-term viability of some U.S. business operations in China. The inferior quality of counterfeit products also creates serious health and safety risks for consumers.

China's State Council, the highest executive organ of the government, issued a decree in 1999 admonishing Chinese government agencies to purchase only legal computer software. Nevertheless, end-user piracy of computer software continues to cost U.S. companies millions of dollars each year. Regulations on the use of copyright agents by foreign companies have not yet been finalized; this effectively prevents foreign companies from using agents to register copyrights. A shortage of agents authorized to accept trademark applications from foreign companies makes it difficult for foreigners to register trademarks. The lack of clear procedures to protect unregistered well-known trademarks makes it extremely difficult to oppose or cancel well-known marks registered by an unauthorized party.

9. Worker Rights

a. *The Right of Association:* China's constitution provides for "freedom of association," but in practice this provision does not entitle workers to organize freely. The Trade Union Law states that workers who wish to form a union at any level must receive approval from a higher-level trade organization. Approved trade unions are legally required to join the All-China Federation of Trade Unions (ACFTU), a national umbrella organization controlled by the Communist Party. Independent trade unions are illegal. Since China's signing of the International Covenant on Economic, Social, and Cultural Rights in 1997, several labor activists have petitioned the Government to establish free trade unions, as allowed under the covenant. The Government has not yet ratified the Covenant nor approved any of these petitions to date.

b. *The Right to Organize and Bargain Collectively:* The 1995 National Labor Law permits collective bargaining for workers in all types of enterprises. The law also provides for workers and employers to sign individual as well as collective contracts. Collective contracts are to be worked out between ACFTU or worker representatives and management and specify such matters as working conditions, wage distribution, and hours of work. Individual contracts are then to be drawn up in line with the terms of the collective contract. According to the ACFTU, 72 million workers in over 310,000 enterprises held contracts that were negotiated in this fashion as of June, 1999.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor in penal institutions is a problem. The Chinese government employs judicial procedures to sentence criminals to prisons and reform-though-labor facilities. The Government also maintains a network of reeducation-through-labor camps, to which persons are sentenced, without judicial review, through administrative procedures. Inmates of reeducation-through-labor camps generally are required to work. Most reports conclude that work conditions in the penal system's light manufacturing facilities are similar to those in ordinary factories, but conditions on farms and in mines can be harsh.

d. *Minimum Age of Employment of Children:* China's National Labor Law forbids employers to hire workers under 16 years of age and stipulates administrative review, fines, and revocation of licenses for businesses that hire minors. Good public awareness, a surplus of legal adult workers, nearly universal primary schooling, and more effective law enforcement reduce opportunities and incentives to hire child workers. The ILO and UNICEF maintain that there is not a significant child labor problem in the formal sector. Some Chinese academics, however, believe that child labor problems might exist in remote agricultural and mining areas, where labor law enforcement is sometimes difficult.

e. *Acceptable Conditions of Work:* The Labor Law codifies many of the general principles of labor reform, setting out provisions on labor contracts, working hours, wages, skill development and training, dispute resolution, legal responsibility, supervision, and inspection. The law does not set a national minimum wage, but allows local governments to determine their own minimum wage standards. China has a 40-hour workweek, excluding overtime, and a mandatory 24-hour rest period per week. The Chinese government claims to have implemented in over 600 cities a system that ensures disbursement of unemployment benefits to laid-off workers and basic living stipends for the poorest urban residents. In September 1999, the Government raised both unemployment benefits and basic living stipends by thirty percent, despite reports that some cities had had trouble providing these entitlements even before the hike.

Every Chinese work unit must designate a health and safety officer, and the ILO has established a training program for these officers. China's Trade Union Law recognizes the right of unions to "suggest that staff and workers withdraw from sites of danger" and to participate in accident investigations. According to statistics released in 1999 by the Ministry of Labor and Social Security, industrial accidents declined 16 percent in 1998 to 15,372. Deaths stemming from such accidents likewise declined 16 percent to 14,660. The improvement in industrial safety was largely the result of a national campaign to shut down illegal mines, which have perennially accounted for more than half of all industrial accidents.

f. *Rights in Sectors with U.S. Investment:* Worker rights practices in sectors with U.S. investment do not appear to vary substantially from those in other sectors of the economy. Unlike their Chinese counterparts, however, a number of U.S.-invested businesses have voluntarily adopted codes of conduct that provide for independent inspections of working conditions in their facilities.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		911
Total Manufacturing		3,729
Food & Kindred Products	122	
Chemicals & Allied Products	325	
Primary & Fabricated Metals	167	
Industrial Machinery and Equipment	463	
Electric & Electronic Equipment	1,472	
Transportation Equipment	175	
Other Manufacturing	1,005	
Wholesale Trade		372
Banking		127
Finance/Insurance/Real Estate		771
Services		31
Other Industries		407
TOTAL ALL INDUSTRIES		6,348

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

HONG KONG

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	171.7	162.6	160.1
Real GDP Growth (pct)	5.3	–5.1	0.5
GDP by Sector:			
Agriculture	0.2	N/A	N/A
Manufacturing	10.3	N/A	N/A
Services	134.8	N/A	N/A
Government	14.6	15.1	N/A
Per Capita GDP (US$)	26,129	24,310	23,095
Labor Force (000's)	3,216	3,359	3,393
Unemployment Rate (pct)	2.2	4.7	6.0
Money and Prices (annual percentage growth):			
Money Supply (M2) [3]	8.4	11.8	5.7
Consumer Price Inflation (pct)	5.7	2.5	–3.5
Exchange Rate(HK$/US$)			
Official	7.74	7.75	7.75
Balance of Payments and Trade:			
Total Exports FOB [4]	188.1	172.8	167.6
Exports to U.S. [5]	10.3	10.5	11.0
Total Imports CIF	210.9	214.1	176.3
Imports from U.S. [5]	15.1	12.9	12.6
Trade Balance	–22.8	–10.4	–8.7
Balance with U.S. [5]	–4.8	–2.4	–1.6
External Public Debt	0	0	0
Fiscal Balance/GDP (pct) [6]	0.8	1.8	2.9
Current Account Balance/GDP (pct)	–3.4	0.5	2.0
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves (end of period) [7]	92.8	89.6	90.5
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on monthly data through August 1999.
[2] Expenditure-based GDP estimates.
[3] Money supply of Hong Kong Dollars and foreign currencies.
[4] Of which domestic exports (as opposed to re-exports) constituted 14.5 percent (1997), 14.0 percent (1998) and 13.0 percent (1999 estimate based on data through August).
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through August 1999. Hong Kong merchandise trade includes substantial re-exports (mainly from China) to the United States, which are not included in these figures.
[6] As of Q2 1999.
[7] As of September 1999; the Land Fund was included in the foreign exchange reserves effective July 1, 1997.

Source: Census and Statistics Department.

1. General Policy Framework

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

The Hong Kong Government generally pursues policies of noninterference in commercial decisions, low and predictable taxation, government spending increases within the bounds of real economic growth, competition subject to transparent laws (albeit without antitrust legislation) and consistent application of the rule of law. With few exceptions, the government allows market forces to set wages and prices, and does not restrict foreign capital flows or investment. It does not impose export performance or local content requirements, and allows free repatriation of profits. Hong Kong is a duty-free port, with few barriers to trade in goods and services.

Until 1998, the government regularly ran budget surpluses and thus has amassed large fiscal reserves. The corporate profit tax is 16 percent and personal income is taxed at a maximum of 15 percent. Property is taxed; interest, royalties, dividends, capital gains and sales are not.

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

Financial contagion spreading throughout Asia caused major downturns in Hong Kong in 1997 and 1998. The government made modest accommodations in its 1998 budget and halted government property sales from mid-1998 to mid-1999 to arrest a steady decline in property prices (which had sparked fears for the banking sector). In August 1998, the government made a "one-time" intervention in the stock, futures, and currency markets (spending about $15 billion) to defend itself from market manipulators. In October 1999, the government began to divest itself of the shares it acquired in this intervention through sales to the public. By late 1999, the Hong Kong economy had begun a modest recovery, but unemployment remained high and Hong Kong's services-dependent market lagged behind some of its neighbors in shaking off the regional crisis.

2. Exchange Rate Policies

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

There are no foreign exchange controls of any sort. Under the linked exchange rate, the overall exchange value of the Hong Kong Dollar is influenced predominantly by the movement of the U.S. Dollar against other major currencies. The price competitiveness of Hong Kong exports is therefore affected the value of the U.S. Dollar in relation to third country currencies.

3. Structural Policies

The government does not have pricing policies, except in a few sectors such as telecommunications which remain partially regulated. Even in those areas, the government continues to pursue sector-by-sector liberalization. Hong Kong's personal and corporate tax rates remain low and it does not impose import or export taxes. Since 1996, Hong Kong has deregulated most interest rates, removing the rate cap for deposits of seven days or more. In July 1999, the Hong Kong Monetary Authority announced that remaining interest rate caps would be removed in two stages: the interest rate restrictions on time deposits with a maturity of less than 7 days in July 2000 and interest rate cap on savings and current accounts in July 2001. Consumption taxes on tobacco, alcoholic beverages, and some fuels probably restrict demand for some U.S. exports. Hong Kong generally adheres to international product standards.

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

4. Debt Management Policies

The Hong Kong Government has minuscule public debt. Repeated budget surpluses have meant the government has not had to borrow. To promote the development of Hong Kong's debt market, the government launched an exchange fund bills program with the issuance of 91-day bills in 1990. Since then, maturities have gradually been extended. Five-year notes were issued in October 1993, followed by 7-year notes in late 1995 and 10-year notes in 1996. In March 1997, the Hong Kong Mortgage Corporation was set up to promote the development of the secondary mortgage market. The Corporation is 100 percent owned by the government through the Exchange Fund. The Corporation purchases residential mortgage loans for its retained portfolio in the first phase, followed by packaging mortgages into mortgage-backed securities for sale in the second phase.

Hong Kong does not receive bilateral or multilateral assistance.

5. Significant Barriers to U.S. Exports

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

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

There are several barriers to entry in the services sector:

• In 1998, the Hong Kong Government announced it would open the international voice telecommunications sector to full competition. The Government decided in May 1999 not to issue any additional licenses for the local fixed network market, now contested by four companies, until the end of 2002. Hong Kong is currently adjudicating license applications for local fixed wireless and external fixed network services (undersea cable and satellite-based). Hong Kong has eliminated a regulation that required foreign broadcasters to use the Hong Kong Telecom satellite uplink and has also promised comprehensive liberalization of the broadcasting regime.

• Our bilateral civil aviation agreement does not permit code sharing or allow U.S. carriers new fifth freedom passenger rights to carry passengers beyond Hong Kong. These factors limit expansion of U.S. passenger carriers in the Hong Kong market.

• Foreign law firms are barred from hiring local lawyers to advise clients on Hong Kong law, even though Hong Kong firms can hire foreign lawyers to advise clients on foreign law. Foreign law firms can become "local law firms" and hire Hong Kong attorneys, but they must do so on a 1:1 ratio with foreign lawyers.

• Foreign banks established after 1978 are permitted to maintain only three branches (automated teller machines meet the definition of a branch). The Hong Kong Monetary Authority has promised to consider further relaxation of this limit in the first quarter of 2001. Foreign banks, however, can acquire local banks that have unlimited branching rights.

6. Export Subsidies Policies

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

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

7. Protection of U.S. Intellectual Property

Hong Kong is a member of the WTO. In addition, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention on Industrial Property, and the Universal Copyright Convention (Geneva, Paris) apply to Hong Kong by virtue of China's membership. Hong Kong passed a new Copyright Law in June 1997. Enforcement of copyright and trademarks has improved measurably in recent months, but eliminating optical disc piracy will require sustained effort.

Copyrights: Sale of pirated discs at retail shopping arcades is less widespread than it used to be but remains a problem. The United States has urged the government at senior levels to crack down on this retail trade, and on the distributors and wholesalers behind them. Hong Kong has responded by doubling Customs' enforcement manpower and conducting more aggressive raids at the retail level. Recent raids have closed down some of the most notorious retail arcades and dispersed this illicit trade. Hong Kong Customs intelligence operations and raids on underground production facilities have forced pirate retailers to rely more on smuggled products. Nevertheless, pirated goods remain available throughout the territory. The judiciary has begun to increase sentences and fines for copyright piracy and recently handed down Hong Kong's first conviction for unauthorized dealer hard-disk loading. Computer end-user piracy remains a significant problem for the business software industry. In 1999 the government introduced legislation to reclassify piracy under Hong Kong's Organized and Serious Crimes Ordinance, which would facilitate interrogations and allow the seizure of assets. As of November, approval by the Legislative Council is still pending.

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

New Technologies: U.S. industry reports that Hong Kong-based web sites are being used to sell and transmit pirate software and music. The Government asserts that Hong Kong's 1997 Copyright Ordinance established civil liability for internet service providers to who host such pirate web sites, but concedes that this theory has yet to be tested in court.

The International Intellectual Property Alliance estimated total losses due to piracy against American copyright holders at $243.5 million in 1998—slightly less than half of which was entertainment software. The Business Software Alliance reported in early 1999 that software piracy in Hong Kong had dropped from 67 to 59 percent.

8. Workers Rights

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

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

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

d. *Minimum Age for Employment of Children:* The "Employment of Children" Regulations prohibit employment of children under age 15 in any industrial establishment. Children ages 13 and 14 may be employed in certain non-industrial establishments, subject to conditions aimed at ensuring a minimum of 9 years of education and protecting their safety, health, and welfare. In 1998, there were ten convictions for violations of the Employment of Children Regulations.

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

The Labor Inspectorate conducts workplace inspections to enforce compliance with these and health and safety regulations. Worker safety and health has improved, but serious problems remain, particularly in the construction industry. In 1998, a total of 63,526 occupational accidents (43,034 of which are classified as industrial accidents) were reported, of which 68 were fatal. Employers are required under the Employee's Compensation Ordinance to report any injuries sustained by their employees in work-related accidents.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount
Petroleum	600

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Total Manufacturing		3,122
Food & Kindred Products	4	
Chemicals & Allied Products	348	
Primary & Fabricated Metals	282	
Industrial Machinery and Equipment	167	
Electric & Electronic Equipment	1,230	
Transportation Equipment	29	
Other Manufacturing	1,062	
Wholesale Trade		5,054
Banking		1,637
Finance/Insurance/Real Estate		5,007
Services		1,009
Other Industries		4,373
TOTAL ALL INDUSTRIES		20,802

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

INDONESIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment: [1]			
Nominal GDP	216	94	67
Real GDP Growth (pct)	7.6	−13.2	–4.04.0
GDP by Sector:			
Agriculture	34.5	18.4	15.0
Manufacturing	54.9	23.4	16.7
Services	67.5	35.7	26.4
Government	11.5	4.1	3.16
Per Capita GDP (US$)	1,116	465	[2] 550
Labor Force (millions)	87.0	92.6	96.6
Unemployment Rate (pct)	4.6	10	10
Money and Prices (annual percentage growth):			
Money Supply (M2) (pct)	23.2	62.3	[3] 10.2
Consumer Price Inflation (pct)	8.0	75.0	[4] 0.02
Exchange Rate (Rupiah/US$ annual average)	2,909	10,014	7948
Balance of Payments and Trade: [1]			
Total Exports FOB	56.2	50.4	21.7
Exports to U.S.	9.2	9.3	5.3
Total Imports CIF	41.7	27.3	11.5
Imports from U.S.	4.5	2.3	1.1
Trade Balance	14.5	23.1	10.2
Balance with U.S.	4.7	7.0	4.2
External Public Debt	56.4	71.4	70.7
Debt Service Payments/GDP (pct)	3.8	7.6	[5] 6.7
Current Account Balance/GDP(pct) [6]	–0.9	3.9	2.7
Fiscal Deficit/GDP (pct) [6]	1.1	2.2	5.0
Gold and Foreign Exchange Reserves (end of period)	17.4	23.5	26.7
Aid from U.S. (millions of US$)	71	135	[6] 139
Aid from All Other Sources	5.2	5.2	[7] 7.8

[1] 1999 GDP and export/import figures are for January-June. (Average Rp/US$ exchange rates were 8,775 for 1Q CY-1999 and 7,921 for 2Q CY-1999.)

[2] 1999 per capita GDP figure is rough estimate. Increase in 1999 over 1998 due to strengthening of Rp/$ exchange rate.

[3] 1999 figure is for January-August.
[4] 1999 figure is for January-September.
[5] 1999 figure as of March 31 (includes debts of state-owned enterprises).
[6] Fiscal year.
[7] 1999 figure is amount pledged.

Sources: Government of Indonesia, U.S. Department of Commerce (for trade with U.S.), IMF (exchange rates), U.S. Agency for International Development (for bilateral assistance).

1. General Policy Framework

Much of the cautious optimism toward Indonesia in the second half of 1999 stems from the political successes Indonesia achieved since former President Soeharto resigned in May 1998. In that time, Indonesia has lifted press restrictions, held a peaceful, free and fair multi-party general election in June 1999 and installed a democratically elected president in October 1999. The new President, K.H. Aburrahman Wahid, although a dark horse candidate, is broadly acceptable to all political groupings. The subsequent selection as Vice President of Megawati Soekarnoputri, leader of the party which came in first in the June polls, heralded the selection of a multi-party "national unity" cabinet.

Indonesia still faces daunting economic problems. Foreign capital fled in the early months of the financial crisis and is returning only slowly. The business sector is struggling to service existing foreign debts at the weaker exchange rate. The banking sector remains moribund; banks are making few new loans and debtors are servicing even fewer old ones. In mid-1999, the Indonesian Bank Restructuring Agency (IBRA), whose credibility with both the domestic and international business community is crucial to Indonesia's economic recovery, was caught up in a campaign finance and corruption scandal involving Bank Bali. The scandal involved the diversion of funds from a $120 million interbank loan repayment to Bank Bali from a now-closed government bank whose assets and liabilities had been transferred to IBRA.

The IMF and its stabilization program have been the overriding economic fact of life in Indonesia since November 1997. The IMF suspended payments to Indonesia in September 1999 until the Bank Bali affair was resolved. The election of a new president and the belated release of an independent audit of the Bank Bali affair in November led the IMF to begin negotiations on a new three-year program. The target is to sign a new letter of intent by mid-January.

Despite the continued financial turmoil, there remain deep underlying strengths in the Indonesian economy. Indonesia is the world's fourth largest country and the anchor of Southeast Asia politically and economically. Although shaken and still cautious, the emerging middle class is slowly resuming consumer spending and represents a huge and growing potential market. The country has a strategic location, a large labor force earning relatively low wages and abundant natural resources. Once largely dependent on petroleum, natural gas, and commodities such as coffee, tea, rubber, timber, and palm oil and shrimp, Indonesia again found those sectors to be a solid economic foundation when the crisis hit. Regions such as Sumatra and Sulawesi that have strong, agricultural commodity-based economies survived the crisis with only minor disruptions. In 1998, Indonesian agricultural exports rose some 17 percent in U.S. dollar terms, as farmers rushed to take advantage of the windfall brought about by the weak rupiah, and fell only slightly in the first half of 1999. Industrial exports in 1998 fell just over 1 percent. Indonesian exports to the U.S. have remained steady throughout the crisis at around $9.3 billion a year. Total imports fell by 35 percent in 1998 over 1997. Imports from the U.S. fell by almost half from 1997 to 1998 and by another 15 percent in the first half of 1999.

The Indonesian Government has historically maintained a "balanced" budget: expenditures were covered by the sum of domestic revenues and foreign aid and borrowing, without resort to domestic borrowing. Often the government ended the year with a slight surplus. This remains the government's long term goal. The new government says it expects the gap between domestic revenues and expenditures to remain for several years although some of the budgetary pressure has been relieved by the rise in oil prices in the latter half of 1999. The budgetary gap in the 1999/2000 fiscal year, which will need to be covered by foreign assistance, is expected to be in the range of 4 to 5 percent.

In parallel with its fiscal policy, the Indonesian Government earned a reputation for prudent monetary policy in recent years that helped keep consumer price inflation in the single digits. However, the massive depreciation of the rupiah that began in mid-1997 and huge liquidity injections into the banking system contributed to significant inflation. Indonesian monetary authorities dampened inflationary pressure and reduced pressure on the exchange rate by controlling the growth of the money supply.

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

2. Exchange Rate Policies

In August 1997, the government eliminated the rupiah intervention band in favor of a floating exchange rate policy.

3. Structural Policies

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

Indonesia's agreement with the IMF has been revised repeatedly in response to deteriorating macroeconomic conditions and political changes. The result is a complex, multi-faceted program to address macroeconomic imbalances, financial weaknesses, real sector inefficiencies, and the loss of private sector confidence. In November 1999, the IMF resumed negotiations with the government with the aim of drafting a new letter of intent to take account of changing circumstances and the new government's priorities.

4. Debt Management Policies

Indonesia's foreign debt totaled about $145 billion as of September 1999, with about $72 billion owed by the public sector and $73 billion by the private sector. In 1998, Indonesia signed a Memorandum of Understanding with its official creditors to reschedule public sector debt principal contracted before July 1, 1997 and falling due between August 1998 and the end of March 2000.

In 1999, the government introduced a monitoring system to collect information on all foreign exchange transactions, including foreign borrowing. Borrowing in connection with state-owned enterprises has been regulated since 1991. The government continued to assert that it would not impose capital controls.

5. Significant Barriers to U.S. Exports

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

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

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

Investment Barriers: The government is committed to reducing burdensome bureaucratic procedures and substantive requirements for foreign investors. In 1994, the government dropped initial foreign equity requirements and sharply reduced divestiture requirements. Indonesian law provides for both 100 percent direct foreign investment projects and joint ventures with a minimum Indonesian equity of five percent. In mid-1998, the government opened several previously restricted sectors to foreign investment, reducing the number of sectors restricted for foreign direct investment to 25, 16 of which are completely closed to investment while the remaining nine allow minority foreign equity participation. The restricted sectors include taxi and bus transportation, local shipping, cinema operation, private broadcasting and newspapers, medical services, and some trade services. The government also removed foreign ownership limitations on banks and on firms publicly traded on Indonesian stock markets. The government hinted throughout much of 1999 that it would reduce the negative list even further but, as of November 1999, it had not yet done so.

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

Government Procurement Practices: In 1994, the government enacted a procurement law to regulate government procurement practices and strengthen the procurement oversight process. Most large government contracts are financed by bilateral or multilateral donors who specify procurement procedures. For large projects funded by the government, international competitive bidding practices are to be followed. The government seeks concessional financing which includes a 3.5 percent interest rate, a 25-year repayment period and seven-year grace period. Some projects do proceed on less concessional terms. Foreign firms bidding on certain government-sponsored construction or procurement projects may be asked to purchase and export the equivalent in selected Indonesian products. Government departments and institutes and state and regional government corporations are expected to utilize domestic goods and services to the maximum extent feasible, but this is not mandatory for foreign aid-financed goods and services procurement. State-owned enterprises that have offered shares to the public through the stock exchange are exempted from government procurement regulations.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

Indonesia is a member of the World Intellectual Property Organization (WIPO) and in 1997 became full party to the Paris Convention for the Protection of Intellectual Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, and the Trademark Law Treaty. Indonesia was the first country in the world to ratify the WIPO Copyright Treaty, but has not ratified the companion WIPO Performances and Phonograms Treaty. In April 1999, the U.S. Trade Representative renewed Indonesia's place on the "Special 301" Priority Watch List, where it has been since 1996.

Indonesia has serious and continuing deficiencies in its intellectual property regime: rampant piracy (software, books, and video), trademark piracy and an inconsistent enforcement and ineffective legal system. New patent, trademark, and copyright laws were enacted in May 1997. In order to bring Indonesia's laws into compliance with the TRIPS Agreement by the mandated deadline of January 1, 2000, Indonesia has drafted (but not enacted as of November 1999) new laws on protection of trade secrets, industrial design and integrated circuits. It has also proposed amendments to its laws on trademark and copyright. Those laws are designed to address the remaining inadequacies of Indonesia's IPR legal regime, but inadequate enforcement and a non-transparent judicial system unfamiliar with intellectual property law still pose daunting problems for U.S. companies. The government often responds to U.S. companies with specific complaints about pirated goods and trademark abuse, but the court system can be frustrating and unpredictable, and effective punishment of pirates of intellectual property has been rare.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4,610
Total Manufacturing		197
Food & Kindred Products	16	
Chemicals & Allied Products	131	
Primary & Fabricated Metals	8	
Industrial Machinery and Equipment	–17	
Electric & Electronic Equipment	35	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		186
Finance/Insurance/Real Estate		171
Services		53
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,932

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

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

JAPAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	4,192.7	3,783.0	[1] 4205.0
Real GDP Growth (pct)	1.4	–2.8	[1] 0.5
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita Income (US$)	33,249	29,929	[2] 33,000
Labor Force (millions)	67.9	68.0	[3] 67.8
Unemployment Rate (pct)	3.4	4.1	[4] 4.7
Money and Prices (annual percentage growth):			
Money Supply (M2+CD)	3.1	4.0	[4] 3.8
Consumer Price Inflation	1.8	0.6	[3] –0.1
Exchange Rate (Yen/US$)	121.0	130.9	[5] 117.03
Balance of Payments and Trade:			
Total Exports FOB	409.2	374.4	[6] 394.1
Exports to U.S. FOB	121.3	122.0	[6] 107.7
Total Imports CIF	307.8	251.7	[6] 266.7
Imports from U.S. CIF	65.7	57.9	[6] 47.1
Trade Balance	101.5	122.7	[6] 127.4
Trade Balance with U.S.	55.6	64.1	[6] 60.6
Current Account Surplus/GDP (pct)	2.3	3.2	N/A
External Public Debt	0	0	0
Debt Service Payments/GDP (pct)	0	0	0
Fiscal Deficit/GDP (pct)	–3.4	–6.0	N/A
Gold and Foreign Exchange Reserves	220.8	215.9	[7] 272.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] January-June, seasonally adjusted, annualized; growth relative to Jan-June 1998.
[2] Embassy estimate.

[3] January-September, non-seasonally adjusted average.
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Sources: Ministry of Finance; exports FOB, imports CIF customs basis; Economic Planning Agency; Bank of Japan, OECD Economic Outlook.

1. General Policy Framework

Japan's economy, the world's second largest at roughly 4.2 trillion dollars, is experiencing a significant recession. Most observers are predicting only meager growth this year, following a nearly 3 percent contraction in 1998.

Overall economic growth in Japan in the 1990s has been lackluster, despite occasional strong growth. (Until 1992-3, Japan had never experienced two consecutive years of less than 3 percent real growth in the postwar period.) A surge in asset prices to unsustainable levels and high rates of capital investment in the late 1980s gave way by 1991 to sharply slower growth, the need for corporate restructuring and balance sheet adjustment by businesses. A substantially weakened Asian demand for Japanese exports and domestic banking system concerns, also continue to weigh heavily on the economy.

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

Japan posted a global trade surplus of $123 billion in 1998, with a $51.5 billion bilateral surplus with the United States. Both of these numbers are expected to rise significantly in 1999. Through the first nine months of 1999, import volume was also higher compared with the same period in 1998.

In order to ease credit conditions to support the economy, the Bank of Japan lowered the official discount rate nine times between mid-1991 and September 1995, from 6.0 percent per year to 0.5 percent where it has remained. The Bank of Japan also instituted some temporary programs to make credit more available to corporations. Recently the overnight call rate has been left at zero.

2. Exchange Rate Policy

The yen has been volatile against the dollar in 1998-99. The average exchange rate through the first nine months of 1999 was 117 yen per dollar, versus 130 yen per dollar in 1998. A new Foreign Exchange Law in April 1998 significantly decontrolled most remaining barriers to cross-border capital transactions.

3. Structural Policies

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

Tax Policy: Total tax revenues as a share of GDP in Japan are comparable to the United States and the UK, and on the low end of OECD countries. Japan had a relatively high corporate tax rate, but recent legislation has reduced the (combined central and local government) effective corporate tax rate from 47 percent to 40.9 percent, bringing it in line with other OECD countries. The maximum marginal rate for personal income taxes was also reduced from 65 percent to 50 percent. There is a general consumption tax (actually a broad value-added tax) of 5 percent, although small retail outlets are exempted.

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

In June 1997, the President and the Japanese Prime Minister agreed on an Enhanced Initiative on Deregulation and Competition Policy under the U.S.-Japan Framework Agreement. During its third year, the Initiative is focusing on achieving

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In June 1997, the President and the Japanese Prime Minister agreed on an Enhanced Initiative on Deregulation and Competition Policy under the U.S.-Japan Framework Agreement. During its third year, the Initiative is focusing on achieving concrete deregulation in key sectoral and structural areas in Japan, such as telecommunications, housing, energy, financial services, medical devices and pharmaceuticals, distribution, competition policy, and transparency in government rulemaking.

4. Debt Management Policies

Japan is the world's largest net creditor. The Bank of Japan's foreign exchange reserves exceed $250 billion. It is an active participant together with the United States in international discussions of developing-country indebtedness issues in a variety of fora.

5. Significant Barriers to U.S. Exports

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

Transportation: In January 1998, the U.S. and Japan concluded a new agreement to significantly liberalize the trans-Pacific civil aviation market. This eliminated restrictions and resolved a dispute over the rights of longtime carriers to fly through Japan to other international destinations. It opened doors for carriers that recently entered the U.S.-Japan market, nearly tripling their access to Japan. The agreement also allowed code sharing (strategic alliances) between carriers for the first time, thereby greatly increasing their operational flexibility. While U.S. carriers have been generally happy with the results of the 1998 agreement, there is growing concern over the adequacy of facilities and a scarcity of slots at Japanese airports.

American ocean going ships serving Japanese ports have long encountered a restrictive, inefficient and discriminatory system of port transportation services. After the Federal Maritime Commission (FMC) ruled in early 1997 that Japan maintained unfair shipping practices and proposed fines against Japanese ocean freight operators, the Japanese Government pledged to grant foreign carriers port transport licenses, and, at the same time, to reform the prior consultation system which allocates work on the waterfront and requires carriers to obtain approval for any change in their operations. The FMC imposed fines in September 1997 after Japan failed to carry out the reforms. Shortly afterwards, however, the government committed itself to actions that would have provided a solid foundation for reform of Japanese port practices. However, a final report on deregulation issued by the Japanese government in mid-1999 was discouraging for its lack of aggressive proposals for deregulating ports.

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

Telecommunications and Broadcasting: Japan is a signatory of the WTO Basic Telecommunications Agreement of 1997, which promotes market access, investment and pro-competitive regulation in the telecommunications industry. In recent years, Japan has adopted a series of significant measures to foster a more pro-competitive regime in the telecommunications sector. However, access to telecommunications and broadcasting market in Japan remains constrained by both regulatory and anti-competitive practices. New entrants face much higher costs and longer waiting periods for connecting to the local dominant carrier's network than in other advanced countries, deterring competition. In addition, new carriers' difficulty in gaining access to facilities and land to build their networks, government restrictions on combining owned and leased facilities in creating a network, and the lack of access to discrete portions of the local dominant carriers' network at reasonable costs have slowed and raised the costs of new carriers' entrance. Finally, discriminatory and anti-competitive discount pricing plans by the dominant carriers have put new entrants at a serious disadvantage in developing Internet services. The U.S. Government has been applying pressure on Japanese regulators to take steps to address these issues under the U.S.-Japan Enhanced Initiative.

Foreign telecommunications equipment suppliers continue to have difficulty selling to the Japanese public sector, having an extremely low share of this market. In addition, problems remain in selling to NTT (Nippon Telegraph and Telephone) companies, which collectively are the largest purchaser of telecommunications equipment in Japan. Foreign investment restrictions remain on NTT and on Direct-To-Home (DTH) satellite broadcasting companies.

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

Japan requires repeated testing of established quarantine treatments each time a new variety of an already approved agricultural commodity is approved for importation into Japan. For example, Japan has approved red and golden delicious apples for importation, but required that the quarantine treatment be retested for other almost identical varieties. The U.S. challenged this redundant testing requirement in the WTO, arguing that it has no scientific basis and serves as a significant trade barrier. Completion of the testing for each variety takes at least two years and is costly to the U.S. Government and U.S. producers. In October 1998, a WTO dispute settlement panel found that Japan's varietal testing requirement for agricultural products violated its WTO obligations. Japan has agreed to implement the terms of the WTO decision by the end of 1999.

Foreign Direct Investment (FDI): FDI in Japan has remained extremely small in scale relative to the size of the economy. In Japan fiscal year 1998, Japan's annual inward FDI totaled 10.5 billion (up from $6 billion the previous year) but still only 0.27 percent of its GDP. (Comparatively, preliminary estimates for the United States FDI in 1998 was $188 billion). Although in Japan, inward foreign investment is on the rise, Japan continues to host the smallest amount of FDI as a proportion of total output of any major OECD nation. The low level of FDI reflects the high cost-structure of doing business (for example, registration, licenses, land prices and rents), the legacy of former investment restrictions, and a continuing environment of structural impediments to greater foreign investment. The challenges facing foreign investors seeking to establish or enhance a presence in Japan include: laws and regulations that directly or indirectly restrict the establishment of business facilities, close ties between government and industry, informal exclusive buyer-supplier networks and alliances, high taxation, and a difficult regulatory environment for foreign or domestic acquisitions of existing Japanese firms.

Recently, the Japanese Government has implemented potentially useful measures for increasing FDI, including easing restrictions on foreign capital entry. Additional steps include the implementation by Japanese enterprises of consolidated accounting by March 31, 2000. This step will greatly enhance financial transparency and facilitate mergers and acquisition and other investments. The government in October 1999 introduced legislation modeled on the U.S. Chapter 11 bankruptcy procedures. The legislation should facilitate corporate restructuring and buy-outs by foreign and domestic investors.

In October 1998, the U.S. Government proposed to the Japanese Government 18 new reforms in the areas of mergers and acquisitions, land, and labor policy to improve Japan's environment for foreign direct investment. In May 1999, both governments submitted a Joint report to the President and Prime Minister on the status of Japan's investment climate and measures under consideration. The bilateral Investment Working Group held talks in Tokyo in October 1999 that covered a range of investment issues. The group intends to continue consultations and the exchange of information as stipulated in the Joint report.

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

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

6. Export Subsidies Policies

Japan's official development assistance for Asian countries in 1998 rose 71 percent from the previous year as the government focused on helping its neighbors recover from the region-wide economic crisis. Japan remained the world's top aid donor in 1998 for the eighth consecutive year, disbursing a total of $10.77 billion, up 14.2 percent from 1997. Although Japan had been moving towards untying its aid, during the past 2 years this trend has reversed. Both its Environmental Aid loans and its Special Yen loans are tied to the purchase of Japanese products. Not only does this limit U.S. firm's ability to participate in these projects; it also denies recipient countries the opportunity to use this aid as efficiently as possible. This trend towards retying has been actively opposed by the U.S. Government. In addition, the USG continues to address U.S. industry concerns that feasibility studies funded by Japanese grant aid, and tied to the use of Japanese firms, results in technical specification that unduly favor Japanese firms.

7. Protection of U.S. Intellectual Property Rights

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

While Japan's IPR regime affords national treatment to U.S. entities, the U.S. has long been concerned by the long processing time for patent examination. Although Japan has reduced patent pendency from 36 to 28 months, this is still longer than in other industrialized countries. Lengthy patent pendency, coupled with a practice of opening all patent applications to public inspection 18 months after filing, exposes applications to lengthy public scrutiny with the potential of limiting legal protection. Many Japanese companies use the patent filing system as a tool of corporate strategy, making many applications to cover slight variations in technology. However, a February 1998 decision by Japan's Supreme Court to permit an infringement finding under the "the doctrine of equivalence" may reduce this practice and is a positive step toward broadening Japanese courts' generally narrow interpretation of patent rights. The rights of U.S. subscribers in Japan can be circumscribed by filings of applications for similar inventions or processes. Some small revisions to Japan's patent and trademark law aimed at improving protection right holders will take effect early in 2000.

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

Japan's Trademark Law was revised in 1997 to speed the granting of trademark rights, strengthen protection to well-known trademarks, address problems related to unused trademarks, simplify registration procedures, and increase infringement penalties. The effect of the revisions, however, is not yet clear. Historically, trademark registration in Japan has been slow, requiring approximately 36 months. Since trademarks must be registered in Japan to ensure enforcement, delays make it difficult for foreign parties to enforce their marks. In addition, concerns have been raised by U.S. firms regarding Japan's re-exportation of suspected counterfeit merchandise to be re-exported which is inconsistent with article 59 of the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement.

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

8. Worker Rights

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

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

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

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

e. *Acceptable Conditions of Work:* Minimum wages are set on both a sectoral and regional (prefectural) level. Minimum wages ranged from $50 per day in Tokyo to $42 in Okinawa. The Labor Standards Law provides for a 40-hour work week in most industries and mandates premium pay for hours worked beyond 40 hours in a week or eight hours in a day. However, labor unions criticize the Japanese Government for failing to enforce working hour regulations in smaller firms. The government effectively administers laws and regulations affecting workplace safety and health.

f. *Worker Rights in Sectors with U.S. Investment:* Labor regulations, working conditions and worker rights in sectors where U.S. capital is invested do not vary from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4,496
Total Manufacturing		14,224
Food & Kindred Products	528	
Chemicals & Allied Products	2,608	
Primary & Fabricated Metals	365	
Industrial Machinery and Equipment	3,588	
Electric & Electronic Equipment	2,043	
Transportation Equipment	1,724	
Other Manufacturing	3,368	
Wholesale Trade		4,948
Banking		539
Finance/Insurance/Real Estate		12,318
Services		1,415
Other Industries		212
TOTAL ALL INDUSTRIES		38,153

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

REPUBLIC OF KOREA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999[1]
Income, Production and Employment:			
GDP (nominal/factor cost)	476,600	321,300	408,800
Real GDP Growth (pct)[2]	5.0	–5.8	7.0
GDP by Sector:			
Agriculture/Fisheries	25,505	15,768	18,750
Manufacturing	137,702	98,521	138,300
Electricity/Gas/Water	10,098	7,519	9,380
Construction	55,510	32,560	35,800
Financial Services	91,146	62,886	81,500
Government/Health/Education	36,436	25,864	22,000
Other	120,203	78,182	103,070
Government Expenditure (pct/GDP)	22.1	23.4	22.5
Per Capita GDP (US$)	10,307	6,823	8,735
Labor Force (000's)	21,500	21,800	22,000
Unemployment Rate (pct)	2.5	7.4	4.5
Money and Prices (annual percentage rate):			
Money Supply (M2)	19.2	24.0	25.0
Corporate Bonds[3]	13.4	15.1	8.5
Personal Savings Rate	22.8	25.1	25.5
Retail Inflation	4.5	7.5	2.0
Wholesale Inflation	3.9	12.2	1.0
Consumer Price Index (1995 base)	109.6	117.8	120.2
Average Exchange Rate (Won/US$)	951.1	1,399	1,200
Balance of Payments and Trade:			
Total Exports FOB[4]	136,164	132,313	137,000
Exports to U.S.[4]	21,625	22,805	24,000
Total Imports CIF[4]	–144,616	–93,282	–115,000
Imports from U.S.[4]	–30,122	–20,403	–25,000
External Debt[5]	159,200	148,700	138,000
Debt Service Payments	–18,000	–29,800	–24,000
Gold and FOREX Reserves	20,406	52,041	65,000

[1] 1999 figures are estimates based on available monthly data as of October.
[2] Growth based on won, the local currency.
[3] Figures are average annual interest rates.
[4] Merchandise trade, measured on customs clearance basis; Korean government data.
[5] Gross debt; includes non-guaranteed private debt.

1. General Policy Framework

South Korea demonstrated its resilience and its capacity for change by bouncing back strongly in 1999 from the 1997-98 economic crisis, the worst in the country's history. After experiencing a 5.8 percent contraction in 1998, 7 to 8 percent GDP growth is forecast in 1999. Per capita GNP in dollar terms will be $8,735 in 1999, up from 1998's $6,823 but still lower than $10,307 in 1997.

The crisis called into question the viability of a growth model that relied heavily on a protected domestic market and the deep involvement of the government in determining the allocation of capital. The crisis also set the scene for the presidential election victory in December 1997 of opposition figure and economic reform advocate Kim Dae Jung.

By mid-1998, largely due to the $58 billion IMF program that Korea entered into in December 1997 and President Kim's commitment to vigorous financial and corporate sector reform, stability was restored to the Korean economy. However, problems remain with respect to implementation of reform and restructuring measures in these two sectors. Although the Korean government has made progress in inducing the conglomerates ("chaebols") to reduce their unsustainable debt/equity ratios, to improve corporate governance and enhance transparency, and to restructure their operations, the chaebol have only partially implemented Republic of Korea (ROK) government-mandated changes in these areas. In general, Korean business preference for market share instead of profitability and an unrealistically low Korean bankruptcy rate encouraged over-capacity and corporate inefficiency, but discouraged investment in small-to-medium enterprises (SME's). The SME sector remains underdeveloped in Korea.

In 1999 the chronic de facto bankruptcy of Daewoo, the second-largest Korean conglomerate, and continued weakness in the financial sector, especially the over-leveraged investment trust companies (ITC's), showed the weakness of the past patterns of misallocation of investment resources, excessive debt, and lack of effective oversight. The Daewoo crisis became front-page news around the world in July 1999, as that massive firm with far-flung global interests and investments came near default on more than $50 billion in debt. That month, creditors rolled over 12 trillion won in debt that was coming due over the following 10 days. Meanwhile, the $200-billion-plus ITC industry faced a loss of investor confidence due to its exposure to Daewoo and the lack of adequate prudential supervision. The Korean government's handling of the twin Daewoo and ITC crises will be a litmus test of its resolve to see through meaningful and sustainable corporate reform and restructuring, as well as the key to reducing systemic risk in the economy.

Korea produces and exports advanced electronic components, automobiles, steel, and a wide variety of mid-level, medium-quality consumer electronics and other goods. As labor activism in the 1980's drove up wages faster than productivity growth, Korea lost its low-wage labor advantage to China and Southeast Asian countries. At the same time, Korea faced tough competition from Japan in cutting-edge, high tech products.

Aided by recovery in other Asian markets and a strong current account surplus, Korea's usable foreign currency reserves in 1999 grew to over $60 billion, while the Korean won stabilized at about 1,200/dollar as of November 1999. (The won stood at 900/dollar in 1996 but by late 1997 had dropped as low as 1,960/dollar). Korea became a member of the OECD in December 1996. Inflation dropped to about two percent in 1999.

Facility investment is expected to grow 34 percent in 1999, after suffering a 38 percent fall in 1998. In 1999, the unemployment rate is expected to drop to around 4.5 percent with less than one million unemployed people, a fall from seven percent in 1998 when there were over 1.4 million jobless. Real income grew eight percent during the first seven months of 1999 after a nine percent fall in 1998. Private consumption grew 8.2 percent in 1999. (Expenditures on domestic consumption accounted for 62 percent of total GDP.)

The United States is Korea's leading trade partner in 1999, taking 20 percent of Korea's exports and providing 21.7 percent of Korea's imports for the first nine months of 1999. Korea is the eighth largest overall trade partner of the United States (the sixth biggest market for U.S. exports and the eighth biggest for U.S. imports) up from ninth in 1998. U.S. Commerce Department statistics show that, through September 1999, U.S. exports to Korea increased 52.2 percent to $16.9 billion, and U.S. imports from Korea rose 25.8 percent to $22.2 billion. In 1998 U.S. exports to Korea fell 34 percent while U.S. imports from Korea rose 3.4 percent.

The public sector's role in the economy is relatively small, with taxes and expenditures amounting to 24 percent of GDP in 1999. The government plans to increase nominal budget spending five percent in 2000 (the lowest budget growth since 1992) for economic stimulus, to improve and expand transportation infrastructure, and to improve the social safety net for the unemployed. The 2000 fiscal deficit is expected to be about 3.5 percent of GDP, somewhat less than four percent in 1999. About 12 percent of 2000 spending will be financed by government bond sales. In 1998 the government increased the money supply about 20 percent to fight potential deflation due to the recession and falling asset values. In consultation with the IMF, the government allowed the overnight call rate, which is the main policy interest rate of the Bank of Korea, to fall from a peak of 35 percent in December 1997 to single digits in 1999. In September 1999, however, corporate bond rates rose sharply above 10 percent when Daewoo's financial default destabilized the bond market and investors rushed to withdraw money from financially weak investment trust companies. However, the ROK reversed the rise in long-term rates in October with its bond market stabilization fund. The primary monetary target of the Bank of Korea is M3, which, in accordance with Korea's IMF program, is expected to increase by about 11 percent in 1999.

2. Exchange Rate Policy

Since the introduction of the IMF program in December 1997, foreign exchange and capital controls have been relaxed or abolished. In conjunction with IMF program requirements that the exchange rate be allowed to float (with intervention limited to smoothing operations only.) In December 1997 the exchange rate peg was widened from +/– 2.25 percent to +/– 10 percent, and then abandoned completely.

3. Structural Policies

The Korean economic model has been notable for the high degree of concentration of capital and industrial output in a small number of conglomerates known as "chaebol." While this model produced a long record of high economic growth, the 1997 financial crisis exposed its weaknesses, which include excessively risky debt levels, industrial over-capacity, and economically unsustainable investment. President Kim Dae Jung has pushed for major economic reform and restructuring to overcome these shortcomings. The government passed laws requiring greater corporate transparency, strengthened prudential requirements for banks and other financial institutions, fostered the development of small and medium-sized industries, and encouraged increased foreign investment in Korea. The chaebol have also been pressed to restructure and rationalize their operations, including by reducing their debt/equity levels to 200 percent and through somewhat controversial "big deals" (i.e. asset/affiliate swaps.) The effective and radical restructuring of Korea's second-largest chaebol Daewoo should help accelerate the pace of corporate reform. These reforms are moving Korea's economy towards a more market-based system, but some important changes, especially in the financial and corporate sectors, will take time.

4. Debt Management Policies

Korea's total foreign debt (largely private sector) totaled $144 billion at the end of July 1999, declining from $158 billion at the end of 1997. Through repayment and rescheduling, Korea's short-term debt as a percentage of total debt has been reduced from 64 percent at the end of 1998 to only 24 percent at the end of July 1999. In addition, the ROK developed an external debt reporting system to enhance debt management and monitoring. Through September 1999, Korea registered a current account surplus of $19.2 billion, substantially smaller than the $32 billion surplus recorded during the comparable period a year before. The estimated surplus for 1999 is $20 billion, compared to about $40 billion in 1998.

5. Significant Barriers to U.S. Exports

During the last decade Korea has gradually liberalized its markets for both goods and services and improved its investment climate for U.S. and other foreign firms. Through bilateral and multilateral efforts, many protective tariffs were lowered or phased out. Non-transparent policies and regulations, which directly or indirectly inhibited market access for imports, have been revised and reduced. The ROK has distanced itself from explicit policies that encouraged anti-import sentiment among Korean consumers, and is slowly addressing residual anti-import biases among both Korean consumers and bureaucrats. Rather than tolerating some foreign investment as necessary, the ROK has introduced a new foreign investment regime and is actively working to attract foreign investment. Korea and the United States initiated negotiations in June 1998 to conclude a bilateral investment treaty. Total commitments of foreign direct investment in 1999 is expected to exceed $15 billion, more than double the level in 1997. Nevertheless, these improvements have not benefited all exporters to Korea and barriers to exports from the United States and other countries continue to plague key sectors, especially agriculture, pharmaceuticals and automobiles.

In general, Korea's tariffs are modest; Korea's average tariff rate is 7.9 percent. However, Korea still maintains a system of high tariffs (30 to 100 percent), quotas and tariff rate quotas (TRQ), mostly for sensitive agricultural and fishery products of interest to U.S. suppliers, which effectively restrict imports. In addition, Korea's administration of quotas/TRQs for some products, such as rice and oranges, limits legitimate market access. Korea also uses adjustment tariffs to respond to import surges; however, the number of these tariffs is slowly being reduced. The majority of the remaining 29 adjustment tariffs apply to agricultural products. The government eliminated its import diversification program, which barred certain imports from Japan, in June 1999, and has committed to phase out its eight GATT balance of payments restrictions by year-end 2000.

Nontariff barriers, which often result from non-transparent regulatory practices, continue to inhibit imports to Korea across a range of sectors. A lack of regulatory transparency and consistency can affect licensing, inspections, type approval, marking/labeling requirements and other standards. To add transparency and due process to its regulatory system, Korea enacted the Administrative Procedures Act in 1996, but public notice of new regulations, as well as comment and transition periods are not always adequate. The regulatory system has not offered adequate recourse to those adversely affected by creation of new regulations. Since President Kim initiated a comprehensive regulatory review in 1998, more than 5,000 regulations/guidelines have been eliminated or targeted for elimination; review of the more than 6,000 remaining regulations is ongoing.

Products regulated for health and safety reasons (such as pharmaceuticals, medical devices, and cosmetics) typically require additional testing or certification from the relevant ministries before they can be sold in Korea, resulting in considerable delays and increasing costs. The foreign pharmaceutical industry faces discriminatory barriers associated with clinical registration and reimbursement pricing issues, although a new reimbursement pricing system is expected to be implemented in late 1999. Registration requirements for such products as chemicals, processed food, medical devices and cosmetics hamper entry into the market as well. Korea has initiated efforts to streamline its complex and burdensome import clearance procedures, targeting some 54 laws for revision. It has committed to bring its Food Code, Food Additive Code and labeling requirements into conformity with international standards. Import clearance, however, still takes longer than in other Asian countries.

Despite potential conflict of interest problems, the government has delegated authority to some Korean trade associations to carry out functions normally administered by the government. Such delegation of responsibility may include processing import approval documentation prior to customs clearance (allowing local trade associations to obtain business confidential information on incoming shipments), advertisement pre-approvals (providing early warning on the introduction of new products and on competitors' marketing efforts), and a decision-making seat on various committees (usually not available to foreign firms). The Korea Fair Trade Commission increased its efforts in 1999 to reduce the quasi-legal, trade restrictive powers of a number of associations.

The United States and Korea signed a Memorandum of Understanding (MOU) in October 1998, in which Korea agreed to take measures to further open its automobile market and improve market access for U.S. automobiles. Per the MOU, Korea has lowered some taxes which had a discriminatory impact on imported cars, bound its auto tariffs at 8 percent, improved consumer financing of autos by expanding the auto mortgage system and shortening the repossession process, and streamlined standards and certification. The ROK has also taken steps to reduce anti-import attitudes, which have an especially strong impact on foreign automobiles, including by agreeing to co-sponsor an "Import Motor Show" in May 2000. Despite these efforts, imports of U.S. and other foreign cars will barely exceed 2000 units in 1999.

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

Korea acceded to the WTO Government Procurement Agreement (GPA) on January 1, 1997 and is co-sponsoring the Transparency in Government Procurement initiative in the WTO. U.S. firms, however, continue to raise some concerns about Korean procurement practices, including discrimination against U.S. firms participating in procurements for Korea's new international airport conducted by the Korea Airport Construction Authority. The U.S. government is currently pursuing WTO dispute settlement resolution on this issue with Korea.

Korea will expand its Uruguay Round minimum import quota for beef to 225,000 metric tons by the year 2000 and expand the proportion of the quota imported through the "simultaneous buy/sell system." Korea has committed to remove all remaining nontariff barriers to beef imports, including state trading, by January 2001. However, due to a sharp drop in consumption, Korea has been unable to meet its WTO minimum import commitment in recent years. In February 1999, the United States initiated WTO dispute settlement consultations with Korea to eliminate import barriers and distribution restrictions on foreign beef.

In response to the 1997 financial crisis, the government has implemented broad-based reforms of its financial system. These reforms include substantial liberalization of capital markets, including the abolition of restrictions on foreign ownership of domestic shares and bonds, and restrictions on the use of deferred payments to finance imports. Foreign banks can now establish subsidiaries in Korea and foreign financial firms can participate in mergers and acquisitions of domestic Korean financial institutions. Korea, however, requires foreign branches to be separately capitalized, and other regulations such as prudential lending limits are based on local branch capital as opposed to its total capital, while a domestic bank's capital base is assessed as the entire bank's capital. Foreign banks are also disadvantaged in access to local currency funding. The government has also loosened controls over access to currency, such as swap lines used by banks as a source of local currency, but the government retains controls and has not committed to maintaining these new lines once the crisis is over. The new Foreign Exchange Transaction Law that was implemented in April 1999 significantly liberalized formerly heavily regulated capital transactions.

Korea's new Foreign Investment Promotion Act, which became effective in 1998, streamlined foreign investment application procedures and eased barriers to foreign direct investment across a range of sectors. Korea now has a much more favorable investment climate for foreign firms, and in the longer run this should foster broader market access and more imports. Investment restrictions now remain on only 21 industrial sectors, of which seven are entirely closed. Mergers, including hostile mergers, are allowed, and most restrictions on foreign ownership of local shares have been lifted. Foreigners are now allowed to purchase real estate and property. Tax incentives, especially for the high technology sector, have been increased. Restrictions on access to offshore funding (including offshore borrowing, intra-company transfers and inter-company loans), however, continue to be burdensome. Foreign equity participation limits, licensing requirements and other regulatory restrictions can limit foreign direct investment in sectors nominally open to foreigners. Foreign firms also face additional investment restrictions in many professional services sectors.

6. Export Subsidies Policies

In the past, Korea aggressively promoted exports through a variety of policy tools, including export subsidies, directed credit and targeted industrial policy. However, in the WTO, Korea has committed to phasing out those programs not permitted under the WTO Agreement on Subsidies and Countervailing Measures. Under the IMF stabilization package, Korea eliminated four WTO prohibited subsidies. The real benefit of the few remaining subsidized lines of export credit is insignificant in a macroeconomic sense. The relative size of direct grants is small and declining with regard to both the government budget and growing private investment. The use of tax exemptions, the main vehicle for export promotion, appears to be declining as well. The government does expend large amounts of money in research and development in key industrial sectors targeted for development, such as telecommunications.

7. Protection of U.S. Intellectual Property

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

Korean laws protecting IPR are generally adequate in legal terms, but problems remain with respect to enforcement. Korea's "Special 301" status was downgraded from "Priority Watch List" to "Watch List" in April 1997. Korea maintained its "Watch List" status in the U.S. government's 1999 review. Areas of continuing IPR concern include: counterfeit consumer products, software piracy, and pharmaceutical patent protection enforcement.

Korean patent law is fairly comprehensive, offering protection to most products and technologies. A new patent court came into effect March 1, 1998. However, approved patents of foreign patent holders are still vulnerable to infringement. Korean law provides for compulsory licensing of patents when the invention is deemed necessary for the national defense, for the public interest, or for the protection of a dependent patent.

The government's protection of trademarks has improved since 1991. A revised Trademark Law became effective March 1, 1998. The Design Act was also revised on March 1, 1998, enhancing protection of industrial designs. The granting of a trademark under Korean law is based on a "first-to-file" basis. While preemptive and predatory filings are on the decline, "sleeper" preemptive registrations still surface on occasion. A new provision now allows the Korean Industrial Property Office (KIPO) to reject suspected predatory applications based on a "bad faith" clause. There has been less success in stemming the export of Korean counterfeit products globally.

Korea's Copyright Law protects author's rights, but local prosecutors take no action unless the copyright holder files a formal complaint. In 1999, Korea amended its Computer Program Protection Act and is preparing revised copyright legislation so as to better meet its TRIPs obligations, especially with respect to copyright and trademark protection for transactions conducted on the internet. Korea, however, is not in full compliance with provisions of the TRIPs Agreement which stipulate that preexisting works and sound recordings must enjoy a full term of protection (i.e., life of the author plus 50 years for works; 50 years for sound recordings). Korea now only provides protection back to 1957. The Korean government in 1999 has devoted increased resources and staff to IPR enforcement activities and President Kim himself has directed cabinet agencies to step-up government efforts to protect intellectual property. However, IPR violations, especially of computer software, including in the government sector remain a problem.

8. Worker Rights

a. *The Right of Association:* With the exception of public sector employees and teachers, Korean workers enjoy the right of free association. White-collar workers in the government sector cannot join unions, but blue-collar employees in the postal service, railways, and telecommunications sectors, and the national medical center have formed labor organizations. Starting this year, government employees were allowed to form workplace consultative councils. In July, legislation went into effect allowing teachers to form unions. Unions may be formed with as few as two members and without a vote of the full prospective membership.

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

b. *The Right to Organize and Bargain Collectively:* The Korean constitution and the Trade Union Law provide for the right of workers to bargain collectively and undertake collective action, but does not grant government employees, school teachers or workers in defense industries the right to strike. Collective bargaining is practiced extensively in virtually all sectors of the Korean economy. The central and local labor commissions form a semi-autonomous agency that adjudicates disputes in accordance with the Labor Dispute Adjustment Law. This law empowers workers to file complaints of unfair labor practices against employers who interfere with union organizing or practice discrimination against unionists. In 1998 the government established the Tripartite Commission, with representatives from labor, management, and the government to deal with labor issues related to the economic downturn. The work of the Commission both made it legal for companies to lay off workers due to economic hardship and authorized temporary manpower agencies. Labor-management antagonism, however, remains an issue, and some major employers remain strongly antiunion.

c. *Prohibition of Forced or Compulsory Labor:* The constitution provides that no person shall be punished, placed under preventive restrictions, or subjected to involuntary labor, except as provided by law and through lawful procedures. Forced or compulsory labor is not condoned by the government and rarely occurs.

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

e. *Acceptable Conditions of Work:* The government implemented a minimum wage in 1988 that is adjusted annually. The minimum wage in 1998 was set at $1.28/hour (won 1,525/hour). Companies with fewer than 10 employees are exempt from this law. The maximum regular workweek is 44 hours, with provision for overtime to be compensated at a higher wage, but such rules are sometimes ignored, especially by small-companies. The law also provides for a maximum 56-hour workweek and a 24-hour rest period each week. Labor laws were revised in 1997 to establish a flexible hours system that allows employers to ask laborers to work up to 48 hours during certain weeks without paying overtime so long as average weekly hours do not exceed 44. The government's health and safety standards are not always effectively enforced, but the accident rate continues to decline. The number of work-related deaths remains high by international standards.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Korea is concentrated in petroleum, chemicals and related products, transportation equipment, processed food, manufacturing and services. Workers in these industrial sectors enjoy the same legal rights of association and collective bargaining as workers in other industries.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		2,940
Food & Kindred Products	380	
Chemicals & Allied Products	530	
Primary & Fabricated Metals	22	
Industrial Machinery and Equipment	288	
Electric & Electronic Equipment	558	
Transportation Equipment	128	
Other Manufacturing	1,034	
Wholesale Trade		(1)
Banking		2,251
Finance/Insurance/Real Estate		38
Services		446
Other Industries		–38
TOTAL ALL INDUSTRIES		7,365

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

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

MALAYSIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	101,236	72,569	[2] 78,928
Real GDP Growth (pct)	7.5	–7.5	[3] 4.3
GDP by Sector (1978 prices):			
Agriculture	6,106	4,377	4,723
Manufacturing	20,981	12,984	14,587
Mining And Petroleum	5,144	3,755	3,827
Construction	3,389	1,871	1,860
Services	31,729	22,466	23,697
Government Services	4,641	3,506	3,616
Per Capita GDP (US$)	4,564	3,272	3,475
Labor Force (000's)	9,038	8,880	9,010
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)(pct)	22.7	1.5	[4] 12.4
Consumer Inflation (pct)	2.7	5.3	3.0
Exchange Rate (RM/US$ annual average)	2.81	3.92	3.80
Balance of Payments and Trade:			
Total Exports FOB	77,478	71,925	79,189
Exports to U.S.	18,017	19,001	[5] 9,816
Total Imports FOB	73,822	54,321	59,682
Imports from U.S.	10,828	8,952	[5] 4,270
Trade Balance	3,656	17,604	19,507
Balance with U.S.	7,189	10,049	5,546
External Public Debt	23,280	17,387	19,078

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Fiscal Surplus/GDP (pct)	2.3	-1.9	-4.9
Current Account Surplus/GDP (pct)	-5.6	12.9	[6] 14.0
Debt Service Payments/GDP (pct)	5.0	6.9	N/A
Gold and Foreign Exchange Reserves	21,700	26,196	[7] 30,200
Aid from U.S.	0.6	0.9	1.0
Aid from All Other Countries	N/A	N/A	N/A

[1] Malaysian Government estimates.
[2] Converted at annual average exchange rates.
[3] Calculated in ringgit to avoid exchange rate changes.
[4] July data for 1999.
[5] U.S. Commerce Department data, January-June for 1999.
[6] Deficit for 1997.
[7] End-October data for 1999.

1. General Policy Framework

After nearly a decade of strong economic growth averaging 8.7 percent annually, Malaysia was hard hit by the regional financial and economic crisis of 1997-98. After contracting 7.5 percent in 1998, the economy returned to positive growth in the second quarter of 1999. Analysts predict 5-6 percent growth in 1999 and continued strong growth in 2000. Growing consumer and investor confidence is reflected in increased auto sales, consumer credit mortgage approvals, and a three-fold increase in the Kuala Lumpur Stock Exchange Composite Index from its record low of 262.7 in September 1998 to trading levels in the 720–750 range in November 1999. Malaysia's economic recovery has been export led, based in part on growing electronics exports to the United States, Malaysia's principal trade and investment partner, and the region and also the result of increased government spending.

Foreign direct and portfolio investment has not returned to pre-crisis levels. Investor concerns are focused on excessive commercial property investment, high levels of domestic corporate debt, the lack of transparent policies regarding support for troubled firms, and continued trade and investment restrictions. To deal with a growing number of non-performing loans (NPLs) during the financial crisis, in 1998 the government established an asset management corporation, Danaharta, and a special purpose vehicle, Danamodal, to inject funds into banks in need of recapitalization. The government also created the Corporate Debt Restructuring Committee (CDRC) to provide a framework for creditors and debtors voluntarily to resolve liquidity problems of viable businesses and serve as an alternative to bankruptcy. Danaharta has removed about one-third of the NPLs from the banking system. CDRC has completed the first stages of the debt workout process for a substantial number of firms and reportedly hopes to complete its activities by the end of 2000.

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

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

The level of tariff protection is generally lower on raw materials and increases for those goods with value-added content or which undergo further processing. The government urges Malaysians to purchase domestic products, instead of imports, whenever possible. In addition to import duties, a sales tax of 10 percent is levied on most imported goods. Like import duties, however, this sales tax is not applied to raw material and machinery used in export production. Malaysia has been an active participant in multilateral and regional trade fora such as the World Trade Organization (WTO) and APEC (which it chaired in 1998).

Fiscal Policy: The government is pursuing an expansive fiscal policy in order to stimulate economic growth. The government expects to run a budget deficit in 2000 of approximately 4.4 percent of GNP, slightly less than the 1999 deficit. The Malaysian government finances domestically the bulk of the deficit.

Monetary Policy: The central bank has been progressively loosening monetary policy to lead the economy out of recession. Statutory reserve requirements have been reduced steadily from 13.5 percent as of year-end 1997 to 4 percent in September 1998. The central bank also lowered the liquid asset requirements for commercial banks, reduced an administrative margin used to calculate the base lending rate, and cut its 3 month intervention rate from 8 percent to 5.5 percent. A significant drop in interest rates has accompanied the loosening of monetary policy. The base lending rate dropped from 8.04 percent in early November 1998 to 6.8 percent in November 1999.

2. Exchange Rate Policy

In September and October 1999, the Malaysian government relaxed capital control measures on foreign portfolio investment instituted on September 1, 1998, as part of a broad effort to stabilize the currency while stimulating the economy. On September 2, 1998, the government fixed the exchange rate of the Ringgit to the U.S. Dollar at RM 3.8/US$1 and instituted selective capital controls, including a controversial tax on repatriated principal and profits. At present foreign portfolio investment is subject to a flat 10 percent exit tax on repatriated profits.

3. Structural Policies

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

Tax Policies: Tax policy is geared toward raising government revenue and discouraging consumption of "luxury" items. Income taxes, both corporate and individual, comprise 40 percent of government revenue with indirect taxes, export and import duties, excise taxes, sales taxes, service taxes and other taxes accounting for another 31 percent. The remainder comes largely from dividends generated by state-owned enterprises and petroleum taxes.

The Year 2000 budget features personal tax reductions, generous benefits for civil servants and tax incentives to encourage financial institution mergers. The Government will also lower or abolish duties on 179 categories of food products (fresh, dried, and processed). Beginning in 2000, the tax assessment system will base tax collection on current year income rather than previous year income. High-technology and information-technology companies which establish in the Multimedia Super Corridor (a government-established zone designed to concentrate and stimulate development of high-technology multimedia industries) are granted attractive tax incentives.

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

4. Debt Management Policies

Malaysia's medium and long-term foreign debt (both public and private sector) amounted to $34.7 billion at the end of 1998, about 44 percent of GDP. Malaysia's debt service ratio declined from a peak of 18.9 percent of gross export earnings in 1986 to 6.9 percent in 1998.

5. Aid

U.S. government assistance to Malaysia in FY-1999 falls into three broad categories: the Trade Development Agency (TDA), the International Military Education Training (IMET) program ($700,000), and the U.S.-Asia Environment Program (US-AEP.) Although statistics are not available for assistance provided from other governments, since 1998 the Japanese government has extended financial assistance to help Malaysia recover from the economic crisis: Japanese Government Office of Developmental Assistance (ODA) Yen Loan Projects approximately $1.05 billion, Japanese EX-IM Bank approximately $700 million, EX-IM Bank guaranteed Commercial bank loans approximately $700 million, Japanese government guaranteed commercial bank loans approximately $560 million, and a short-term financing facility up to $2.5 billion.

6. Significant Barriers to U.S. Exports

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

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

Restrictions on Construction Equipment: In October 1996, Malaysia raised duties on construction equipment from 5 to 20 percent. In addition, the initial capital allowance for imported heavy equipment will be reduced from 20 to 10 percent in the first year, and the annual allowance will be reduced from between 12 percent and 20 percent to 10 percent. In October 1997, the government imposed a restrictive licensing regime on imports of heavy construction equipment and raised import duties for the second year in a row, as detailed below. In April 1999, another licensing requirement was established for certain iron and steel products.

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

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

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

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

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

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

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

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

Direct Selling Companies: In May 1999, the Malaysian Government announced new requirements for the licensing and operation of direct selling companies. These requirements include a) no more than 30 percent of the locally incorporated company can be foreign owned, b) local content of products should be no less than 80 percent, c) no new products would be approved for sale that did not meet local content requirements, and d) all price increases would be approved by the Ministry of Domestic Trade and Consumer Affairs. These guidelines also spell out the conditions under which companies may receive one, two and three year licenses. The Ministry indicated that the local content targets are not mandatory, except for adherence to Malaysia's national equity policy.

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

Investment Barriers: Malaysia encourages direct foreign investment particularly in export-oriented manufacturing and high-tech industries, but retains considerable discretionary authority over individual investments. Especially in the case of investments aimed at the domestic market, it has used this authority to restrict foreign equity (normally to 30 percent) and to require foreign firms to enter into joint ventures with local partners. To alleviate the effects of the economic downturn, Malaysia announced relaxation (until December 31, 2000) of foreign-ownership and export requirements in the manufacturing sector for companies producing goods that do not compete with local producers. Most foreign firms face restrictions in the number of expatriate workers they are allowed to employ.

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

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

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

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

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

Securities: Foreigners may hold up to 49 percent of the equity in a stockbroking firm. Currently there are 11 stockbroking firms that have foreign ownership and 20 representative offices of foreign brokerage firms. Fund management companies may be 100 percent foreign-owned if they provide services only to foreign investors, but they are limited to 70 percent foreign-ownership if they provide services to both foreign and local investors.

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

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

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

7. Export Subsidies Policies

Malaysia offers several export allowances. Under the export credit-refinancing scheme operated by the central bank, commercial banks and other lenders provide financing to exporters at a preferential interest rate for both post-shipment and pre-shipment credit. Malaysia also provides tax incentives to exporters, including double deduction of expenses for overseas advertising and travel, supply of free samples abroad, promotion of exports, maintaining sales offices overseas, and research on export markets. To spur exports, 70 percent of the increased export earnings by international trading companies has been exempted from taxes.

8. Protection of U.S. Intellectual Property

Malaysia is a member of the World Intellectual Property Organization (WIPO), the Berne Convention, and the Paris Convention. Malaysia provides copyright protection to all works published in Berne Convention member countries regardless of when the works were first published in Malaysia. Malaysia is also a member of the WTO and scheduled to meet its obligations under Trade Related Intellectual Property Agreement (TRIPS) on January 1, 2000.

As the number of manufacturing licenses for CDs has increased, so have piracy rates for music and video discs. Malaysia's production capacity for CDs far exceeds local demand plus legitimate exports, and pirate products believed to have originated in Malaysia have been identified throughout the Asia-Pacific region, North America, South America, and Europe. The Malaysian Government is aware of the problem and has expressed its determination to move against illegal operations. In the April 1999 "Special 301" report, USTR decided to delay a decision on including Malaysia on the Watch List until an out-of-cycle review could be conducted to assess Malaysia's progress toward substantially reducing pirated optical media production and export.

In March 1998, the government opened an intellectual property training center to develop and offer programs for government officials, agencies, attorneys, and the judiciary. In April 1999, the government created an interagency task force to develop and implement a regulatory regime for optical media production. Since April, the government has drafted comprehensive optical media legislation, which was scheduled to be submitted to Parliament during its fall session. The November 11 dissolution of Parliament by the Prime Minister in anticipation of elections on November 29 has delayed consideration of the optical disc legislation and most TRIPS-related amendments to existing legislation until the first parliament session of the new government, most likely in Spring 2000.

Suppressing CD-based digital piracy is consistent with the government's objective to establish the Multimedia Super Corridor as the preeminent locus of high-technology manufacturing and innovation in Asia. Police and legal authorities are generally responsive to requests from U.S. firms for investigation and prosecution of copyright infringement cases. However, despite over 6,000 raids and inspections since April 1999, no one has been criminally prosecuted for piracy. Notwithstanding these efforts of the government, illegal production of optical disks remains a significant problem in Malaysia, and its effects have been observed throughout the region.

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

9. Worker Rights

a. *The Right of Association:* By law most workers have the right to engage in trade union activity, and approximately 10 percent of the work force are members of trade unions. Exceptions include certain categories of workers labeled "confidential" and "managerial and executives," as well as police and defense officials. The government discourages Malaysia's many foreign workers from joining unions and, in practical terms, foreigners are not able to engage in trade union activity. Government policy places a de facto ban on the formation of national unions in the electronics sector, but allows enterprise-level unions,

b. *The Right to Organize and Bargain Collectively:* Workers have the legal right to organize and bargain collectively, and collective bargaining is widespread in those sectors where labor is organized. However, severe restrictions on the right to strike weaken collective bargaining rights. The law requires that the parties to a labor dispute submit to a system of compulsory adjudication. Thus, though theoretically legal, strikes are extremely rare.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor, and the government enforces this prohibition. There is no evidence that forced or compulsory labor occurs in Malaysia except for rare cases that, when discovered, are prosecuted vigorously by the government.

d. *Minimum Age for the Employment of Children:* Malaysian law prohibits the employment of children younger than the age of 14. The law permits some exceptions, such as light work in a family enterprise, work in public entertainment, work performed for the government in a school or training institutions, or work as an approved apprentice. In no case may children work more than six hours per day, more than six days per week, or at night. Child labor occurs, but there is no reliable recent estimate of the number of child workers. Most child laborers work in the urban informal sector and the agricultural sector.

e. *Acceptable Conditions of Work:* There is not minimum wage, but prevailing wages generally provide a decent living. Malaysian law stipulates working hours, mandatory rest periods, overtime rates, holidays, and other labor standards. The government enforces these standards. Working conditions on plantations are worse than in other areas of the economy. An occupational safety law provides some protections.

f. *Rights in Sectors with U.S. Investment:* U.S. companies invest widely in many sectors of the Malaysian economy. Worker rights in sectors in which there is U.S. investment generally do not differ from those in other sectors. U.S. companies invest heavily in the electronics sector, in which workers' right to organize is limited to enterprise-level unions.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,027
Total Manufacturing		4,199
Food & Kindred Products	3	
Chemicals & Allied Products	306	
Primary & Fabricated Metals	5	
Industrial Machinery and Equipment	743	
Electric & Electronic Equipment	2,669	
Transportation Equipment	0	
Other Manufacturing	473	
Wholesale Trade		166
Banking		393
Finance/Insurance/Real Estate		352
Services		84
Other Industries		–27
TOTAL ALL INDUSTRIES		6,193

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

PHILIPPINES

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Income, Production and Employment:			
Nominal GDP	82.2	65.1	74.6
Real GDP Growth (pct)[2]	5.2	–0.5	3.0
Nominal GDP by Sector:			
Agriculture	15.4	11.0	13.1
Manufacturing	18.3	14.3	16.0
Services	40.4	33.7	39.0
Government[3]	10.0	8.4	9.5
Per Capita GDP (US$)	1,145	886	990
Labor Force (000's)	30,355	31,056	31,800
Unemployment Rate (pct)	8.7	10.0	9.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)[4]	20.5	8.0	12.0
Consumer Price Inflation (pct)	5.9	9.7	7.2
Exchange Rate (Peso/US$ annual average) Interbank Rate	29.47	40.89	39.50
Balance of Payments and Trade:			
Total Exports FOB[6]	25.2	29.5	33.8
Exports to U.S.[7]	10.4	11.9	12.0
Total Imports FOB[6]	36.4	29.5	31.3
Imports from U.S.[7]	7.4	6.7	7.2
Trade Balance[6]	–11.1	–0.03	2.5
Balance with U.S.[7]	3.0	5.2	4.8
Current Acct. Surplus or Deficit/GDP (pct)	–5.3	2.0	6.0
External Public Sector Debt	27.0	30.3	32.0
Foreign Debt Service Payments/GDP (pct)	6.8	7.8	8.8
Nat'l Gov. Fiscal Surplus or Deficit/GDP (pct)	0.1	–1.9	–3.0
Gold and Foreign Exchange Reserves	8.8	10.8	15.5
Aid from U.S. (US$ millions)[8]	46.0	49.0	[9]35.0
Aid from Other Bilateral Sources (US$ millions)[8]	1,588.0	1,465.0	[9]1,179.0

[1] 1999 figures are full-year estimates based on data available as of October.

[2] Percentage changes based on local currency.
[3] Government construction and services gross value added.
[4] Growth rate of year-end M2 levels.
[5] 1994 base year starting 1997; 1988 base year for prior years.
[6] Merchandise trade.
[7] Source: U.S. Department of Commerce; exports FAS, imports customs basis; 1999 figures are estimates based on data available through August 1999.
[8] Inflows per Philippine government balance of payments data, excluding inflows from the U.S. Veterans Administration (USVA).
[9] Actual January-July 1999 figures.

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

1. General Policy Framework

The Philippines has a population of 75 million, growing at 2.3 percent yearly. Agriculture absorbs 40 percent of employment but contributes only 20 percent of GDP. Electronics, garments, and auto parts are the leading merchandise exports, but rely heavily on imported inputs. Overseas workers remittances, estimated at $5-6 billion yearly, are a major source of foreign exchange. The domestic savings rate is relatively low, compared to the rest of Asia, estimated at 20 percent of GNP in 1998.

Public finances has been a long-standing problem. After four consecutive fiscal surpluses (1994-97), the government is again running a large budget deficit, in part as a response to the Asian financial crisis. But revenues perennially suffer from weak tax administration and collection, and efforts to contain expenditures are hampered by the large share (over 70%) of "non-discretionary" expenditures such as payroll costs, interest payments and mandated transfers to local government units. Fiscal difficulties complicate government efforts to manage domestic interest rates, leading the government to rely more heavily on foreign borrowings.

The Aquino and Ramos administrations made significant progress in setting the stage for a higher and more sustainable growth path through economic liberalization and deregulation. President Joseph Estrada is trying to continue and expand the program pursued by his predecessors, but nationalist and vested interests pose obstacles to further reform.

2. Exchange Rate Policy

Current account transactions are fully convertible. There are no barriers to full and immediate capital repatriation and profit remittances, foreign debt servicing, and the payment of royalties, lease payments and similar fees. Foreign exchange rates generally evolve freely in the interbank market, although the Bangko Sentral ng Pilipinas (BSP—Central Bank) imposes limits on banks' foreign exchange positions. The depreciation of the peso during the Asian financial crisis (from Peso 26/dollar in June 1997 to Peso 40/dollar at present) has hurt the competitiveness of some U.S. exports.

3. Structural Policies

Prices are generally determined by market forces, although basic public services (such as transport, water and electricity) are regulated by the government. Government regulation of prices of "socially sensitive" petroleum products (i.e., liquefied petroleum gas, regular gasoline, and kerosene) ended in July 1998 with the full deregulation of the oil industry, but the government's National Food Authority remains a major factor in the market for rice and other agricultural products.

While progress in investment liberalization has been substantial, important barriers to foreign entry remain. Two "negative lists" outline where investment is restricted. Divestment requirements exist for firms seeking certain investment incentives. A number of other laws specify, or have the effect of imposing, local sourcing requirements.

Almost all products, including imports, are subject to a 10 percent value added tax. Certain products—whether domestically manufactured or imported—are subject to excise tax. The Philippines' Tariff Reform Program is gradually lowering applied duty rates on nearly all items, toward a goal of tariff rates of zero to five percent by 2004 for all items except sensitive agricultural products.

4. Debt Management Policies

Foreign debt (estimated at $48.1 billion as of June 1999) has been growing, but debt servicing is not a significant problem. The ratio of debt service payments to exports of goods and services was 13.2 percent during period Jan-July 1999, compared to 40 percent in the early 1980s. Medium and long-term loans comprise over 85 percent of external liabilities. Concessional credits from multilateral and official bilateral lenders account for about half of the country's external debt.

The Philippines had four debt rescheduling rounds with official bilateral (Paris Club) creditors and did not exercise a fifth Paris Club debt rescheduling agreement. While the Philippines "graduated" from over three decades of International Monetary Fund (IMF) supervision in March 1998, a two-year IMF standby arrangement was agreed at the same time. The Government has indicated it may extend the arrangement. The Philippines has also succeeded in retiring or exchanging some of its earlier debt for instruments carrying longer maturities and more favorable terms, the latest being a $1 billion Brady bond exchange program concluded in October 1999.

The Central Bank requires prior approval of private sector debt guaranteed by the public sector or covered by forex guarantees issued by local banks; loans extended by foreign currency deposit units funded or collateralized by offshore loans and deposits; loans with maturities of over one year obtained by private banks and financial institutions for relending; and public sector foreign loans.

5. Significant Barriers to U.S. Exports

Tariffs: Imported items that are not locally produced generally face low tariffs, while imports that compete with locally-produced goods face high tariffs, generally up to 30 percent. Imports of finished automotive vehicles (completely built-up units) face a 40 percent tariff (scheduled to fall to 30 percent in 2000). The non-trade weighted average nominal tariff rate was 9.98 percent in 1999 and is scheduled to decline to 8.09 percent in the year 2000. Customs accounts for over 20 percent of government revenues. In January 1999, President Estrada signed E.O. 63 raising applied MFN tariff rates on a range of products including yarns, threads, fabric, apparel, and kraft liner paper. Rates on these items are scheduled to return to 1997 levels in 2000. Significant trade barriers hamper market access in agriculture. The Philippines maintains high tariff rates on sensitive agricultural products, including grains, livestock and meat products, sugar, certain vegetables, and coffee. Examples include feed grains, particularly corn (at an in-quota rate of 35 percent, and a 65 percent out-of-quota rate), sorghum (15 percent) and potatoes (in-quota rate of 45 percent, 60 percent out-of-quota). A number of particularly sensitive agricultural commodities are subject to tariff-rate quotas (TRQs), including live animals, fresh and chilled beef, pork, poultry meat, goat meat, potatoes, coffee, corn, and sugar. Rice is subject to a quantitative restriction.

Import Licenses: The National Food Authority (NFA), a government entity, is the sole importer of rice and continues to be involved in imports of corn. Fisheries Administrative Order (FAO) 195, series of 1999, issued by the Department of Agriculture, requires a license to import fresh, chilled, and frozen fish when intended for sale in local retail markets. Certain other items are subject to other import regulations, including firearms and ammunition, used clothing, sodium cyanide, chlorofluorocarbon (CFC) and other ozone-depleting substances, penicillin and derivatives, coal and derivatives, color reproduction machines, chemicals for the manufacture of explosives, pesticides, used motor vehicles, and used tires. In addition, as noted above, certain agricultural commodities are subject to minimum access volume tariff-rate quotas.

Excise Taxes: U.S. producers of automobiles and distilled spirits have raised concerns about certain discriminatory aspects of the Philippines' excise tax system. Excise taxes on distilled spirits impose a lower tax on products made from materials that are indigenously available (e.g., coconut, palm, sugar cane). The excise tax treatment of automotive vehicles is based on engine displacement, rather than vehicle value.

Services Barriers: Banking—May 1994 banking legislation permitted 10 new foreign banks to open branches in the Philippines. Foreign equity is limited to 60 percent ownership of either a new local subsidiary or an existing domestic bank. Regulations require that majority Filipino-owned domestic banks control at least 70 percent of total banking system assets.

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

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

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

Telecommunications—The Philippine Constitution limits foreign ownership in public utilities to 40 percent. Telecommunication firms are considered public utilities.

Shipping—Foreign-flagged vessels are prohibited from the carriage of domestic trade.

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

Standards, Testing, Labeling, and Certification: Imports of products covered by mandatory Philippine national standards must be cleared by the Bureau of Product Standards (BPS). Labeling requirements apply to a variety of products, including pharmaceuticals, food, textiles and certain industrial goods. The Generics Act of 1988, mandates that the generic name of a particular pharmaceutical product appear above its brand name on all packaging.

Investment Barriers: The Foreign Investment Act of 1991 contains two "negative lists" that outline areas where foreign investment is restricted. "List A" restricts foreign investment in certain sectors because of constitutional or legal constraints. No foreign investment is permitted in mass media (including cable television), retail trade, processing of corn and rice, small-scale mining and private security agencies. Varying foreign ownership limitations cover, among others, advertising (30 percent), recruitment (25 percent), financing (60 percent), securities underwriting (60 percent), public utilities (40 percent), education (40 percent), and the exploration and development of natural resources (40 percent). Land ownership is reserved to Philippine citizens and corporations that are at least 60 percent owned by Philippine citizens. "List B" limits foreign ownership (generally to 40 percent) for reasons of public health, and safety and morals. This list also restricts foreign ownership to no more than 40 percent in non-export firms capitalized at less than $200,000.

Export Performance Requirements: Investment incentive regulations impose a higher export performance requirement for foreign-owned enterprises (70 percent of production should be exported) than for Philippine-controlled companies (50 percent). With the exception of foreign-controlled firms that export 100 percent of their production, foreign firms that seek incentives from the Board of Investments (BOI) must commit to divest to 40 percent ownership within 30 years or such longer period as the BOI may allow. The Philippines has requested an extension of the January 1, 2000, deadline to eliminate WTO-inconsistent local-content and foreign exchange requirements under its motor vehicle development program.

Local Sourcing Requirements: Outside of the investment incentives regime, investors in certain industries are subject to specific laws which require local sourcing. Executive Order (E.O.) 776 requires that pharmaceutical firms purchase semi-synthetic antibiotics from a specific local company, unless they can demonstrate that the landed cost of imported semi-synthetic antibiotics is at least 20 percent less than that produced by the local firm. E.O. 259 bans imports of soap and detergents containing less than 60 percent coconut-based surface active agents of Philippine origin, implicitly requiring local sourcing by soap and detergent manufacturers. Letter of Instruction (LOI) 1387, issued in 1984, requires mining firms to offer their copper concentrates to Philippine Associated Smelting and Refining Corp. (PASAR)—a government-controlled firm until its recent privatization.

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

Customs Procedures: The government has contracted a private firm, Societe Generale de Surveillance, to perform certain customs functions. Officials have not stated whether the contract will be renewed beyond December 31, 1999. Most imports valued at over $500 are permitted entry only when accompanied by a 'Clean Report of Findings" issued by SGS. Refrigerated products are exempt. Certain goods require preshipment inspection in the country of export. The preshipment inspection requirement extends to exports to certain operations in free-trade zones. Customs valuation for determining dutiable value of imports is based on "export value," which has resulted in unwarranted uplifts in the assessed dutiable value of many U.S. exports. The government says it will implement the "transaction value" method of customs valuation by January 1, 2000, in line with WTO obligations.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

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

While substantial progress has been made in recent years, significant problems remain in ensuring consistent, effective protection of intellectual property rights (IPR). A new IP law (R.A. 8293), which took effect January 1, 1998, improves the legal framework for IPR protection. It provides enhanced copyright and trademark protection; creates a new Intellectual Property Office with original jurisdiction to resolve IPR infringement complaints; increases penalties for infringement and counterfeiting; and relaxes provisions requiring the registration of licensing agreements. Deficiencies in R.A. 8293 remain a concern. These include the lack of authority for courts to order the seizure of pirated material as a provisional measure without notice to the infringer; ambiguous provisions on the rights of copyright owners over broadcast, rebroadcast, cable retransmission, or satellite retransmission of their works; and burdensome requirements concerning licensing contracts. Legislation is pending to provide IPR protection for plant varieties and layout-designs of integrated circuits, in line with WTO obligations.

Enforcement: Enforcement agencies generally will not proactively target infringement unless the copyright owner brings it to their attention and works with them on surveillance and enforcement actions. Joint efforts between the private sector and the National Bureau of Investigation and Philippine Customs have resulted in a series of successful enforcement actions. While certain courts have been designated to hear IPR cases, little has been done to streamline judicial proceedings in this area, as these courts have not received additional resources and continue to handle a heavy non-IPR workload. In addition, IPR cases are not considered "major crimes," and take a lower precedence in court proceedings. Because of the prospect that court action will be lengthy, many cases are settled out of court.

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

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

Copyrights: R.A. 8293 expands IPR protection by clarifying protection of computer software as a literary work (although it includes a fair-use provision on decompilation of software), establishing exclusive rental rights, and providing terms of protection for sound recordings, audiovisual works, and newspapers and periodicals that are compatible with the WTO TRIPS Agreement. Software, music and film piracy remain widespread. The Business Software Alliance estimates the 78 percent of business software in use in 1998 was unlicensed; the piracy rate for entertainment software is 90 percent. The Motion Picture Association of America estimates that two-thirds of motion pictures on video or optical discs in 1998 were illegal copies. The illegal retransmission of satellite programming by cable operators is a growing problem.

The U.S. intellectual property industry estimates 1998 potential trade losses due to piracy of software at $57 million; of motion pictures, $18 million; of sound recordings, $4 million; of books, $39 million.

8. Worker Rights

a. *The Right of Association:* All workers (including public employees) have a right to form and join trade unions, a right which is exercised without government interference. Trade unions are independent of the government and generally free of political party control. Unions have the right to form or join federations or other labor groupings. Subject to certain procedural restrictions, strikes in the private sector are legal. Unions are required to provide strike notice, respect mandatory cooling-off periods, and obtain majority member approval before calling a strike.

b. *The Right to Organize and Bargain Collectively:* The Philippine Constitution guarantees the right to organize and bargain collectively. The Labor Code protects and promotes this right for employees in the private sector and in government-owned or controlled corporations. A similar but more limited right is afforded to employees in most areas of government service. Dismissal of a union official or worker trying to organize a union is considered an unfair labor practice. Labor law and practice are uniform throughout the country, although there have been complaints about some local attempts to maintain "union free/strike free" policies in several of the export processing zones. In the garment industry, the widespread use of short-term, contract workers is an obstacle to workers forming unions or obtaining medical and retirement benefits.

c. *Prohibition of Forced or Compulsory Labor:* The Philippine Constitution prohibits forced labor and the government effectively enforces this prohibition.

d. *Minimum Age for Employment of Children:* Philippine law prohibits the employment of children below age 15, with some exceptions involving situations under the direct and sole responsibility of parents or guardians, or in the cinema, theater, radio and television in cases where a child's employment is essential. The Labor Code allows employment for those between the ages of 15 and 18 for such hours and periods of the day as are determined by the Secretary of Labor, but forbids employment of persons under 18 years in hazardous work. Government and international organization estimates indicate that some three million children under age 18 are employed in the informal sector of the urban economy, certain fishing practices, port work or as unpaid family workers in rural areas.

e. *Acceptable Conditions of Work:* A comprehensive set of occupational safety and health standards exists in law. Statistics on actual work-related accidents and illnesses are incomplete, as incidents (especially in regard to agriculture) are underreported.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		283
Total Manufacturing		1,634
Food & Kindred Products	440	
Chemicals & Allied Products	477	
Primary & Fabricated Metals	33	
Industrial Machinery and Equipment	16	
Electric & Electronic Equipment	483	
Transportation Equipment	0	
Other Manufacturing	184	
Wholesale Trade		172
Banking		288
Finance/Insurance/Real Estate		627
Services		187
Other Industries		2
TOTAL ALL INDUSTRIES		3,192

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

SINGAPORE

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	96,250.7	84,627.5	88,246.4
Real GDP Growth (pct) [2]	8.9	0.3	5.0
GDP by Sector: [2]			
Agriculture [3]	181.1	137.9	176.5
Manufacturing	21,968.2	19,499.3	20,296.7
Services	65,531.6	56,931.3	60,007.5
Government expenditure	9,050.7	8,431.0	8,824.6
Per Capita GDP (US$)	25,758.2	21,892.5	22,056.7
Labor Force (000's)	1,876.0	1,931.8	1,989.8
Unemployment Rate (pct)	1.8	3.2	3.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.3	30.2	36.8
Consumer Price Inflation (pct)	2.0	--0.3	0.5
Exchange Rate (SGD/US$ annual average)	1.48	1.67	1.69
Balance of Payments and Trade:			
Total Exports FOB	125,414.2	110,037.7	109,279.2
Exports to U.S. CIF [4]	20,368.1	18,654.3	18,206.6
Total Imports CIF	132,841.2	101,714.4	106,038.7
Imports from U.S. FAS [4]	17,727.4	15,673.5	15,955.6
Trade Balance	–7,427.0	8,323.4	3,240.4
Trade Balance with U.S. [4]	2,640.7	2,980.8	2,251.0
External Public Debt	0	0	0
Fiscal Surplus/GDP (pct)	4.2	–0.3	–3.5
Current Account Surplus/GDP (pct)	15.7	20.9	24.3
Debt Service Payments/GDP (pct)	0	0	0
Gold and Foreign Exchange Reserves	71,391.7	75,028.2	78,704.5
Aid from U.S.	0	0	0
Aid from Other Sources	0	0	0

NOTE: All percentage changes are calculated based on the local currency.

[1] 1999 figures are projections based on most recent data available.

[2] Singapore introduced a methodology to include offshore stockbroking, investment advisory and insurance services in the output of the financial services industry, resulting in changes to the GDP and growth figures computed in previous years. GDP data has also been re-grouped into eleven industries from the eight previously.

[3] Includes the agriculture, fishing and quarrying industries.

[4] Trade data was taken from the U.S. Department of Commerce instead of Singaporean government sources.

1. General Policy Framework

A city-state with a population of 3.9 million (of which 700,000 or 18 percent are foreigners, mainly migrant workers and professionals) astride one of the world's major shipping lanes, Singapore has long pursued economic policies that promote open trade and investment. These policies have allowed Singapore to overcome its land, labor and resource constraints, and develop into one of the world's most successful open trading and investment regimes with an average annual GDP growth rate of 7 percent in the last decade. Although Singapore's growth rate decelerated to 0.3 percent in 1998 due to the Asian economic crisis, it still had the world's fifth highest per capita GNP in purchasing power parity terms, according to the World Bank in its 1999 World Development Report. Singapore also actively promotes trade liberalization in the region through APEC and ASEAN; the APEC Secretariat is located in Singapore. It is a founding member of the World Trade Organization (WTO), and hosted the first WTO Ministerial in December of 1996.

Internally, Singapore has a free-market, pro-growth and competitive business environment characterized by a transparent and corruption-free regulatory framework. At the same time, it has a sizable public sector in the form of government-linked companies (GLCs) that account for some 60 percent of GDP. The GLCs generally operate as commercial entities, and frequently include private local and foreign equity. Many GLCs are also publicly listed companies. Manufacturing is the single largest sector in the economy, accounting for 22 percent of total GDP. Foreign multinational electronics and chemicals companies dominate this sector, producing primarily for export to the region and the developed markets, notably the U.S. and Europe. Foreign companies accounted for 67 percent of the USD 4.7 billion of new manufacturing investment in 1998. Electronics output accounts for 43 percent of total industrial output and chemicals (including oil refining) for 22 percent. Besides engaging in high value-added manufacturing activities, multinational companies also take advantage of Singapore's modern and pro-business infrastructure and productive workforce to establish headquarters and manage their regional operations from the city-state.

Wholesale and retail trade is the second largest sector in the economy, accounting for 14 percent of GDP, reflecting Singapore's key role as the gateway for goods and people into and out of the region. Trade is 2.5 times GDP, with transshipments accounting for 42 percent of total merchandise exports. Visitor arrivals to Singapore in 1998, which suffered a 13.3 percent drop due to the recent crisis, still amounted to 6.2 million, almost twice its indigenous population. Financial services, which accounts for 13 percent of GDP, is the third largest economic sector. According to the Bank of International Settlements, Singapore is the world's fourth largest center for foreign exchange activities (after London, New York and Tokyo). Its Asian Dollar Market is also the world's eighth largest offshore lending center. The government is actively promoting its financial sector, particularly asset management, and bond and capital market activities to augment Singapore's role as an international financial center.

The government pursues conservative fiscal policies designed to encourage high levels of savings and investment. The government also invests heavily in the country's social and physical infrastructure, including education and transportation, and provides subsidies for public housing and sometimes for the purchase of shares in GLCs when they are initially listed on the stock exchange. For most of the years since the 1970's, the government has had a budget surplus. However, due to counter-cyclical measures implemented amid the Asian economic crisis, the government's budget went into a deficit of USD 243 million (about 0.3 percent of GDP) in fiscal year 1998. The deficit is forecast to widen to about USD 3 billion in FY99 (about 3.5 percent of GDP) with further pump priming of the economy.

The Central Provident Fund (CPF) is a compulsory savings program that requires 20 percent of an individual's salary be placed in a tax-exempt account, with employers contributing another 10 percent. The CPF is the basis for the extraordinarily high gross national saving rate of over 60 percent of GDP. Employers' contribution amounted originally to 20 percent of an employee's salary prior to the recent crisis, but was halved to 10 percent since the beginning of 1999 as part of a broad business cost-reduction package implemented by the government. However, a partial restoration of employers' contribution is expected by mid-2000 to ease the build-up of wage pressures emanating from a faster and stronger-than-expected domestic and regional economic recovery. Individual CPF accounts may be used, in part, to finance housing purchases and investment in stocks and other instruments approved under the CPF investment scheme.

The Monetary Authority of Singapore (MAS), the country's central bank, engages in limited money-market operations to influence interest rates and ensure adequate liquidity in the banking system. The MAS' key objective is to maintain price stability, which it achieves largely through an exchange rate policy. (Note: Inflation has averaged 2 percent annually over the last 10 years, except for 1998 when deflation of 0.3 percent set in due to the economic recession). There are virtually no controls on capital movements, thus limiting the scope for an independent monetary policy to either stimulate or restrain economic activity. The average prime lending rate among the leading banks is currently at 5.8 percent, after peaking at about 7.8 percent in the first half of 1998 amid the Asian financial crisis.

Singapore's sound economic policies and an open and favorable trading and investment climate have attracted about 1,300 U.S. companies to Singapore, with cumulative investments of USD 19.8 billion in 1998. The United States is Singapore's largest trading partner, accounting for 19.2 percent of Singapore's total trade in 1998. Based on U.S. Department of Commerce data, U.S. exports to Singapore amounted to USD 15.7 billion in 1998, while Singapore's exports to the United States totaled USD 18.4 billion.

2. Exchange Rate Policy

Singapore has no exchange rate controls. Exchange rates are determined freely by daily cross rates in the international foreign exchange markets. At the same time, the MAS uses currency swaps and direct open market operations to keep the Singapore Dollar within a desired range relative to a basket of currencies of the country's major trading partners. It seeks to maintain a strong currency to check inflation, given Singapore's extreme exposure to international trade. The government also imposes certain restrictions to limit the internationalization of the Singapore Dollar, including a requirement for banks to consult the MAS before extending credit in excess of SGD 5 million (about USD 3 million) to non-residents. It has recently opened up its Singapore Dollar debt market to foreign companies and financial institutions, however, on condition that the funds are converted to foreign exchange prior to use abroad.

The Singapore Dollar appreciated nearly 55 percent against the U.S. Dollar from 1986 to 1996. It has since depreciated, along with but to a lesser extent than other regional currencies, as a result of the Asian economic crisis. The Singapore Dollar depreciated by as much as 20 percent between July 1997 and August 1998 when it sank to its lowest rate of 1.78 to the U.S. Dollar. This has had a major impact on U.S. exports to Singapore, which fell by 11.6 percent 1998, and are expected to show flat growth in 1999. The Singapore Dollar has since rebounded with the region's recovery, and is forecast to post an average rate of about 1.7 for 1999.

3. Structural Policies

Singapore's prudent economic policies have allowed for steady economic growth and the development of a reliable market, to the benefit of U.S. exporters. Singapore was the tenth largest export market for the U.S. in 1998, slipping from the eighth and ninth positions which it occupied in 1996 and 1997, respectively. Product prices are generally determined by market forces. The government conducts its bids by open tender and encourages price competition throughout the economy.

The government has gradually reduced corporate income tax levels from 40 percent in 1986 to the current 26 percent. It aims to bring the corporate tax rate down further to 25 percent. Foreign firms are taxed at the same rate as local firms. There is no tax on capital gains except on residential properties that are sold within three years of purchase. This was implemented in 1996, together with measures to impose higher stamp duties and restrict bank credit for property purchases, in order to curb excessive speculative activities in the real estate market.

The government implemented a three percent value-added Goods and Services Tax (GST) in 1994 but reduced corporate (by one percentage point) and personal (by three percentage points) taxes. It also began providing rebates of up to SGD 700 on individual income tax in 1994 to lighten the GST burden on the citizenry. With these changes, it is estimated that 65 percent of income earners end up not having to pay personal income taxes, thus increasing the disposable incomes available to the average consumer. Singapore's personal income tax rates presently range from 2 percent for the lowest income bracket to 28 percent for those earning annual incomes exceeding SGD 400,000 (about USD 240,000).

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

In view of the city-state's relatively high land and labor costs, the government has been aggressively implementing relevant manpower development, industrial restructuring and infrastructure enhancing measures to upgrade Singapore into a competitive knowledge-based economy. The plan is to attract multinational companies and service providers to establish high value-added manufacturing and service operations in the electronics, chemicals, life sciences, engineering, education, healthcare, logistics, and communications and media industries. It has also embarked on financial liberalization and reforms to develop the retail banking market and, more pertinently, widen Singapore's international scope to include asset management and bond market activities. To catalyze Singapore's advancement into a knowledge-based economy and an international financial center, the government is pursuing a policy to attract foreign professionals and qualified individuals to work and live here.

4. Debt Management Policies

Singapore's external public debt was a negligible USD 3.1 million at the end of 1994 and this was retired completely in 1995. This was one of the key factors that enabled the country to weather the currency crisis that engulfed the region in the second half of 1997 and 1998. Singapore's annual budget surpluses (prior to 1998) and mandatory savings have also allowed the government wide latitude in devising off-budget measures to increase funds to support infrastructure, education, and other programs during the current economic slowdown. Singapore does not receive financial assistance from foreign governments.

5. Significant Barriers to U.S. Exports

Singapore has one of the world's most liberal and open trade regimes. Approximately 96 percent of imports are not dutiable. Tariffs are primarily levied on cigarettes and alcohol to restrict their consumption. Excise taxes are levied on petroleum products and motor vehicles primarily to restrict motor vehicle use. There are no intentional non-tariff barriers to foreign goods. Import licenses are not required; customs procedures are minimal and highly efficient; the standards code is reasonable; and the government actively encourages foreign investment. All major government procurements are by international tender. The government formally acceded to the WTO Government Procurement Agreement in September 1997.

To achieve its goal of becoming an international financial center, the government has begun removing previous foreign access restrictions in its financial services sector as well. In October 1999, the Monetary Authority of Singapore (MAS) issued a "qualifying full bank" (QFB) license to four Singapore-based foreign banks which allows each of them to establish ten locations (branches and off-premise ATM's), to freely re-locate existing branches, and to share ATM's among themselves. At the same time, the MAS issued eight additional restricted bank licenses to bring the total up to 20. These measures significantly expand the capability of foreign banks to engage in local retail banking. Foreign banks currently hold 23 of the 35 full (local retail) banking licenses. Apart from the QFB licensed banks, other foreign full license banks are still not allowed additional branches or ATM machines, while local banks are allowed to expand freely. Meanwhile, the MAS continues to encourage the growth of the offshore banking industry in Singapore. It recently designated eight new "qualifying offshore banks" (QOB) which will have their Singapore Dollar lending limit raised to SGD 1 billion, while raising the limit for all other offshore banks from SGD 100 to SGD 300 million. QOB banks will also be allowed to accept Singapore Dollar funds from non-bank customers through swap transactions.

There are still restrictions on the extent to which foreign stock brokerage firms can trade in the equity securities markets for Singapore resident clients. Current Stock Exchange of Singapore (SES) regulations restrict foreign equity ownership of SES member companies to 49 percent, with the exception of two joint ventures approved prior to 1990 and the special category of "international members" which are permitted to do only wholesale trading for resident clients. The MAS recently announced, however, that both the stock and futures exchanges are to be demutualized and merged by 1 December 1999, and that the combined exchange itself is eventually to be publicly listed. No new licenses for direct (general) insurers are being issued, although reinsurance and captive insurance licenses are freely available. Foreign companies hold about three-quarters of the 59 direct insurance licenses.

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

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

Singapore has been on the USTR's "Special 301" Watch List since 1997, primarily due to concerns that its intellectual property (IP) rights regime was not fully consistent with the WTO's trade-related intellectual property (TRIPS) provisions, and that police enforcement against retail IP piracy has been inadequate. Other outstanding issues included the lack of rental rights for sound recordings and software, inadequate protection against the sale of bootleg copies of musical performances, the limited scope of copyright protection for cinematography works and overly broad exemptions from copyright protection.

Over the past two years, however, the government has taken significant measures to improve IP rights protection in Singapore. It is a member of the World Intellectual Property Organization (WIPO), and has ratified the WTO's Uruguay Round Accord, including TRIPs provisions. It has enacted a series of laws and amendments to existing provisions with the aim of rendering its IP regime fully TRIPs consistent and improving its overall IP protection regime. These included numerous amendments to its Copyright Law (1998), the Medicines Act (1998), a new Trade Marks Bill (1998), and a new Geographical Indications Act and Layout Designs of Integrated Circuits Act (1999). More recently, the government expanded the Copyright Act to cover digital and internet piracy as well. In December 1998, Singapore became a member of the Berne Convention so that works created by Singapore citizens and residents now enjoy copyright protection in over 100 member countries, and vice versa. Singapore is also a signatory to three other international copyright agreements—the Paris Convention, the Patent Co-operation Treaty, and the Budapest Treaty. Singapore is not a member, however, of the Universal Copyright Convention.

In the area of enforcement, the government's new licensing requirements for optical disc (OD) manufacturing and import controls on OD manufacturing equipment came into force in October 1998. These measures are generally believed to have effectively eliminated the production of pirated optical discs in Singapore. At the same time, the government has increased the number and scope of police-initiated raids against IP pirates at the retail level. According to Singapore's Trade Development Board, the authorities conducted a total of 682 raids in 1998, which resulted in the seizure of over two million IP-infringing articles, a significant rise over the previous year. Through the first nine months of 1999, authorities launched over 1,800 raids, seized more than 1.1 million IP-infringing articles, and arrested about 330 suspected IP pirates. In December 1998, the government launched a long-term campaign aimed at educating primary and secondary students as well as the general public on the IP issue, underscoring the message that buying pirated goods is wrong, undercuts profits for manufacturers, and will eventually lead to fewer choices for consumers.

In October 1999, a number of U.S. publishers, in cooperation with European and local publishers, formed the Copyright Licensing and Administration Society of Singapore (CLASS). CLASS will utilize a provision of the Copyright Act to compel local universities and other educational institutions to pay royalty fees in exchange for the right to duplicate copyrighted printed works for use in course materials.

Despite government efforts that have brought IP piracy rates down to among the lowest in Asia, IP owner associations here continue to press for greater IPR protection. They cite the continued availability of pirated film, music and software OD's for sale in a number of downtown shopping malls and at stalls scattered among suburban housing estates. The IP associations note that nearly all of the pirated OD's have been smuggled into Singapore from neighboring countries, and urge greater border enforcement. Meanwhile, they remain frustrated by the current "self help" IP enforcement system that they argue places an unfair burden on them and makes initiating raids and prosecuting pirates cumbersome and expensive. IP associations have recommended that the government create an independent IPR enforcement police force and called for the mandatory use of Source Identification (SID) codes. They have also pointed out inadequacies in the August 1999 amendments extending Copyright Protection to the internet and certain digital works. They note that internet service providers are not held liable for allowing sites to sell pirated goods, and that the present law allows up to 10 percent of the bytes of a digital work to be legally copied.

According to the International Intellectual Property Alliance (IIPA), total losses from local IP piracy were estimated at about USD 140 million in 1998, up from USD 125 million in 1997. For business application software, IIPA estimated 1998 losses at nearly USD 50 million with a 54 percent level of piracy, as compared to USD 46 million in losses and a 56 percent piracy rate in 1997. For computer entertainment software, it estimated USD 65 million in losses and a 73 percent piracy rate in 1998, up from USD 58 million and a 68 percent piracy level in 1997. IIPA calculated that the motion picture industry lost USD 8 million due to a 25 percent piracy level in 1998, up from USD 3 million lost to 1997's 15 percent level of piracy. The music industry was reported to have suffered losses of USD 16 million and a 19 percent piracy rate in 1998. This was an improvement over losses of over USD 17 million and a 30 percent piracy level in 1997. The American Association of Publishers estimated that publishers lost USD 2 million to piracy of printed works in 1998, compared to USD 1 million lost in 1997.

8. Worker Rights

a. *The Right of Association:* Article 14 of Singapore's Constitution gives all citizens the right to form associations, including trade unions. Parliament may, however, based on security, public order, or morality grounds impose restrictions. The right of association is delimited by the Societies Act, and labor and education laws and regulations. In practice, communist labor unions are not permitted. Singapore's labor force numbered 1.9 million in 1998, of which 272,769 or 14 percent of the labor force were organized into 80 trade unions.

b. *The Right to Organize and Bargain Collectively:* Over ninety percent of union members in 71 of the 80 trade unions are affiliated with an umbrella organization, the National Trades Union Congress (NTUC), which has a symbiotic relationship with the government. The NTUC's leadership is made up mainly of Members of Parliament belonging to the ruling People's Action Party (PAP). The Secretary-General of the NTUC is also an elected Minister without Portfolio in the Prime Minister's office.

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

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

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

e. *Acceptable Conditions of Work:* The Singapore labor market, which has a low average annual unemployment rate of about 2 percent, offers relatively high wage rates and working conditions consistent with international standards. (Note: The average unemployment rate increased slightly to 3.2 percent during the economic downturn in 1998.) However, Singapore has no minimum wage or unemployment benefits. 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 industrial accidents (measured by the number of industrial accidents per million hours worked) to 2.5 in 1998, from 4.2 a decade ago. The average severity of occupational accidents (defined as the number of industrial workdays lost per million hours worked) has, however, remained at 416, little changed from the rate of 418 recorded in 1989.

f. *Rights in Sectors with U.S. Investment:* U.S. firms have substantial investments in several industries, notably petroleum, chemicals and related products, electronic and electronics equipment, transportation equipment, and other manufacturing areas. Labor conditions in these sectors are the same as in other sectors of the economy. Many employers resort to hiring foreign workers to ease shortages in unskilled and highly-skilled jobs. Since 1997, the government has been committed to a policy of attracting foreign skilled individuals and professionals to work in Singapore to supplement its own limited talent pool and catalyze the city-state's advancement into a knowledge-based economy and an international financial center. There are presently about 530,000 foreigners working in Singapore (27 percent of the workforce), of which about 80,000 are in the skilled category while the rest are the lower-skilled workers employed mostly as construction workers or domestic helpers.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		2,920
Total Manufacturing		8,438
Food & Kindred Products	13	
Chemicals & Allied Products	255	
Primary & Fabricated Metals	153	
Industrial Machinery and Equipmentd	2,747	
Electric & Electronic Equipment	4,763	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Transportation Equipment	106	
Other Manufacturing	401	
Wholesale Trade		3,245
Banking		727
Finance/Insurance/Real Estate		3,769
Services		681
Other Industries		3
TOTAL ALL INDUSTRIES		19,783

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

TAIWAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
GDP (at current prices)	283.3	260.6	282.9
Real GDP Growth (percent)	6.8	4.7	5.3
GDP by Sector:			
Agriculture	7.7	7.1	7.6
Manufacturing	78.4	70.6	74.9
Services	155.8	146.0	166.0
Government	29.5	26.8	29.8
Per Capita GDP (US$)	13,130	11,967	12,866
Labor Force (000's)	9,432	9,546	9,690
Unemployment Rate (percent)	2.7	2.7	2.9
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.0	8.6	9.5
Consumer Price Inflation	0.9	1.7	0.9
Exchange Rate (NT$/US$) [2]			
Official	28.95	33.44	32.24
Balance of Payments and Trade: [3]			
Total Exports FOB [4]	122.1	110.6	119.5
Exports to U.S. CV [5]	32.6	33.1	34.9
Total Imports CIF [4]	114.4	104.7	112.1
Imports from U.S. FAS [5]	20.4	18.2	18.8
Trade Balance [4]	7.7	5.9	7.4
Trade Balance with U.S. [5]	12.2	14.9	16.1
External Public Debt	0.1	.05	0.02
Fiscal Deficit/GDP (pct)	3.9	3.3	5.3
Current Account Surplus/GDP (pct)	2.5	1.3	2.1
Debt Service Payments/GDP (pct)	0.8	1.1	0.7
Gold and Foreign Exchange Reserves	88.2	95.1	110.0
Aid from U.S. [6]	0	0	0
Aid from Other Countries	0	0	0

[1] 1999 figures are estimated based on data from the Directorate General of Budget, Accounting and Statistics, or extrapolated from data available as of September 1999.
[2] Average of figures at the end of each month.
[3] Merchandise trade.
[4] Taiwan Ministry of Finance (MOF) figures for merchandise trade.
[5] Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through August. Taiwan MOF figures for merchandise exports (FOB) to and imports (CIF) from the U.S. were (US$ billions): (1996) 26.9/20.0, (1997) 29.5/23.2, (1998) 30.0/19.3.
[6] Aid disbursements stopped in 1965.

1. General Policy Framework

Taiwan's economy is bouncing back after being hit last year with an earthquake, a cross strait scare, and a near financial crisis. Despite these setbacks, the island's growth in 1999 ended up a strong 5.4 percent, well ahead of 1998's 4.8 percent. Taiwan's industrial growth is now concentrated in capital and technology intensive industries such as petrochemicals, computers, semiconductors, and electronic components, as well as consumer goods industries. Services account for 56 percent of GDP in 1998. Merchandise exports accounted for 42 percent of GDP in 1998.

Taiwan's resilience stems from the strength of its external finances, the nimbleness of its many small-scale entrepreneurs, and the dynamism of its information technology industry. Taiwan is poised to expand its role as catalyst for cross-strait economic integration and as a global supplier of hardware for the information age.

The Asian financial crisis did lead to falling official savings and growing public expenditure have caused domestic public debt to increase steadily. The Taiwan authorities now rely largely on domestic bonds and bank loans to finance major expenditures. Taiwan has adopted austerity measures to control the government budget deficit in recent years. As a result, outstanding public debt declined from 21 percent of GNP in 1997 to 17 percent in 1999. However, debt is on the rise again as the government spends heavily on earthquake reconstruction efforts. The central level fiscal deficit through the fiscal year ending in June had fallen to 1.4 percent of GDP. However, the deficit is expected to be sharply higher by year-end 1999 and into 2000, again due to earthquake-related emergency spending. Defense spending still accounts for the largest share of public expenditures (about one quarter), but is falling in relative terms. The greatest pressure on the budget now comes from growing demands for improved infrastructure and social welfare spending, including a national health insurance plan initiated in early 1995.

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

2. Exchange Rate Policies

Taiwan has a floating exchange rate system in which banks set rates independently. The Taiwan authorities, however, control the largest banks authorized to deal in foreign exchange. The Central Bank of China (CBC) intervenes in the foreign exchange market when it feels that speculation or "drastic fluctuations" in the exchange rate may impair normal market adjustments. The CBC uses direct foreign exchange trading by its surrogate banks and public policy statements as its main tools to influence exchange rates. The CBC still limits the use of derivative products denominated in New Taiwan Dollars (NTD).

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

3. Structural Policies

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

Taiwan has been lowering tariffs significantly in recent years as part of its effort to accede to the WTO. In 1998, Taiwan began implementing tariff cuts on 1,130 items, many of specific interest to U.S. industry. Also in 1998, authorities enacted tariff cuts on 245 high-tech products under the Information Technology Agreement. Tariff reductions on 15 agricultural products, negotiated during the U.S.-Taiwan bilateral WTO accession negotiations, took effect temporarily in July 1998, and were extended in July, 1999. In February 1999, Taiwan waived tariffs on 15 aircraft components as part of plans to accede to the WTO Agreement on Trade in Civil Aircraft. An additional 777 items are slated for tariff cuts pending legislative approval. Taiwan's current average nominal tariff rate is 8.2 percent; the trade-weighted rate is 3.1 percent, both down slightly from 1998.

High tariffs and pricing structures on some goods—in particular on some agricultural products—nevertheless hamper U.S. exports. However, under the bilateral WTO agreement reached in February 1998, Taiwan began to provide quotas for the importation of previously banned pork, poultry, and variety meat products, and agreed to phase in tariff cuts on numerous food products upon accession. The Taiwan Tobacco and Wine Monopoly Bureau (TTWMB) has a monopoly on domestic production of cigarettes and alcoholic beverages. As part of its bilateral WTO commitments to the United States, however, Taiwan has pledged to convert an existing monopoly tax on these products to a simpler tax and tariff-based system, and also to open these markets following the passage and implementation of new legislation now pending in the Legislative Yuan.

4. Debt Management Policies

Unofficial estimates put Taiwan's outstanding long and short-term external debt at $22 billion as of early, 1999, equivalent to seven percent of GDP. Official figures show Taiwan's long term outstanding external public debt totaled $33 million as of June 1999, compared to gold and foreign exchange reserves of about $110 billion. Taiwan's debt service payments in 1998 totaled $2.1 billion, only 1.5 percent of exports of goods and services.

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

5. Significant Barriers to U.S. Exports

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

Financial: Taiwan continues to steadily liberalize its financial sector. Taiwan enacted a Futures Exchange Law in March 1997; a futures market was established in July 1998. The Securities and Exchange Law was amended in May 1997 to remove restrictions on employment of foreigners by securities firms, effective upon Taiwan's accession to the WTO. In early 1999, the limit on foreign ownership in listed companies was raised from 30 percent to 50 percent. For qualified foreign institutional investors, restrictions on capital flows have been removed, although they are still subject to limits on portfolio investment. Foreign individual investors are subject to some limits on their portfolio investment and restrictions on their capital flows.

Banking: In June 1997, the annual limit on a company's non-trade outward (or inward) remittances was raised from $20 million to $50 million. Inward/outward remittances unrelated to trade by individuals are subject to an annual limit of $5 million. There are no limits on trade-related remittances. NTD-related derivative contracts may not exceed one-third of a bank's foreign exchange position. To stabilize the foreign exchange market in the wake of regional financial turmoil, the CBC closed the non-deliverable forward (NDF) market to domestic corporations in May 1998; the NDF market remains open to foreign companies.

Legal: Foreign lawyers may not operate legal practices in Taiwan but may set up consulting firms or work with local law firms. Qualified foreign attorneys may, as consultants to Taiwan law firms, provide legal advice to their employers only. Legislation was passed in May 1998 to permit the eventual establishment of foreign legal partnerships. However, last minute changes to the law failed to achieve this purpose. However, Taiwan authorities subsequently agreed to delay implementation of the law and to make other commitments which will permit foreign attorneys to establish partnerships either upon accession to the WTO, or upon implementation of the new law, whichever comes first.

Insurance: In May 1997, the financial authorities announced that, in principle, insurance companies would be allowed to set some premium rates and policy clauses without prior approval from regulators. Insurance companies are still required to report such rates and clauses. In July 1995, Taiwan removed a prohibition against mutual insurance companies. As of late 1999, however, authorities had not issued implementing regulations.

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

Telecommunications: Taiwan will open its fixed line market to competition in early 2000, when it is expected to issue 2-4 new fixed line licenses to private consortia. However, the published criteria for the license tender—including $1.2 billion in up-front paid-in capital, a minimum one million line final build-out, and a 150,000 line build-out prior to service roll-out—are considered onerous entry barriers by some foreign companies. Under the bilateral WTO agreement signed in February 1998 Chunghwa Telecom, a state-owned corporation, began to lower excessively high interconnection fees previously imposed on private mobile service providers. This phased process is ongoing, but Chunghwa continues to engage in pricing practices which appear designed to unfairly subsidize its mobile operations with its fixed line services, in which it continues to enjoy monopoly status. Taiwan regulators have only recently begun to address such unfair trading practices. In October, Taiwan's legislature passed a revised Telecom Law. It will raise the current 20 percent limit on foreign ownership of a telecom firm to 60 percent through a combination of direct and indirect ownership. The timing of the law's implementation, however, remains uncertain.

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

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

Standards, Testing, Labeling, and Certification: Taiwan has agreed to bring its laws and practices into conformity with the WTO Agreement on Technical Barriers to Trade as part of its WTO accession. However, Taiwan is not yet in conformity with WTO norms. U.S. agricultural exports are often negatively affected because prior notification of changes to standards, labeling requirements, etc, are not provided with adequate lead-time, or because changes to standards and other import requirements are not provided in a WTO language. In addition, concerns exist that U.S. fresh produce and meat imports do not, in all cases, receive national treatment. Industrial products such as air conditioning and refrigeration equipment, electric hand tools, and synthetic rubber gloves must undergo redundant and unnecessary testing requirements, which include destructive testing of samples. Imported autos face stringent noise emissions and fuel efficiency testing requirements. In March 1999 the U.S. and Taiwan signed a mutual recognition agreement (MRA) designed to eliminate duplicate testing of information technology equipment. According to the terms of the MRA, certain Taiwan exports to the U.S. previously tested for electromagnetic conformity in labs recognized by Taiwan authorities will no longer require duplicate inspections in an U.S. lab. Reciprocal treatment will likewise be accorded similar U.S. products imported into Taiwan. Relevant U.S. agencies and their Taiwan counterparts are jointly implementing operating procedures according to the principles of the MRA, including nominating certified labs for mutual accreditation.

Investment Barriers: Taiwan continues to relax investment restrictions in a host of areas, but foreign investment remains prohibited in key industries such as agriculture, basic wire line telecommunications, broadcasting, and liquor and cigarette production. Wire line telecommunications will be gradually liberalized beginning in

1999, and will be completely liberalized by July 2001 under Taiwan's WTO commitments. Liquor and cigarette production will be fully liberalized by 2004.

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

Procurement Practices: Taiwan has committed to adhere to the WTO Agreement on Government Procurement as part of its WTO accession. To prepare for this commitment, a new Government Procurement Law (GPL) become effective in mid-1999, marking an important first step towards open, fair competition in Taiwan's multi-billion dollar market for public procurement projects. However, some initial procurements after the implementation of the GPL still have one-sided terms and conditions which may strongly discourage foreign bidders, including inefficient allocations of risks to the supplier.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

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

In its April 1999 decision to keep Taiwan on the "Special 301" Watch List, the United States cited continuing concerns about Taiwan's IPR enforcement generally, and specifically urged Taiwan authorities to tighten controls on optical media production. In 1998, U.S. Customs seized $8.6 million of counterfeit goods from Taiwan, making Taiwan the second largest source of counterfeit goods (after the PRC). Taiwan has taken steps to address these concerns. In January of 1999, Taiwan established an Intellectual Property Office to improve coordination of IPR protection efforts. In February, Taiwan's Executive Yuan issued a new directive requiring only the use of legal software by Taiwan authorities. Beginning on July 1, 1999, all optical media products produced in Taiwan, including CD's, VCD's, CD-ROM's and DVD's, were required to bear source identification (SID) codes. At the same time, Bureau of Standards, Metrology and Inspection inspectors were authorized to perform random factory visits to ensure compliance. Also on July 1, the Taiwan Semiconductor Industry Association began implementation of a voluntary computer chip-marking program.

8. Worker Rights

a. *The Right of Association:* Although the right to organize was reaffirmed by Taiwan's Judicial Yuan in 1995 as a constitutional right, the Labor Union Law (LUL) forbids civil servants, teachers, and defense industry workers from organizing trade unions and forbids workers from forming competing trade unions and confederations. However, as democratization has continued, workers have established independent labor unions, either legally or illegally. These independent unions increasingly are challenging the leadership of the Chinese Federation of Labor, which is closely tied to the ruling Kuomingtang party, and is the only island-wide labor union permitted. In February of 1999, a national teacher's association was established. In July, workers unions of 18 state-owned enterprises formed an alliance to protect their rights during privatization. As of June of 1999, 2.9 million workers, or 30.5 percent of Taiwan's labor force, belonged to 3,766 labor unions.

b. *The Right to Organize and Bargain Collectively:* Except for civil servants, teachers, and defense industry workers, the LUL, the Law Governing the Handling of Labor Disputes, and the Collective Agreement Law offer workers the right to organize and bargain collectively. However, the law contains restrictions to curb workers' exercise of these rights. The LUL, for example, stipulates that workers shall not strike to demand an increase in wages exceeding standard wages. Collective bargaining agreements exist only in large-scale enterprises. As of June 1999, there were 298 such collective agreements.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Standards Law prohibits forced or compulsory labor. The maximum jail sentence for violation of the law is five years. Except for cases involving prostitution, there have only been allegations of possible forced or compulsory labor relating to PRC crewmembers on Taiwan fishing boats.

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

e. *Acceptable Conditions of Work:* The Labor Standards Law (LSL) mandates basic labor standards. Pursuant to a 1996 amendment, the LSL was extended to cover all salaried employees (except teachers, civil servants, doctors, lawyers and some other specialized professions) as of the end of 1998. The law now covers over 5.5 million of Taiwan's 6.7 million salaried workers. The Council of Labor Affairs (CLA) has kept the basic wage at the same level (NT$15,840 per month or about $500) since 1997. However, the average monthly wage in Taiwan's manufacturing sector was NT$40,130 (or about $1,300) during the first six months of 1999. The LSL limits the workweek to 48 hours (8 hours per day, 6 days per week) and requires 1 day off every 7 days. In December of 1996, the LSL was amended to allow employers to adjust working hours, with approval by workers. The amendment allows private firms to have five-day workweeks twice every month, similar to the system implemented for civil servants in early 1998. Currently, about one third of private enterprises have adopted an alternating 5-day workweek system. In addition to wages, employers typically provide workers with additional payments and benefits, including a portion of national health insurance and labor insurance premiums, the distribution of labor welfare funds, meals, and transportation allowances.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		49
Total Manufacturing		3,258
Food & Kindred Products	99	
Chemicals & Allied Products	1,372	
Primary & Fabricated Metals	45	
Industrial Machinery and Equipment	280	
Electric & Electronic Equipment	1,191	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		368
Banking		614
Finance/Insurance/Real Estate		337
Services		163
Other Industries		148
TOTAL ALL INDUSTRIES		4,937

[1] Data suppressed to avoid disclosure of individual company data.

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

THAILAND

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production, and Employment: [2]			
Nominal GDP	150,593	112,758	121,979
Real GDP Growth (pct) [3]	−1.8	−10.0	3.5
GDP by Sector			
Agriculture	14,814	13,239	[2] 11,496
Manufacturing	44,638	34,660	[2] 39,123
Services	22,990	18,197	[2] 21,177
Government [4]	15,021	12,200	[2] 14,193
Per Capita GDP (US$)	2,421	1,765	1,965
Labor Force (000's)	32,840	32,800	33,490
Unemployment Rate	1.9	4.0	4.2
Money and Prices (annual percentage growth):			
Money Supply Growth	16.4	9.5	6.4
Consumer Price Inflation	5.6	8.1	0.5
Exchange Rate			
Official	31.37	41.37	[5] 37.71
Balance of Payments and Trade:			
Total Exports FOB [6]	56,721	52,873	54,988
Exports to U.S. [6]	11,341	12,167	[7] 12,065
Total Imports CIF [6]	61,348	40,641	45,761
Imports from U.S. [6]	8,714	5,963	[7] 6,352
Trade Balance [6]	−4,626	12,232	9,227
Balance with U.S. [6]	2,627	6,204	[7] 5,713
External Public Debt	24,323	31,494	35,500
Fiscal Balance/GDP (pct)	−2.7	−5.5	[8] −7.2
Current Account/GDP (pct)	−2.0	12.8	9.0
Debt Service Payments/GDP (pct)	0.8	1.2	N/A
Gold and Foreign Exchange Reserves	26,968	26,536	34,000
Aid from U.S. [9]	3.6	5.5	N/A
Aid from All Other Sources	109.2	105.8	N/A

[1] Royal Thai Government projections unless otherwise indicated.
[2] Estimate based on six-month data.
[3] Percentage changes calculated in local currency.
[4] Government expenditure on GDP; for illustrative purposes.
[5] Estimate based on ten-month data.
[6] Merchandise trade, balance of payments concept.
[7] Estimate based on eight-month data.
[8] Includes imputed interest of financial sector restructuring.
[9] Fiscal year total (October-September).

Sources: Royal Thai Government and U.S. Department of Commerce.

1. General Policy Framework

The government of current Thai Prime Minister Chuan Leekpai has been working to stabilize and reinvigorate the Thai economy since it took office in November 1997. The East Asian economic crisis began in Thailand when a failed effort to defend the baht (the Thai currency) depleted Thailand's foreign exchange reserves and forced the Bank of Thailand to float the currency in July 1997. Over the next six months the baht lost half of its value, and the crisis spread from the financial sector to the real sector. The Thai economy, one of the world's fastest growing up through 1995, tumbled, and real GDP suffered contractions of 1.8 percent and 10 percent in 1997 and 1998 respectively. The financial contagion spread from Thailand to other countries in the region, particularly Korea and Indonesia, impairing Thailand's ability to export its way out of the crisis.

The failed defense of the baht led the government to seek assistance from the IMF, which in August 1997 put together a package worth $17.2 billion to provide balance of payments support and begin restructuring the Thai economy and financial sector. Under the guidance of Finance Minister Tarrin NimmanhaeMinda, the government has focused considerable effort on restructuring the financial sector. Insolvent institutions, including two-thirds of the country's finance companies, were closed or placed in receivership, and new provisioning requirements were instituted. The crisis and subsequent restructuring have opened the way for increased foreign participation in the financial sector. Foreign banks now own controlling interests in four Thai commercial banks, and two more banks are scheduled to be sold by the end of 1999. Thailand has also passed legislation to reform and streamline the bankruptcy and foreclosure system (including establishing a new bankruptcy court), and auctioned off assets of the closed finance companies to the private sector. Reform legislation still in draft includes a new financial institutions law, a new central bank law, amendments to the Currency Act, and bills to set up a deposit insurance scheme and a credit bureau. Throughout, Thailand has favored a market-oriented private sector-led approach to restructuring the financial sector.

While the government's efforts stabilized the economy and laid the macro-economic foundation for a return to growth by late 1998, the real economy did not respond, and the focus turned to stimulating consumption. With the support of the IMF, the government ran fiscal deficits (after years of balanced or surplus budgets) of 3 percent of GDP in FY 1998 and 6 percent of GDP in FY 1999. An additional stimulus program of 2.8 percent of GDP announced in March 1999 provided funds to create jobs for 485,000, expand government purchases of goods and services by $1 billion, and decrease the tax burden on middle class income earners and the costs of energy for industrial users. In August 1999 the government announced a further stimulus package of 2.2 percent of GDP to promote private investment. A new Alien Business Law and new investment promotion incentives should also increase Thailand's attractiveness to foreign investors. The economy has responded to these stimulus programs with consumption, exports and imports, and production all recording moderate increases for the first nine months of the year in comparison to 1998 totals. Private investment remains below 1998 activity, but the declines here are slowing. The government is financing the deficit through domestic bond sales and foreign debt and grant assistance.

Current Thai monetary policy aims at maintaining adequate system liquidity and keeping interest rates low in an effort to promote debt restructuring and new lending. The government uses a standard array of monetary policy tools but focuses on open market operations, particularly the repurchase market. Foreign exchange flows have a moderate effect on exchange rate stability. Current government policy does not target a specific level for the baht. However, the government will act to smooth volatility in the exchange rate.

2. Exchange Rate Policy

From 1984 to 1997 the baht was pegged to a basket of currencies of Thailand's major trading partners, with the dollar representing the largest share. The exchange rate averaged 25 baht to the dollar during that period. Following the depletion of Thailand's foreign exchange reserves in an unsuccessful attempt to defend the peg, the currency was allowed to float in July 1997. It began to depreciate immediately and fell to below 50 per dollar in January 1998. As reform measures and IMF support took hold, the baht stabilized and has traded in the 36 to 41 baht per dollar range since March 1998.

The Thai government began liberalizing the exchange control regime in 1990 and accepted IMF Article VIII obligations. Commercial banks received permission to process larger foreign exchange transactions, and ceilings on money transfers were increased. Since 1991 Thai banks have offered foreign currency accounts for residents, although they are limited to $500,000 for individuals and $5 million for corporations (without conditions).

After the baht was floated on July 2, 1997 the government tightened conditions on foreign exchange, requiring customers to show evidence of foreign currency obligations (within three months from date of deposit) to open foreign currency accounts. Thailand also required exporters to repatriate and deposit foreign exchange earnings more expeditiously. More recently, the government has restricted the supply of baht to non-resident parties (unless there is an underlying transaction requiring the currency) to cut down on offshore speculation.

3. Structural Policies

The Thai taxation system has undergone significant revision since 1992 when a value added tax (VAT) system was introduced to replace a multi-tiered business tax system. The VAT rate was raised from 7 to 10 percent in 1997 but lowered temporarily back to 7 percent in March 1999 to stimulate private consumption. Exemptions in place for low revenue businesses were expanded in March 1999. Exporters are "zero rated" under the VAT system but must file returns and apply for rebates. Parliament is considering tax credits in lieu of the rebate. The corporate tax rate is currently 30 percent of net profits for all firms.

Thailand and the United States signed a tax treaty in November 1996, and the treaty entered into force in early 1998. The treaty eliminates double taxation and gives U.S. firms tax treatment equivalent to that enjoyed by Thailand's other tax treaty partners.

Heightened awareness in Thailand about "genetically modified organisms" (GMO) issues and concern about increasing barriers to GMO products in Thailand's European markets have led to a reexamination of Thai government policy towards imports, production, sales, and exports of GMO crops, commodities, and processed foods. Current policy allows imports into Thailand of GMO seeds and plants only for research purposes, but there are no restrictions on imports of GMO commodities or products and no compulsory labeling requirements. The result is a relatively small impact on U.S. exports of GMO products. Although the debate continues, particularly on labeling, we do not expect major changes in this policy over the next year.

4. Debt Management Policies

Thailand's financial crisis resulted in part from significant increases in private sector external debt, but these levels have declined markedly since the onset of the crisis, falling from $75 billion at the end of June 1997 to $47 billion at the end of June 1999. Thailand entered the crisis with low levels of public debt, but public sector external debt has risen significantly as the government stabilized and sought to stimulate the economy. At the end of 1997, total public sector external debt (including that of the Bank of Thailand) stood at $24 billion. By the end of June 1999, the figure had risen to $34 billion. Public sector debt is predominantly long-term and divided among direct borrowings and loans to state-owned enterprises guaranteed by the government, with the latter predominating.

Mounting public sector debt is a concern in Thailand, and the government is attempting to diversify its sources of funding by developing a domestic bond market. By the end of June 1999, total public sector debt, including the non-guaranteed debt of state-owned enterprises, had climbed to 41 percent of Thailand's GDP. The public debt service ratio (payments as a percent of the exports of goods and services) stood at the end of June 1999 at 3.5 percent, down slightly from the first quarter, but up a full percentage point from the comparable 1996 figure. By way of contrast, the debt service ratio for private sector debt at the end of June stood at 15.5 percent.

Thailand has consistently met the targets and performance criteria elaborated in the $17.2 billion program agreed with the IMF in 1997. The program will run through May 2000, although Thailand recently announced that it does not intend to take disbursement of the final $2.7 billion of the package.

5. Significant Barriers to U.S. Exports

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

At the beginning of 1997, the total number of tariff rate categories was reduced from 39 to six, with the following spread: zero percent on such goods as medical equipment and fertilizer, one percent on raw materials, electronics components, and vehicles for international transport, five percent on primary and capital goods, 10 percent on intermediate goods, 20 percent for finished products, and 30 percent on goods needing "special protection." This last category includes agricultural products, autos and auto parts, alcoholic beverages, and a few other "sensitive" items. Import tariff quotas are applied to 23 categories of agricultural products. Further reductions on a range of capital goods and raw materials were announced in August of 1999 as an investment incentive measure and a spur to domestic industries. Tariff exemptions for some items deemed critical to Thai industrial recovery were also announced.

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

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

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

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

Arbitrary customs valuation procedures sometimes constitute a serious barrier to U.S. goods. The Customs Department has used the highest previously declared invoice value as a benchmark for assessing subsequent shipments from the same country. That allows Customs to disregard the invoice value of a shipment in favor of the benchmark amount. This practice has had a particularly damaging effect upon trade in agricultural products, which often have seasonally fluctuating values. However, the government is instituting a program of customs reform that, if adopted successfully, will remedy some of the problems at the ports of entry. These reforms include adoption of the World Customs Organization harmonized code and the use of an Electronic Data Interchange (EDI) system. The pilot program for EDI became operational early in 1998, but thus far affects only export procedures and only in the airport, not in the seaports. There have been some significant improvements in advance of the full installation of EDI. Expedited procedures for express carriers were instituted during 1998, and customs procedures in the port areas are reported by private industry to be faster and smoother during 1998-1999.

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

Restrictions on the activities of foreign banks have eased since 1994, as have limits on foreign ownership of Thai banks. However, foreign banks' deposits in Thailand still comprise only 4.1 percent of total bank deposits, and foreign banks are still disadvantaged in a number of ways. Foreign banks are limited to three branches (of which two must be outside of Bangkok and adjacent provinces) and there are limits on expatriate management personnel, although foreign bankers here say that requests for additional personnel are customarily approved.

To facilitate recapitalization of the financial sector, the government has raised limits on foreign ownership of domestic banks. In June 1997 the Minister of Finance was empowered to raise the old 25 percent ceiling on foreign ownership of domestic banks, and the Bank of Thailand announced in November 1997 that foreign ownership would be allowed to exceed 49 percent for a period of 10 years. (Foreign investors will not be forced to divest shares after 10 years, but will not be able to purchase additional shares.) The government has also issued additional foreign bank and Bangkok International Banking Facility licenses and authorized foreign bank participation in domestic ATM networks. During the third quarter of 1999 foreign banks purchased 75 percent shares of two domestic banks intervened by the Thai Government. The Government hopes to sell similar stakes in two more intervened banks by the end of 1999.

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

The provision of telecommunications services is a government monopoly in Thailand. Private participation is currently limited to concessions in both wireless and fixed line sectors. In November 1997, the government approved a telecommunications master plan that that provides an outline of a liberalization program. The government plans to corporatize its two telecom operators, the Telephone Organization of Thailand and the Communications Authority of Thailand, in preparation for seeking strategic partners in the next few years. Full market liberalization will not take place until 2006, as mandated by the WTO.

6. Export Subsidies Policies

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

7. Protection of U.S. Intellectual Property

Improved protection for U.S. copyright, patent, and trademark holders has been an important bilateral trade issue for several years. After passage of a revised Copyright Law in 1994 the U.S. moved Thailand from Priority Watch List to Watch List status. During 1998 the Thai Parliament passed amendments to the Patent Act, abolishing the Pharmaceutical Review Board. Trademark application procedures were streamlined by administrative means.

A specialized intellectual property department in the Ministry of Commerce has cooperated with U.S. industry associations to coordinate both legal reforms and enforcement efforts, including raids. In 1997, the parliament established a separate intellectual property court that has resulted in a more efficient judicial procedures and higher fines. The court began operation in December 1997. In mid-1998, the government produced a letter of intent containing the bilaterally agreed text of an IPR action plan for the remainder of the year. The plan was ambitious, and covered most aspects of IPR. Many components of the plan were implemented during 1998 as the Thai Government showed itself prepared to install more efficient administrative structures and procedures for dealing with piracy. Enforcement has always been the biggest problem. During the first months of 1999 enforcement efforts in Thailand improved dramatically with several successful raids on pirate optical media supply and distribution systems. The momentum has been kept up through the second half of the year. Rights-holders report that police cooperation is better and the frequency of raids is up across the board. As requested by the USG and rights holders, these have included some raids against producers.

Piracy remains a serious problem, however, and it is growing rather than shrinking as pirates from elsewhere in the region have come to set up shop in Thailand. The U.S. pharmaceutical, film, and software industries estimate lost sales at over $200 million annually. Few persons have served time in jail for copyright infringement. Irregularities in police and public prosecutor procedures have resulted in the substitution of insignificant defendants for major ones and the disappearance of vital evidence from police inventories. Although fewer raids are compromised by leaks from police sources than during 1997-98, this is still a problem. Some trademark pirates running "plush" item factories in outlying provinces have thwarted raids with threats of violence against officials and investigators.

8. Worker Rights

a. *The Right of Association:* The Labor Relations Act of 1975 gives workers in the private sector most internationally recognized labor rights, including the freedom to associate. They may form and join unions and make policy without hindrance from the government and without reprisal or discrimination for union activity. Unions in Thailand may have relationships with unions in other countries, and with international labor organizations. In 1991, following a military coup, the Thai Government revoked a number of these rights for state enterprise workers. The Thai Parliament approved a new State Enterprise Labor Relations (SELRA) bill on October 8, 1998. That bill was subsequently rejected by the Constitutional Court on a technicality. In August 1999, after the bill was re-introduced, the House and Senate could not agree on several key union rights provisions. The House then invoked constitutional provisions that will allow it to pass SELRA unilaterally after a six-month waiting period. The Ministry of Labor expects the bill to pass by February 2000.

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

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

d. *Minimum Age for Employment of Children:* The new 1998 Labor Protection Act went into effect on August 20, 1998. The act raises the minimum age for employment in Thailand from thirteen to fifteen. Persons between the ages of 15 to 18 are restricted to light work in non-hazardous jobs, and must have the permission of the Department of Labor in order to work. Nighttime and holiday employment of non-adults is prohibited. The new national education bill passed in August 1999 gives the children the right to free primary education through grade 12. However, compulsory education is only enforced through grade nine.

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

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,579
Total Manufacturing		1,633
Food & Kindred Products	109	
Chemicals & Allied Products	334	
Primary & Fabricated Metals	70	
Industrial Machinery and Equipment	648	
Electric & Electronic Equipment	243	
Transportation Equipment	24	
Other Manufacturing	205	
Wholesale Trade		1,508
Banking		486
Finance/Insurance/Real Estate		351
Services		42
Other Industries		122
TOTAL ALL INDUSTRIES		5,721

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

EUROPE

THE EUROPEAN UNION

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Income, Production and Employment:			
Nominal GDP	8095.6	8393.9	8182.5
Real GDP Growth (pct)	2.7	2.9	2.1
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (Thousands of US$)	21.6	22.3	21.8
Labor Force (Millions)	166.9	167.7	N/A
Unemployment Rate (pct)	10.7	10.0	9.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2/M3)	5.0	N/A	N/A
Consumer Price Inflation	2.1	1.5	1.3
Exchange Rate (USD/ECU annual average)	1.13	1.12	1.05
Balance of Payments and Trade:			
Total Exports FOB	820.2	816.1	N/A
Exports to U.S.	160.8	179.1	N/A
Total Imports CIF	765.2	793.5	N/A
Imports from U.S.	156.9	168.7	N/A
Trade Balance	55.0	22.6	N/A
Balance with U.S.	3.9	10.4	N/A
External Public Debt (pct of GDP)	71.7	69.7	68.6
Fiscal Deficit/GDP (pct)	2.3	1.5	1.5
Current Balance/GDP (pct)	1.5	1.2	0.9
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gross Official Reserves	518.5	N/A	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from Other Sources	N/A	N/A	N/A

[1] Estimates.

1. General Policy Framework

The European Union (EU), the largest U.S. trade and investment partner, is a supranational organization comprised of fifteen European countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. It is unique in that its member states have ceded to it increasing authority over their domestic and external policies, especially with the 1987 Single European Act and the 1993 "Maastricht" and 1999 "Amsterdam" amendments to the 1958 Treaty of Rome. Individual member state policies, however, may still present problems for U.S. trade, in addition to EU-wide actions.

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

The Maastricht Treaty provides for the creation of an Economic and Monetary Union (EMU) among the EU member states which went into effect on January 1, 1999 with the launch of a single currency, the euro. The 11 participating countries (Denmark, Greece, Sweden and the United Kingdom are not included) now have a single monetary policy conducted by the European System of Central Banks (ESCB), including the Frankfurt-based European Central Bank (ECB). Member states were generally successful in achieving the "convergence criteria" for EMU: maximum deficits of three percent of GDP, maximum gross national debt of 60 percent of GDP, inflation and interest rate levels no more than one and a half percentage points above the average of the three lowest rates among the member states, and two years of relative exchange rate stability. Since the euro's launch they have adhered to their Stability and Growth Pact's limit on excessive budget deficits (3 percent of GDP) by seeking to achieve balanced budgets by 2002.

The Union's budget, consisting mainly of member state contributions because the EU has no independent taxing authority, is limited to 1.27 percent of the combined GDP of the 15 member states. Expenditures of roughly $100 billion are divided generally among agricultural support (40 percent), "structural" policies to promote growth in poorer regions (40 percent), other internal policies (five percent), external assistance (five percent) and administrative and miscellaneous (five percent).

2. Exchange Rate Policy

The third and final stage of EMU began on January 1, 1999 when 11 member states irrevocably fixed their exchange rates to the euro. Financial transactions are now available in euros through commercial banking institutions. Euro notes and coins will be introduced on January 1, 2002, fully replacing national currencies by July 1, 2002. During the transition period, there will be dual circulation between the euro and the respective national currencies.

The ESCB is responsible for setting monetary policy in the euro area, while national central banks will continue to conduct money market operations and foreign exchange intervention under its direction. Per requirement of the treaty, the ECB policy is focused on maintaining price stability. The euro follows a floating exchange rate regime against other currencies, with the exception of the currencies of Denmark and Greece which participate in the new Exchange Rate Mechanism (ERM-2) limiting their fluctuation against the euro to +/– 2.25 percent and +/– 15 percent respectively. EMU has provisions to create additional exchange rate arrangements, if the member states desire to do so. However, there are no current plans to seek such arrangements.

3. Structural Policies

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

Tax Policy: Tax policy remains the prerogative of the member states, which must approve by unanimity any EU legislation in this domain. EU legislation to date has been aimed at eliminating tax-induced distortions of competition within the Union. Legislation focuses on harmonizing value-added and excise taxes, eliminating double taxation of corporate profits, interest, and dividends and facilitating cross-border mergers and asset transfers. The EU countries have stated their commitment to move further toward coordination of their tax policies, in addition to agreeing to a Code of Conduct to curb "harmful" business taxation.

4. Debt Management Policies

The EU raises funds in international capital markets, but does so largely for cash management purposes and thus does not have any significant international debt. The European Investment Bank, reportedly the world's largest multilateral development bank, also raises funds in international markets. The bank has an extremely favorable balance sheet and retains the highest credit rating. Finally, the EU has used its borrowing power to on-lend to key developing countries, especially in Central Europe and the newly independent states of the former Soviet Union. It has consistently taken a hard line on efforts to reschedule their debt.

5. Significant Barriers to U.S. Exports

Import Policies

Import, Sale and Distribution of Bananas: The U.S. has been engaged for many years in efforts to resolve a long-standing dispute with the EU over its banana import regime. The WTO found that the EU's current regime remains WTO-inconsistent. The U.S. currently has WTO-approved retaliation in place worth 191.4 million dollars per year. The U.S. has tabled a number of constructive ideas on revised regimes that would be WTO-consistent. The European Commission is currently developing proposals for member state consideration. U.S. retaliation will remain in place until the EU implements a WTO-consistent banana import regime.

Restrictions Affecting U.S. Wine Exports to the EU: Current EU regulations require imported wines to be produced only by specifically authorized oenological practices. Since the mid-1980's, U.S. wines have entered the EU market under a series of "derogations" granting EU regulatory exemptions. Access to the EU wine market is further impeded by a complicated wine-import certificate documentation process. The United States is negotiating an agreement with the EU to ensure the EU market remains open to U.S. wine. The U.S. does not believe EU legislation on "traditional expressions" (terms such as vintage or tawny) is WTO TRIPs consistent and therefore does not believe this area is appropriate for bilateral negotiation.

Services Barriers

EU Broadcast Directive: The EU's 1989 Broadcast Directive (revised in 1997) provides that a majority of entertainment broadcast transmission time be reserved for European-origin programs "where practicable" and "by appropriate means." Certain measures of the directive appear to violate WTO rules. The U.S. has reserved its right to take further action under dispute settlement procedures and will continue to monitor closely the implementation of these measures.

Computer Reservation Services: U.S. Computer Reservation Services (CRS) companies have had difficulties in the EU market because some member state markets tend to be dominated by the CRS owned by that member state's flag air carrier. Most disputes have been resolved to the satisfaction of U.S. CRS vendors via U.S. government intervention or recourse to national administrative and court systems. In 1996 the U.S. Department of Justice forwarded a Positive Comity referral to the European Commission (DG Competition) requesting an investigation into anti-competitive activities in Europe that may have disadvantaged a U.S. CRS firm. The Commission's investigation resulted in a European CRS firm being charged with activities that infringed competition rules. As of November 1999 a final Commission ruling has not been made.

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

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

Standards, Testing, Labeling and Certification

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

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

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

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

Biotechnology Product Approvals and Labeling: A majority of EU member states have called for a "moratorium" on approvals for products of biotechnology for the foreseeable future. Calls for segregation, traceability and labeling have not been well defined. The result has been an uncertain and ambiguous regulatory environment that neither instills consumer confidence nor provides clear criteria with which industry could comply. No biotechnology products have been approved since 1998. The Commission is currently conducting an internal review of the EU approach to biotechnology and food safety and expects to circulate a recommendation paper in early 2000.

Hormone-Treated Beef: The WTO has ruled consistently against the EU's ban on hormone-treated beef, most recently in early 1998. The EU did not come into compliance by May 13, 1998, as required, citing a need to perform additional risk assessments (which the WTO did not say were needed). Therefore, the U.S. has imposed WTO-approved retaliation worth 116.8 million dollars per year, pending EU compliance. A large body of scientific evidence indicates these products are safe as used. The EU does not expect its studies to be complete before mid-2000 at the earliest. The U.S. remains open to exploring meaningful compensation pending EU compliance.

Veterinary Equivalency: The U.S./EU Veterinary Equivalency Agreement (VEA) was signed on July 20, 1999 and implemented on August 1. The agreement provides a regulatory framework for recognition of equivalent sanitary measures of both parties of virtually all animals and animal products. However, recent statements by Commission officials have indicated that the EU is not prepared to recognize U.S. systems as equivalent in the near term. A joint management committee meeting of the VEA is planned for March 2000, when we hope to have ironed out many of the implementation issues.

Aflatoxin Limits: In July 1998, the EU adopted a regulation harmonizing maximum levels of aflatoxin in peanuts, tree nuts and dried fruits, cereals and milk, effective January 1, 1999. At the same time, a directive specifying sampling methods to be used after December 31, 2000 was adopted. The United States considers the maximum limits unjustifiably low in relation to consumer exposure and risk. The sampling procedure will increase handling costs with no appreciable reduction of aflatoxin contamination in consumer protection.

Specified Risk Materials Ban: In response to growing concern over the transmission of "mad cow disease" or Bovine Spongiform Encephalopathy (BSE), the EU, in July 1997, passed a Specified Risk Material (SRM) regulation restricting the use and processing of certain animal products and by-products. Since tallow, tallow derivatives and gelatin are widely used in food manufacturing, pharmaceutical, cosmetic and industrial products, this regulation threatened to significantly restrict U.S. access to EU markets despite the fact that the United States is considered to have a negligible BSE-risk. Implementation of the ban continues to be delayed; a new proposal addressing the overall, long term problem of TSEs (transmissible spongiform encephalopathies) is expected to be presented in November 1999.

Hushkits or New Engine Modified and Recertificated Aircraft: In 1997, pressure on EU airport authorities to reduce noise levels resulted in a Commission effort to develop an EU-wide noise standard. When it became clear that it would be politically impossible to agree on such a standard, the Commission and the EU member states developed an alternative proposal. That proposal effectively passes the costs on to U.S. and other non-EU air carriers and to U.S. manufacturers of noise reduction technology (hushkits) and new engines for older U.S. aircraft. The Commission has provided no scientific analysis demonstrating that the regulation would reduce noise. The regulation was approved by the European Parliament in 1999 but, following U.S. protests, its implementation has been delayed until May 2000. The prospect of implementation has harmed the market for hushkitted and re-engined aircraft and negatively affected fleet values of some U.S. air carriers.

New Aircraft Certification: The United States continues to be concerned by the possibility that European aircraft certification standards are being applied so as to impede delivery of qualified aircraft into Europe. Processes and procedures currently employed by the European Joint Aviation Authorities (JAA) appear cumbersome and arbitrary, and in any event cannot be uniformly enforced. For example, France continues to insist on an exception to the JAA's decision on certification of Boeing's new model 737 aircraft that limits the seat density of aircraft sold to carriers in France. The JAA decision itself took an inordinately long time, during which additional conditions were imposed progressively on the U.S. firm. The United States desires a transparent, equitable process for aircraft certification that is applied consistently on both sides of the Atlantic according to the relevant bilateral airworthiness agreements.

Metric Labeling: In order to harmonize measurement systems throughout the EU, the EU adopted a directive in 1980, which mandates metric-only labeling on most goods entering the EU from January 1, 2000. Both EU and U.S. exporters have complained about the costs of complying with conflicting EU metric-only and U.S. mandatory dual labeling requirements. In response to strong industry and USG opposition, the EU approved a 10-year deferral of its metric-only directive in December 1999.

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

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

Waste Management: European Commission environment officials are working on draft proposals for directives on batteries and on waste from electrical and electronic equipment. The United States supports the objectives of the drafts to reduce waste and the environmental impact of discarded products. However, the proposals' approach to banning certain materials (such as lead, mercury and cadmium) appears to lack adequate scientific and economic justification and may serve as unnecessary barriers to trade. Imposing sole responsibility on the manufacturer for the collection and recycling of used products also is unnecessarily burdensome. The draft directives are likely to be voted on by the Commission in early 2000. If adopted, the proposals would then move to the Council and European Parliament. U.S. and Commission waste experts have begun an informal dialogue to discuss these and other waste issues. The United States government will continue to monitor closely these proposals.

Acceleration of the Phase-Out of HCFCs: The European Commission adopted a proposal in July 1998 to amend EU Regulation 3093/94 on substances that deplete the ozone layer. The United States government actively opposed early drafts, which included phase-outs of some hydrochlorofluorocarbons (HCFCs) by 2000 or 2001, and would have disadvantaged U.S. producers while not necessarily benefiting the environment. The final Commission draft included a January 1, 2003 phase-out date for HCFCs used in refrigerator foam--in line with U.S. law--thereby protecting the export to the EU of U.S. refrigeration equipment. The Council agreed to the 2003 date in adopting its Common Position in late December 1998, but the Parliament sought to accelerate the date to 2002. In December 1999, Parliament rejected this amendment, so the 20003 phase-out date for HCFCs used by the air conditioning industry, while similarly manufactured heat pump systems received a 2004 deadline. The U.S. government will continue to monitor this issue.

Investment Barriers

The European Union and its fifteen member states provide one of the most open climates for U.S. direct investment in the world, with well-established traditions concerning the rule of law and private property rights, transparent regulatory systems, freedom of capital movements and the like. Traditionally, member state governments have been responsible for policies governing non-EU investment. However, in the 1993 Maastricht Treaty, partial competence was shifted to the EU. Member state policies existing on December 31, 1993 remain effective, but can be superseded by EU law. In general, the EU supports the idea of national treatment for foreign investors, arguing that any company established under the laws of one member state must, as a "Community company," receive national treatment in all member states regardless of ultimate ownership. However, some restrictions on U.S. investment do exist under EU law.

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

Reciprocity Provisions: The "reciprocal" national treatment clause found in EU banking, insurance and investment services directives allows the EU to deny a third-country financial services firm the right to establish a new business in the EU if it determines that the investor's home country denies national treatment to EU firms. This notion of reciprocity may have been taken further in the Hydrocarbons Directive which requires "mirror-image" reciprocal treatment where an investor is denied a license if its home country does not permit EU investors to engage in activities under circumstances "comparable" to those in the EU. It should be noted that, thus far, these reciprocity provisions have not affected U.S. firms. In fact, the EU reiterated to the WTO in April 1998 that neither the Commission nor the EU member states would invoke the reciprocity clause in the EU banking directive with other WTO members in the light of the specific most-favored-nation commitments made during the WTO financial services negotiations.

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

Anti-Corruption: In an attempt to coordinate disparate member state legislation on anti-corruption, the Commission, in 1997, adopted a discussion document suggesting guidelines for the development of a coherent EU-level anti-corruption policy. However, there has been little follow-up to the recommendations, and EU member state legislation on corruption is presently far from homogeneous. A number of EU member states have yet to ratify the OECD convention on anti-bribery.

Government Procurement

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

Telecommunications Market Access: Consistent with the WTO Agreement on Basic Telecommunications Services and EU legislation requiring liberalization, there is a general trend toward increased competition and openness in the European telecommunications services market. Access of U.S. firms, however, varies considerably from member state to member state due to uneven implementation of commitments. While not specific to U.S. firms, high interconnection tariffs in many member states present a serious barrier. The ability of telecommunications regulatory bodies to exercise authority quickly and effectively varies among member states. This has, in some instances, hampered competition. The European Commission has proposed streamlining the European regulatory structure and increasing dialogue among regulators and the Commission to enhance, inter alia, regulatory efficiency.

Procurement policies and practices are becoming more competitive, but discrimination against non-EU bids for public procurement in the telecommunications sector remains. In the long run, as privatization in the sector increases, this barrier will lessen in importance, but access still may be impeded by standards, standard-setting procedures, testing, certification and interconnection policies. In this regard, the U.S. has serious concerns about market access for third generation (3G) wireless telecommunications. Member states appear to be formulating licensing rules and procedures that favor a single European standard. The U.S. has urged the European Commission and member states to modify their rules, as needed, to ensure market access for providers of products based on all internationally accepted 3G standards.

Other Barriers

Data Privacy: The EU Data Protection Directive entered into force in October 1998. It sought to harmonize the treatment of personal data within the EU to increase protection and facilitate the flow of information within Europe. The Directive only allows the transfer of data to third countries if they are deemed to provide "adequate protection." The U.S. is discussing a Safe Harbor Initiative with the EU, which would create an interface for our different approaches to data privacy and ensure that data flows are not interrupted.

6. Export Subsidies Policies

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

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

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

Government Support for Airbus: Since the inception of the European Airbus consortium in 1967, its partner governments (France, Germany, Spain and the United Kingdom) have provided massive support to their national company partners in the consortium to aid the development, production and marketing of large civil aircraft. Since that date, the Airbus partner governments either have committed, or are in an advanced stage of consideration of providing, additional funds for derivative models of current Airbus aircraft. The United States is concerned that the launch of new Airbus programs and the restructuring of the Airbus consortium may be used to justify additional government subsidies. The United States also continues to be concerned that the European Union and its member states may attempt to influence commercial aircraft competitions in favor of Airbus aircraft in a manner inconsistent with its obligations. The United States will continue to monitor EU involvement in future competitions and its compliance with aircraft trade agreements.

7. Protection of U.S. Intellectual Property

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

Designs: The EU agreed to compromise language on industrial designs and models legislation. In general, the directive harmonizes national rules on design protection, but does not provide for registration and protection of spare components of complex products (such as visible car spare parts). A regulation currently under review would designate the Office for Harmonization in the Internal Market (OHIM, also known as the Community Trademark Office) in Alicante, Spain as the EU registrar for designs.

Patents: Patent filing and maintenance fees in the EU and its member states are expensive relative to other countries. Fees associated with the filing, issuance and maintenance of a patent over its life far exceed those in the U.S. In an effort to introduce more reasonable costs, the European Patent Office (EPO) reduced fees for filing by 20 percent in 1997.

European Community Patent: Draft legislation to establish a European Community Patent to harmonize patent issuance in EU member states, and supplement patents issued by the EPO (with a wider membership than the EU) is slated for late 1999. However, a stumbling block to this effort is disagreement among member states on which official EU languages will be used in patent applications.

Trademarks: Registration of trademarks with the European Community trademark office (official name: Office for Harmonization in the Internal Market—OHIM) began in 1996. OHIM, located in Alicante, Spain issues a single Community trademark with is valid in all 15 EU member states.

Madrid Protocol: The World Intellectual Property Organization's (WIPO) Madrid Protocol provides for an international trademark registration system permitting trademark owners to register in member countries by filing a standardized application. The U.S. has not acceded because it objects to voting provisions in the protocol that would allow the EU a vote upon accession in addition to the votes of its member states. The U.S. has proposed a voting arrangement to the EU that would establish voting procedures to address U.S. concerns. The EU has not yet responded to the U.S. proposal.

Trademark Exhaustion: The trademark exhaustion principle limits a trademark owner's ability to resort to remedies against importers/distributors of trademarked goods outside channels authorized by the trademark owner. The current EU regime supports the principle of "Community exhaustion," which allows resale of trademarked goods within the fifteen member states once the trademark owner licenses their sale in any EU country.

In 1998 a European Court of Justice ruling upheld the legality of Community trademark exhaustion within the EU. The European Commission has defended the principle by maintaining that Community exhaustion heightens competition within the internal market. However, member state opinion remains divided and at the insistence of the U.K. and Sweden, the Commission began a study into the economic impact of Community exhaustion in the member states. European discount chains prefer, and have actively lobbied for, a system of "international exhaustion," which limits the trademark owner's right to control distribution of goods once he/she licenses them for sale anywhere in the world.

Copyrights: U.S. corporate opinion is divided on proposed legislation to harmonize copyright law in EU member states and comply with WIPO treaties. The EU proposed directive is the subject of active lobbying by U.S. business interests. The U.S. has encouraged the EU to take all stakeholders into account and develop legislation compatible with the U.S. Digital Millennium Copyright Act.

8. Worker Rights

Labor legislation still remains largely the domain of individual member states. Recent decisions taken at the Luxembourg, Cardiff, and Cologne EU Summit Meetings of the EU have, however, significantly increased cooperation on employment issues. Specifically, the Luxembourg Process created a system of goals on employment and annual reviews of each country's progress toward meeting them. The Cardiff Process sought to liberalize further the movements of goods, services, and capital as a means of increasing employment in EU countries. And the Cologne Process, in the European Employment Strategy signed at the Summit, brought the EU's coordination in employment and macroeconomic policies closer together.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		24,953
Total Manufacturing		146,007
Food & Kindred Products	14,155	
Chemicals & Allied Products	49,798	
Primary & Fabricated Metals	9,308	
Industrial Machinery and Equipment	19,100	
Electric & Electronic Equipment	11,841	
Transportation Equipment	14,555	
Other Manufacturing	27,250	
Wholesale Trade		32,324
Banking		20,190
Finance/Insurance/Real Estate		154,733
Services		31,699
Other Industries		23,751
TOTAL ALL INDUSTRIES		433,658

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

AUSTRIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	206,739.5	210,897.7	[3] 210,334.4
Real GDP Growth (pct)	2.5	3.3	2.2
GDP by Sector:			
Agriculture	4,662.5	4,584.3	N/A
Manufacturing	44,568.1	45,648.9	N/A
Services	116,647.5	118,315.2	N/A
Government	13,188.3	13,247.7	N/A
Per Capita GDP (US$)	25,607	26,046	[3] 25,964
Labor Force (1,000's)	3,657	3,684	3,702
Unemployment Rate (pct) [4]	4.4	4.7	4.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	1.0	16.5	N/A
Consumer Price Inflation	1.3	0.9	0.6
Exchange Rate (AS/US$ annual average) [5]	12.20	12.38	12.86
Balance of Payments and Trade:			
Total Exports FOB	58,607.9	62,579.8	63,140.0
Exports to U.S.	2,148.4	2,533.5	2,430.0
Total imports CIF	64,774.7	68,023.3	69,230.0
Imports from U.S.	3,467.9	3,283.0	3,110.0
Trade Balance	–6,166.8	–5,443.5	–6,090.0
Balance with U.S.	–1,319.5	–749.5	680.0
External Public Debt	24,991.8	31,777.1	31,950.0
Fiscal Deficit/GDP (pct)	1.8	2.2	2.0
Current Account Deficit/GDP (pct)	2.5	2.2	2.2
Debt Service Payments/GDP (pct) [6]	2.2	2.4	1.5
Gold and Foreign Exchange Reserves (Year-End)	21,600.0	24,115.1	N/A
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1999 figures are all estimates based on latest available data and economic forecasts in October 1999.

[2] GDP at market prices, converted at average annual exchange rate.

[3] The apparent decline in 1999 figures is a result of exchange rate fluctuations between the Austrian Shilling (AS) and the US dollar. In local AS currency, figures show an increase in 1999.

[4] Unemployment rate according to EU method.

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

[6] Debt service payments on external public debt.

Sources: Austrian Institute for Economic Research (WIFO), Austrian Central Statistical Office, Austrian Federal Finance Ministry, and Austrian National Bank.

1. General Policy Framework

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

Exports of Austrian goods and services account for almost 44 percent of GDP. Austria's major export market is the EU, accounting for 64 percent of Austrian exports (36 percent to Germany, 8 percent to Italy). However, given Austria's traditional expertise in Central and Eastern European (CEE) markets, exports to that region have soared since 1989, accounting for 17 percent of Austrian exports by 1998. Numerous multinationals have established their regional headquarters in Austria as a "launching pad" to the CEE markets. In 1998, Hungary was equal to Switzerland as Austria's third largest export market.

The government sets economic policy in consultation with the so-called "Social Partnership," consisting of the representative bodies of business, farmers, and labor. Designed to minimize social unrest, this consensual approach has come under criticism for slowing the pace of economic reforms, particularly in inflexible labor and product markets. With an increasing number of decisions being made on the EU level, the influence of the social partner institutions seems to have declined in past years.

In order to meet the Maastricht criteria for Economic and Monetary Union (EMU), in 1996-97, the government introduced an austerity program, under which it reduced its federal budget deficit from 5.1 percent (1995) to 2.5 percent of GDP (1998) and the total public deficit, which is decisive for the EMU, to 2.2 percent of GDP (1998). The tax increases included in the austerity program brought the share of total taxes in GDP to an all-time high of 44.9 percent (1997), since then it has declined slightly. The 1999 federal budget was designed to secure the consolidation begun in 1996. The total public sector deficit is forecast to fall to 2.0 percent in 1999. Social expenditures currently amount for almost 29 percent of GDP.

Another focus of economic policy is employment creation. Austria has been one of the foremost supporters of the EU-wide national employment plans. Its plan places strong emphasis on training and education, removal of bureaucratic hurdles, more labor flexibility and a more favorable climate for business start-ups. While some of these plans have been implemented, the government failed to address the planned reduction of wage and non-wage costs as part of the 2000-2001 tax reform due to a deadlock of the governing parties and the diverging interests of social partners, i.e., business and labor representatives.

2. Exchange Rate Policies

As one of the eleven EU member states participating in EMU, Austria on January 1, 1999 surrendered its sovereign power to formulate monetary policy to the European Central Bank (ECB). The government successfully met all EMU convergence criteria due to austerity measures implemented in 1996-97, and is pursuing a policy of further reducing the fiscal deficit and the public debt. The ECB's focus on maintaining price stability in formulating exchange rate and monetary policies is viewed by the Austrian National Bank (ANB) as a continuation of the "hard schilling" policy the ANB pursued since 1981. By pegging the Austrian schilling (AS) to the German mark (DM), the government has successfully kept inflation under control and promoted stable economic growth. On December 31, 1998, the exchange rate for the Euro was irrevocably fixed at Austrian schillings 13.7603.

In 1998, the Austrian schilling lost little ground against the dollar. However, in 1999, the dollar continued to rise steadily against the schilling parallel to its rise against the common Euro currency.

3. Structural Policies

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

While the government continues to be a major player in the economy, the scope of government involvement—a traditional feature of the Austrian economy—has been significantly reduced in recent years. The amount of total government spending (federal, provincial and local governments as well as social security institutions, but not including government holdings) as percentage of GDP declined to 54.2 percent in 1998 from 57.4 percent in 1995 (Note: the figure for the government contribution to GDP, as shown in the table, reflects only narrow public administration functions and does not include social and other expenditures). The government no longer has majority ownership in formerly state-controlled companies such as OMV (oil and gas), VOEST (steel, plant engineering) or ELIN (electrical machinery and equipment). Subsidy programs have also been scaled back to conform to EU regulations.

After the passage of a more liberal business code in 1997, plans for making Austria more attractive for investors were implemented. While procedures for investors to obtain necessary permits and other approvals have been streamlined and the time for approvals cut considerably, plans for implementing "one-stop-shopping" for all necessary permits have not yet been realized. Delays have been caused by jurisdictional disputes among three federal ministries as well as differences in opinion between the federal government and business interest representatives. Approval for larger projects could still be bothersome and lengthy. Other measures implemented to improve the business climate and stimulate entrepreneurial activity include the reorganization of the Austrian stock market (the Vienna Stock Exchange was fully privatized and linked to the German Stock Exchange in Frankfurt), a new takeover act, the standardization of international accounting standards (IAS) or generally accepted accounting principles (US-GAAP), increased work time flexibility, and initial measures that have slightly increased wage and labor cost flexibility.

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

The outgoing government (general elections took place on October 3, 1999) decided on the implementation of the tax reform it had promised for 2000. The tax reform for 2000 ended up in marginal tax rate adjustments and some "redistribution." The reform will, thus, stimulate economic growth in Austria in 2000, but it failed to meet the declared goal of a clear reduction of wage and non-wage costs. Moreover, the reform is likely to result in a higher overall government budget deficit in 2000, which may go up to as high as 2.5 percent of GDP, reversing the downward trend since 1995, over which time the overall government budget deficit declined steadily from 5.1 percent in 1995 to an estimated 2.0 percent in 1999.

4. Debt Management Policies

Austria's external debt management has had no significant impact on U.S. trade. At the end of 1998, the Austrian federal government's external debt amounted to \$31.8 billion (25 percent of the government's overall debt) and consisted of 95 percent bonds and 5 percent credits and loans. Debt service on the federal government's external debt amounted to \$5.0 billion in 1998, or 2.4 percent of GDP and 5.4 percent of total exports of goods and services. The total public sector external debt in 1998 was not significantly higher than the federal government's external debt. Total gross public debt was 63.1 percent of GDP at the end of 1998, just beyond the 60 percent ceiling set under the Maastricht convergence criteria. Republic of Austria bonds are rated AAA by recognized international credit rating agencies.

5. Barriers to U.S. Exports

The U.S. is Austria's largest non-European trading partner with 4.8 percent of Austria's total 1998 imports coming from the U.S. The U.S. was Austria's fourth largest supplier worldwide after Germany, Italy, and France. The Austrian government thus has a clear interest in maintaining close and smooth trade ties. However, there are a number of obstacles hindering further increases of U.S. exports to Austria:

Pharmaceuticals: Access of U.S. pharmaceutical products to the Austrian market has been restricted by the Austrian social insurance holding organization (Hauptverband der Sozialversicherungsträger). The non-transparent procedures by which the Hauptverband approves drugs for reimbursement under Austrian health insurance regulations allegedly perpetuates a closed market favoring established, domestic suppliers. Pharmaceuticals not approved by the Hauptverband have higher out-of-pocket costs for Austrian patients and therefore suffer a competitive disadvantage vis-à-vis approved products.

Government Procurement: Austria is a party to the WTO Government Procurement Agreement; Austria's Federal Procurement Law was amended in January 1997 to bring its procurement legislation in line with EU-guidelines, particularly on services. However, U.S. firms have experienced a strong pro-EU bias in awarding government tenders. In defense contracts, offset agreements are common practice. This pro-European bias also appears to play a role in privatization decisions, although in some cases the bias is even more narrowly defined with politicians calling for "Austrian solutions."

Beef Hormones: The EU ban on beef imports from cattle treated with hormones severely restricts U.S. exports of beef to Austria. Despite a WTO decision that the ban is inconsistent with the rules of international trade, the EU has not lifted the ban. While decisions on this policy must be made by all members of the EU, Austrian politicians have ruled out a lifting of the ban in the foreseeable future.

Poultry: The EU has not approved any U.S. poultry plants, ruling out the possibility of importing U.S. poultry, or products containing poultry.

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

Other Financial Services: Providers of financial services, such as accountants, tax consultants, and property consultants, must submit specific proof of their qualifications, such as university education or number of years of practice. Other service activities also require a business license, for which one of the preconditions is legal residence. Under the WTO General Agreement on Trade in Services, Austrian officials insist that Austria's commitments on trade in professional services extend only to intra-corporate transfers. U.S. service companies often form joint ventures with Austrian firms to circumvent these restrictions.

Foreign Direct Investment: A 1997 U.S. Investor Confidence Survey compiled by the American Chamber of Commerce cites high labor, telecommunications and energy costs, the complex Austrian legal situation, and difficulties in obtaining work permits for key personnel as major obstacles. A 1998 follow-up survey noted improvements in the regulatory process and faster permit processing. The reform of the Residence Law and the Foreign Workers Employment Law enacted in mid-1997 exempts skilled U.S. labor (e.g. managers and their dependents) from an increasingly restrictive quota system for residence permits. Electricity and telecommunications costs, also noted in the survey as an impediment to business in Austria, have been significantly reduced through EU-wide liberalization.

6. Export Subsidies Policies

The government provides export promotion loans and guarantees within the framework of the OECD export credit arrangement and the WTO Agreement on Subsidies and Countervailing Measures. The Austrian Kontrollbank (AKB), Austria's export financing agency, offers export financing programs for small and medium-sized companies with annual export sales of up to $8.2 million. Following Austria's accession to the EU, the AKB stopped providing economic risk guarantees for short term financing of exports to OECD countries. A 1995 amendment to Austria's Export Guarantees Act enables the AKB to guarantee untied credits. In 1996, the AKB made its export guarantee system more transparent by publishing conditions and eligible country lists.

7. Protection of U.S. Intellectual Property

Austria is a party to the World Intellectual Property Organization and several international intellectual property conventions, including the European Patent Convention, the Patent Cooperation Treaty, the Madrid Trademark Agreement, the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedure, the Universal Copyright Convention, the Brussels

Convention Relating to the Distribution of Program-carrying Signals transmitted by Satellite, and the Geneva Treaty on the International Registration of Audiovisual Works. In compliance with the World Trade Organization Treaty on Intellectual Property (WTO TRIPS) agreement obligations, Austria extended patent terms; patents on inventions are now valid up to 20 years after application.

Austrian copyright law grants the author the exclusive right to publish, distribute, copy, adapt, translate, and broadcast his work. Infringement proceedings, however, can be time consuming and complicated. Austria's copyright law is in conformity with the EU directives on intellectual property rights.

However, under Austrian copyright law "tourist establishments" (hotels, inns, bed and breakfast establishments, etc.) may show cinematographic works or other audiovisual works, including videos, to their guests. While the license fee to the copyright owners is mandatory, Austrian law does not require prior authorization by the copyright holder. The U.S. holds this provision to be inconsistent with Austria's obligations under the Berne Convention and TRIPS. Following bilateral U.S.-Austrian talks in 1997, the Austrian Arbitration Commission determined the rates to be paid for such public showings. Austria considers this step sufficient compensation for the interests of the copyright holders and in compliance with both the Berne Convention and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The U.S. has expressed reservations to this position.

Austrian copyright law also requires that a license fee be paid on imports of home video cassettes and broadcasting transmissions. Of these fees, 51 percent are paid into a fund dedicated to social and cultural projects. In the U.S.'s view, the copyright owners should receive the revenues generated from these fees and any deductions for cultural purposes should be held to a minimum.

Austria is not mentioned in the 1999 "Special 301" Watch List or Priority Watch List and is not identified as a Priority Foreign Country.

8. Worker Rights

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

b. *The Right to Organize and Bargain Collectively:* Austrian unions enjoy the right to organize and bargain collectively. Some 50 percent of Austria's 3.2 million-strong labor force is unionized. The Austrian Trade Union Federation (OGB) is exclusively responsible for collective bargaining. All workers except civil servants are required to be members of the Austrian Chamber of Labor. Leaders of the OGB and the Chamber of Labor are democratically elected. Workers are legally entitled to elect one-third of the board of major companies.

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

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

e. *Acceptable Conditions of Work:* There is no legally mandated minimum wage in Austria. Instead, minimum wage scales are set in annual collective bargaining agreements between employers and employee organizations. Workers whose incomes fall below the poverty line are eligible for social welfare benefits. Over half of the workforce works a maximum of either 38 or 38.5 hours per week, a result of collective bargaining agreements. The Labor Inspectorate ensures the effective protection of workers by requiring companies to meet Austria's extensive occupational health and safety standards.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount
Petroleum	152
Total Manufacturing	1,062

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Food & Kindred Products	30	
Chemicals & Allied Products	45	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	114	
Electric & Electronic Equipment	([1])	
Transportation Equipment	295	
Other Manufacturing	([1])	
Wholesale Trade		515
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		200
Other Industries		–38
TOTAL ALL INDUSTRIES		3,838

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

BELGIUM

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
GDP (at current prices) 2/	246.4	252.3	249.1
Real GDP Growth (pct) 3/	3.2	2.9	2.2
GDP by Sector (pct):			
Agriculture	1.2	N/A	N/A
Construction	6.2	N/A	N/A
Energy	4.4	N/A	N/A
Industry	17.8	N/A	N/A
Services	52.6	N/A	N/A
Nontradable Services	17.7	N/A	N/A
Real Per Capita GDP (US$)[4]	24,204	24,732	24,373
Labor Force (000's)	4,320	4,330	4,341
Unemployment Rate (pct)	9.3	8.6	8.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.5	5.5	N/A
Consumer Price Inflation	1.6	1.0	1.0
Exchange Rate ([illegible] US$)	35.78	36.31	37.95
Balance of Payments and Trade:			
Total Exports FOB[5]	175.3	184.0	187.3
Exports to U.S.[6]	7.7	7.1	7.0
Total Imports CIF[5]	162.5	170.2	172.8
Imports from U.S.[6]	10.8	11.2	12.3
Trade Balance[5]	12.8	13.8	14.5
Balance with U.S.[6]	–3.1	–4.1	–5.3
Current Account/GDP (pct)	5.1	5.3	5.7
External Public Debt	25.1	28.3	N/A
Debt Service Payments/GDP	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	–1.8	–1.0	–1.1
Gold and Foreign Exchange Reserves	19.12	17.66	N/A
Aid from U.S.	0	0	0
Aid for All Other Sources	0	0	0

[1] 1999 figures are all estimates based on monthly data available in November 1999.
[2] GDP at factor cost.

[3] Percentage changes calculated in local currency
[4] At 1985 prices.
[5] Merchandise trade. Government of Belgium data.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

1. General Policy Framework

Major Trends and Outlook

Belgium possesses a highly developed market economy, the tenth largest among the OECD industrialized democracies. The service sector generates more than 70 percent of GDP, industry 25 percent and agriculture two percent. Belgium ranked as the eleventh-largest trading country in the world in 1998, with exports and imports each equivalent to about 70 percent of GDP. Eighty percent of Belgium's trade is with other European Union (EU) members. Seven percent is with the United States. Belgium imports many basic or intermediate goods, adds value, and then exports final products. The country derives trade advantages from its central geographic location, and a highly skilled, multilingual and industrious workforce. Over the past 30 years, Belgium has enjoyed the second-highest average annual growth in productivity among OECD countries (after Japan).

Throughout the late 1970s and the 1980s, Belgium ran chronic budget deficits, leading to a rapid accumulation of public sector debt. By 1994, debt was equal to 137 percent of GDP; since then, however, the country has made substantial progress in reducing the debt and balancing its budget. Belgium has largely financed its budget deficits from domestic savings. Foreign debt represents less than 10 percent of the total and Belgium is a net creditor on its external account.

Belgium's macroeconomic policy since 1992 has aimed at reducing the deficit below 3.0 percent of GDP and reversing the growth of the debt/GDP ratio in order to meet the criteria for participation in Economic and Monetary Union (EMU) set out in the EU's Maastricht Treaty. On May 1, 1998, Belgium became a first-tier member of the European Monetary Union. The government's 2000 budget, presented in October 1999, projects a 1.1 percent deficit and continues the debt reduction policies with the aim of achieving a debt/GDP ratio of 112 percent by the end of the year.

Economic growth in 1998 was 2.9 percent. A comparable rate was expected in 1999 until an incident involving dioxin-contaminated animal feed seriously disrupted production and exports of a wide range of agricultural and food products. Since then, real economic growth is projected at around 2.2 percent of GDP. At 1 percent, inflation seems to be under firm control, and no inflationary pressures are apparent, since weak commodity prices keep imported inflation low. Belgium's current account surplus of 5.3 percent of GDP is one of the highest among OECD countries.

Belgium's unemployment situation improved slowly last year. Standardized EU data put Belgium's unemployment rate at 8.5 percent in June 1999, 1 percent below the EU's average. However, strong regional differences in unemployment rates persist, with rates in Wallonia and Brussels being two to three times higher than in Flanders. A further reduction in unemployment will probably be difficult to achieve since many businesses have sought to neutralize high labor costs through capital-intensive investments and hence increased productivity. Although wage growth has been very modest since 1994, wage levels remain among the highest in Europe.

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

Principal Growth Sectors

Sectoral growth in the Belgian economy reflects macroeconomic trends. Industry sectors that are oriented towards foreign markets, in particular those in the semi-finished goods sector such as iron and steel, non-ferrous metals and chemicals are very sensitive to foreign business cycle developments. Business investment is expected to increase by 7 percent in 1999. The capital goods sector in particular is benefiting from strong investment demand in Belgium. Stronger demand for consumer products has helped the textiles, wood and food sectors. Apart from developments specific to the business cycle, there are also divergent developments impacting other sectors. For example, the paper and cardboard sector continue to be hit by the ongoing trend towards the use of less packaging.

Government Role in the Economy

On May 1, 1998, Belgium became a first-tier member of the European Monetary Union. Belgium will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. On January 1, 1999, the definitive exchange rate between the euro and the BF was established at BF 40.33.

Since 1993, the Belgian government has privatized BF 280 billion worth of public sector entities; in 1998, the federal government raised approximately BF 45 billion in 1998 against BF 35 billion in 1997. Further privatization of the last two enterprises with a strong public sector stake, Sabena and Belgacom, will probably occur under the new coalition government.

Balance of Payments Situation

Belgium's current account surplus widened in 1998: at 5.3 percent of GDP, it was well above the EU average of 1.5 percent of GDP, and the sixth largest in the OECD area. The increase in the surplus largely reflected a stronger trade balance: exports picked up in response to more buoyant economic conditions in EU countries, and to a significant improvement in cost-price competitiveness. The impact of the East Asian crisis was limited, given that Belgium's exports to these countries—including Japan—represent only 5 percent of total exports. In 1998, largely as a result of a decline in energy prices, the terms of trade improved somewhat. As a consequence, the growing impact of the crisis in emerging market economies on the volume of Belgium's exports did not greatly affect the trade surplus.

Infrastructure Situation

Belgium has an excellent transportation network of ports, railroads and highways, including Europe's second-largest port, Antwerp. Major U.S. cargo carriers have created at Brussels-Zaventem airport one of the first European hub-and-spoke operations.

The Belgian government set up a task force to sensitize the public and private sectors to vulnerabilities of computers and electronic systems to year 2000 disruptions.

2. Exchange Rate Policy

On May 1, 1998, Belgium became a first-tier member of the European Monetary Union. Belgium will gradually shift from the use of the BF to the use of the euro as its currency by January 1, 2002. On January 1, 1999, the definitive exchange rate between the euro and the BF was established at BF 40.33.

3. Structural Policies

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

Tax policies: Belgium's tax structure was substantially revised in 1989. The top percent in marginal rate on wage and salary income is 55 percent. Corporations (including foreign-owned corporations) pay a standard income tax rate of 39 percent. Small companies pay a rate ranging from 29 to 37 percent. Branches and foreign offices pay income tax at a rate of 43 percent, or at a lower rate in accordance with the provisions contained in a double taxation treaty. Under the present bilateral treaty between Belgium and the United States, that rate is 39 percent.

Despite the reforms of the past years, the Belgian tax system is still characterized by relatively high rates and a fairly narrow base resulting from numerous exemptions. While indirect taxes as a share of total government revenues are lower than the EU average, personal income taxation and social security contributions are particularly heavy. Total taxes as a percent of GDP are the third highest among OECD countries. Moreover, pharmaceutical manufacturers are saddled with a unique turnover tax of 6 percent. Taxes on income from capital are by comparison quite low; since October 1995, the tax rate on interest income is 15 percent, and the tax rate on dividends is 25 percent for residents. There is no tax on capital gains.

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

Regulatory policies: The only areas where price controls are effectively in place are energy, household leases and pharmaceuticals. Only in pharmaceuticals does this regime have a serious impact on U.S. business in Belgium. American pharmaceutical companies present in Belgium have repeatedly expressed their serious concerns about delays in product approvals and pricing, as well as social security reimbursement.

4. Debt Management Policies

Belgium is a member of the G-10 group of leading financial nations, and participates actively in the IMF, the World Bank, the EBRD and the Paris Club. Belgium is also a significant donor of development assistance. It closely follows development and debt issues, particularly in Central Africa and some other African nations.

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

5. Significant Barriers to U.S. Exports

From the inception of the EU's single market, Belgium has implemented most, but not all, trade and investment rules necessary to harmonize with the rules of the other EU member countries. Thus, the potential for U.S. exporters to take advantage of the vastly expanded EU market through investments or sales in Belgium has grown significantly. However, some barriers to services and commodity trade still exist:

Telecommunications: Although Belgium fully liberalized its telecommunications services in accordance with the EU directive on January 1, 1998, some barriers to entry still persist. New entrants to the Belgian market complain that current legislation is not transparent, that the interconnect charges they pay to Belgacom (the former monopolist—51 percent government-owned) remain high and that BIPT, the Belgian telecoms regulator, is not truly independent. Further privatization of Belgacom, expected in 2000, may enhance the increasingly competitive environment and lend more independence to the regulator.

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

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

Pharmaceutical pricing: As indicated in para 3, pharmaceutical products are under strict price controls in Belgium. Furthermore, since 1993, procedures to approve new life-saving medicines for reimbursement by the national health care system have slowed down steadily, to an average of 410 days, according to the local manufacturers group of pharmaceutical companies. The EU's legal maximum for issuance of such approvals remains 180 days. A 6 percent turnover tax is charged on all sales of pharmaceutical products. There is a price freeze on reimbursable products and a required price reduction on drugs on the market for 15 years.

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

Broadcasting and motion pictures: Belgium voted against the EU broadcasting directive (which requires a high percentage of European programs "where practical") because its provisions were not, in the country's view, strong enough to protect the fledgling film industry in Flanders. The Flemish (Dutch-speaking) region and the Francophone community of Belgium have local content broadcasting requirements for private television stations operating in those areas. The EU has taken the Walloon and Flemish communities to the European Court of Justice concerning these requirements. TNT has experienced considerable problems in arranging distribution of its signal on Belgian cable, while NBC and Viacom, which have a majority interest in the British-based TV 4 channel, face similar problems with broadcasting authorities in Flanders.

6. Export Subsidies Policies

There are no direct export subsidies offered by the Belgian government to industrial and commercial entities in the country, but the government (both at the federal and the regional level) does conduct an active program of trade promotion, including subsidies for participation in foreign trade fairs and the compilation of market research reports. All of these programs are offered to both domestic and foreign-owned exporters. Also, the United States has raised with the Belgian government and the EU Commission concerns over subsidies via an exchange rate program to Belgian firms producing components for Airbus.

7. Protection of U.S. Intellectual Property

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

Copyright: On June 30, 1994, the Belgian Senate gave its final approval to the revised Belgian copyright law. National treatment standards were introduced in the blank tape levy provisions of the new law. Problems regarding first fixation and non-assignability were also solved. The final law states that authors will receive national treatment, and allows for sufficient maneuverability in neighboring rights. However, if Belgian right holders benefit from less generous protection in a foreign country, the principle of reciprocity applies to the citizens of that country. This is the case for the U.S., which does not grant protection of neighboring rights to Belgian artists and performers, nor to Belgian producers of records and movies. As a consequence, U.S. citizens in Belgium are subject to the same restrictions.

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

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

8. Worker Rights

a. *The Right of Association:* Under the Belgian constitution, workers have the right to associate freely. This includes freedom to organize and join unions of their own choosing. The government does not hamper such activities and Belgian workers in fact fully and freely exercise their right of association. About 63 percent of Belgian workers are members of labor unions. This number includes employed, unemployed and workers on early pension. Unions are independent of the government, but have important links with major political parties. Unions have the right to strike and strikes by civil servants and workers in "essential" services are tolerated. Teachers, nurses, railway workers, air controllers, ground handling and Sabena personnel have conducted strikes in recent years without government intimidation. Despite government protests over wildcat strikes by air traffic controllers, no strikers were prosecuted. Also, Belgian unions are free to form or join federations or confederations and are free to affiliate with international labor bodies.

b. *The Right to organize and Bargain Collectively:* The right to organize and bargain collectively is recognized, protected and exercised freely. Every other year, the Belgian business federation and unions negotiate a nationwide collective bargaining agreement covering 2.4 million private-sector workers, which establishes the framework for negotiations at plants and branches. Public sector workers also negotiate collective bargaining agreements. Collective bargaining agreements apply equally to union and non-union members, and over 90 percent of Belgian workers are covered by collective bargaining agreements. Under legislation in force, wage increases are limited to a nominal 5.9 percent for the 1999-2000 period. The law prohibits discrimination against organizers and members of unions, and protects against termination of contracts of members of workers' councils, members of health and safety committees, and shop stewards. Effective mechanisms such as the labor courts exist for adjudicating disputes between labor and management. There are no export processing zones.

c. *Prohibition of Forced and Compulsory Labor:* Forced or compulsory labor is illegal and does not occur. Domestic workers and all other workers have the same rights as non-domestic workers. The government enforces laws against those who seek to employ undocumented foreign workers.

d. *Minimum Age for Employment of Children:* The minimum age for employment of children is 15, but schooling is compulsory until the age of 18. Youth between the ages of 15 and 18 may participate in part-time work/part-time study programs and may work full-time during school vacations. The labor courts effectively monitor compliance with national laws and standards. There are no industries where any significant child labor exists.

e. *Acceptable Conditions of Work:* The current monthly national minimum wage rate for workers over 21 is BF44,209 ($1,142); 18-year-olds can be paid 82 percent of the minimum, 19-year-olds 88 percent and 20-year-olds 94 percent. The Ministry of Labor effectively enforces laws regarding minimum wages, overtime and worker safety. By law, the standard workweek cannot exceed 40 hours and must include at least one 24-hour rest period. Comprehensive provisions for worker safety are mandated by law. Collective bargaining agreements can supplement these laws.

f. *Rights in Sectors with U.S. Investment:* U.S. capital is invested in many sectors in Belgium. Worker rights in these sectors do not differ from those in other areas.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		156
Total Manufacturing		8,969
Food & Kindred Products	1,012	
Chemicals & Allied Products	5,390	
Metals, Primary & Fabricated	189	
Machinery, except Electrical	472	
Electric & Electronic Equipment	361	
Transportation Equipment	538	
Other Manufacturing	1,007	
Wholesale Trade		2,716
Banking		321
Finance/Insurance/Real Estate		5,262
Services		1,684
Other Industries		−188
TOTAL ALL INDUSTRIES		18,920

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

BULGARIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Income, Production and Employment:			
Nominal GDP	10.2	12.3	12.2
Real GDP Growth (pct)	−6.9	3.5	1.5
GDP by Sector:			
Agriculture	2.4	2.3	N/A
Manufacturing	2.6	3.1	N/A
Services	4.1	5.5	N/A
Per Capita GDP (US$)	1,224	1,484	1,494
Labor Force (000's)	3,735	3,573	3,570
Unemployment Rate (pct)[2]	14.0	12.2	14.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	362.1	10.1	N/A
Consumer Price Inflation	578.6	1.0	3.6

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Exchange Rate (Leva/US$ annual average)[3]			
Official	1,682	1,760	1.8
Parallel	1,750	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	4.94	4.29	3.72
Exports to U.S. (US$ millions)[4]	172	219	N/A
Total Imports CIF	4.93	5.0	4.74
Imports from U.S. (US$ millions)[4]	104	115	N/A
Trade Balance[5]	0.01	–0.71	–1.02
Balance with U.S. (US$ millions)[4]	68	104	N/A
Current Account Balance/GDP (pct)	4.3	–3.1	–5.6
External Public Debt	9.8	10.2	10.3
Debt Service Payments/GDP (pct)	8.8	9.7	6.6
Fiscal Deficit/GDP (pct)	3.0	(1)	1.6
Foreign Exchange Reserves and Gold	2.6	2.9	3.3
Aid from U.S. (US$ millions)[6]	34.1	45.0	70.4
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are GOB estimates based on 6 to 9 months of data. GDP as measured in U.S. dollars declined between 1998 and 1999 due to changes in the exchange rate. Sectoral GDP data is unavailable, but gross value added by sector is provided for 1997 and 1998.

[2] Annual average.

[3] In July 1999, the currency was redenominated replacing 1000 old leva with one new lev.

[4] For January to August 1999, exports (free along ship basis) to the U.S. were $129 million; imports (customs basis) from the U.S. amounted to $72 million. Source: U.S. Department of Commerce.

[5] 1997 trade flows are recorded at the time of border crossing while 1998 and 1999 trade flows are recorded at the date of customs clearance.

[6] Both USAID and DOD provided assistance. For FY99, total DOD assistance totaled $13.35 million ($9.2 million in FY98).

1. General Policy Framework

Since April 1997, Bulgaria has been led by a reform-minded government, the Union of Democratic Forces (UDF). The UDF has enjoyed a solid majority in Parliament, which has facilitated implementation of a far-reaching program of economic reform. Following a severe economic crisis in 1996 and early 1997, the Bulgarian government and the International Monetary Fund (IMF) devised a stabilization program centered on a currency board arrangement.

The program quickly succeeded in stabilizing the economy. The triple digit inflation of 1996 and early 1997 gave way to a consumer price increase of only 1 percent for all of 1998. Official reserves rebounded from $400 million in January 1997 to $2.6 billion at the end of 1998. Moody's Investors Service upgraded Bulgaria's credit rating to B2. However, unemployment has stayed high, despite a growing private sector. The government ran a budget surplus of 1 percent in 1998, but the budget is projected to shift into deficit in 1999.

Following declines in GDP in both 1996 and 1997, the economy as a whole grew by 3.5 percent in 1998. However, GDP growth began to slow down in the second half of 1998, influenced by weak external markets for traditional industrial exports and lags in restructuring state-owned industry. With two-way trade in goods and services accounting for over 90 percent of GDP, Bulgaria is very sensitive to changes in the world economy and global prices. Over half of Bulgaria's trade is directed toward Western and Central Europe. The Kosovo crisis has cost Bulgaria about $90 million in direct economic losses, principally through disruptions to transport on the Danube River and overland through Yugoslavia.

Bulgaria's currency board arrangement (CBA) provides that the Bulgarian National Bank (BNB) must hold sufficient foreign currency reserves to cover all domestic currency (leva) in circulation, including the leva reserves of the banking system. BNB can only refinance commercial banks in the event of systemic risk to the banking system.

Bulgaria's association agreement with the European Union (EU) took effect January 1, 1994, and Bulgaria hopes to begin EU accession negotiations in 2000. A bilateral investment treaty with the United States took effect in July 1994.

2. Exchange Rate Policy

Bulgaria redenominated the currency on July 5, 1999, replacing 1000 old leva (BGL) with one new lev (BGN). Until January 1, 1999, the CBA fixed the exchange rate at 1000 old leva to one German mark. Since then, the lev has been pegged to the euro at the rate of 1,955.83 old leva (now 1.95583 new leva) per euro. The Bulgarian National Bank (BNB) sets an indicative daily U.S. dollar rate (based on the dollar/euro exchange rate) for statistical and customs purposes, but commercial banks and others licensed to trade on the interbank market are free to set their own rates.

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

Bulgaria will liberalize its foreign currency laws effective January 1, 2000. After that date, Bulgarian and foreign citizens may take up to BGN 5,000 ($2,700) or an equivalent amount of foreign currency out of the country without declaration. Regulations allow foreign currency up to BGN 20,000 ($11,110) to be exported upon written declaration. Transfers exceeding BGN 20,000 must have the prior approval of the BNB.

3. Structural Policies

The government has implemented legal reforms designed to strengthen the country's business climate. Bulgaria has adopted legislation on foreign investment and secured lending, and is also making significant strides in regulation of the banking sector and the securities market. However, many businesspersons contend that unnecessary licensing, administrative inefficiency and corruption continue to hinder private business development.

In 1998, Bulgaria reached agreement with the IMF on a three-year program of far-reaching structural reforms, particularly the privatization of state-owned enterprises (SOEs). In June 1999, the government satisfied its commitment to privatize or commence liquidation of a group of 41 of the largest loss-making SOEs, including the national airline. It also sold the Neftochim refinery to a Russian oil company and is due to sell a majority stake in the telecommunications monopoly, the Bulgarian Telecommunications Company, to a Greek/Dutch consortium. As of September 1999, the GOB had sold approximately 70 percent of state assets destined for privatization.

Bulgaria taxes value added, profits and income, and maintains excise and customs duties. In 1999, the GOB reduced the Value Added Tax by 2 percentage points to 20 percent and the profits tax for large businesses by 3 percentage points to 27 percent. The draft 2000 budget, approved by the Council of Ministers, envisions a further 2 percentage point reduction in the profits tax for large businesses and voluntary VAT registration for businesses with turnover from BGN 50,000 (USD 28,000) to BGN 75,000 (USD 42,000).

4. Debt Management Policies

Bulgaria's democratically-elected governments inherited an external debt burden of over $10 billion from the Communist era. In 1994, Bulgaria concluded agreements rescheduling official ("Paris Club") debt for 1993 and 1994, and $8.1 billion of its commercial ("London Club") debt. As of July 1999, gross external debt amounted to $9.6 billion, but the Bulgarian government projects that debt will increase to $10.3 billion by the end of 1999 (84 percent of GDP). Debt service in 1999 will total approximately 7 percent of GDP and 22 percent of exports, but will rise after 2000.

Under the three-year Extended Fund Facility (EFF) concluded in 1998, the IMF is providing credits of about $864 million. As of November 1999, about $360 million was released in five equal tranches of $72 million. Another 7 tranches will be made available quarterly through May 2001, subject to IMF reviews of Bulgarian adherence to the program. The government has sought additional external financing from the World Bank, the European Union, and other donors. The World Bank disbursed a Financial and Enterprise Sector Adjustment Loan (FESAL) of $100 million in 1998 and disbursed a second FESAL of similar value in December with Bulgaria. In September 1999, the World Bank approved an Agricultural Structural Adjustment Loan worth $75 million for Bulgaria.

5. Significant Barriers to U.S. Exports

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

Bulgaria's association agreement with the European Union phases out industrial tariffs between Bulgaria and the EU while U.S. exporters still face duties. This has created a competitive disadvantage for some U.S. exporters, such as soda ash exporters. The association agreement improved reciprocal market access to certain farm products. In July 1998, Bulgaria joined the Central European Free Trade Area (CEFTA). Over the following three years, tariffs on 80 percent of industrial goods traded between CEFTA countries will be eliminated. A free trade agreement with Turkey took effect in January 1999. A free trade agreement with Macedonia will enter into force in January 2000.

In January 1999, average Bulgarian import tariffs were reduced significantly and a five percent import surcharge was eliminated ahead of schedule. However, tariffs in areas of concern to U.S. exporters—including poultry legs and other agricultural goods and distilled spirits—are still relatively high. Overall, tariffs on industrial products range from about five to 40 percent and from about five to 70 percent for agricultural goods. In December 1998, Parliament revoked exemption from value-added tax (VAT) and customs duties for capital contributions in kind valued at over $100,000. In the past, some investors have reported that high import tariffs on products needed for the operation of their establishments in Bulgaria served as a significant barrier to investment.

The U.S. Embassy has no complaints on record that the import license regime has negatively affected U.S. exports. Licenses are required for a specific, limited list of goods including radioactive elements, rare and precious metals and stones, certain pharmaceutical products and pesticides. Armaments and military-production technology and components also require import licenses and can only be imported by companies licensed by the government to trade in such goods. Trade in dual-use items is also controlled.

Customs regulations and policies are sometimes reported to be cumbersome, arbitrary and inconsistent. Problems cited by U.S. companies include excessive documentation requirements, slow processing of shipments and corruption. Bulgaria uses the single customs administrative document used by European Community members. A one percent customs clearance fee was abolished in January 1998.

The Committee on Standardization & Metrology is the competent authority for testing and certification of all products except pharmaceuticals, food and telecommunications equipment. The testing and certification process requires at least one month. The Committee on Standardization shares responsibilities for food products with the Ministries of Agriculture and Health. The responsible authority for pharmaceuticals is the National Institute for Pharmaceutical Products in the Ministry of Health, which establishes standards and performs testing and certification and is also responsible for drug registration. Approval for any equipment interconnected to Bulgaria's telecommunications network must be obtained from the State Telecommunications Commission. The 1999 Law on Protection of Consumers and Rules of Trade regulates labeling and marking requirements. Labels must contain the following information in Bulgarian: quality, quantity, ingredients, certification authorization number (if any), and manner of storage, transport, use or maintenance.

All imports of goods of plant or animal origin are subject to phytosanitary and veterinary control, and relevant certificates should accompany such goods. Under a November 1999 ordinance governing official Bulgarian veterinary treatment of imported animals, meat, and animal products, Bulgaria will accept imported meat and poultry products only from plants approved for export by competent authorities in the country of origin.

As in other countries aspiring to membership in the European Union, Bulgaria's 1998 Radio and Television Law requires a "predominant portion" of certain programming to be drawn from European-produced works and sets quotas for Bulgarian works within that portion. However, this requirement will only be applied to the extent "practicable." Foreign broadcasters transmitting into Bulgaria must have a local representative, and broadcasters are prohibited from entering into barter agreements with television program suppliers.

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

There are no specific local content or export-performance requirements nor specific restrictions on hiring of expatriate personnel, but residence permits are often difficult to obtain. In its Bilateral Investment Treaty with the United States, Bulgaria committed itself to international arbitration in the event of expropriation, investment, or compensation disputes.

Foreign investors complain that tax evasion by private domestic firms combined with the failure of the authorities to enforce collection from large, often financially-precarious, state-owned enterprises places the foreign investor at a real disadvantage.

In June 1999, Parliament adopted a new law on procurement replacing the 1997 Law on Assignment of Government and Municipal Contracts. This legislation defines terms and conditions for public orders and aims for increased transparency and efficiency in public procurement. However, bidders still complain that tendering processes are frequently unclear and/or subject to irregularities, fueling speculation on corruption in government tenders. U.S. investors have also found that in general neither remaining state enterprises nor private firms are accustomed to competitive bidding procedures to supply goods and services to these investors within Bulgaria. However, tenders organized under projects financed by international donors have tended to be open and transparent.

6. Export Subsidies Policies

The government currently applies no export subsidies. However, a 1995 law gave the State Fund for Agriculture the authority to stimulate the export of agricultural and food products through export subsidies or guarantees.

7. Protection of U.S. Intellectual Property

Bulgarian intellectual property rights (IPR) legislation is generally adequate, with modern patent and copyright laws and criminal penalties for copyright infringement. In September 1999, Parliament passed a series of laws on trademarks and geographical indications, industrial designs and integrated circuits. A Law for the Protection of New Types of Plants and Animal Breeds was adopted in September 1996. Parliament is expected to approve additional legislation in the near future extending copyright protection to 70 years, and introducing a new neighboring right for film producers, provisional measures to preserve evidence of IPR infringement and special border measures. The Bulgarian government has also proposed amendments strengthening protection for pharmaceutical tests. U.S. companies have cited illegal use of trademarks as a barrier to the Bulgarian market.

Until recently, Bulgaria was the largest source of compact-disk and CD-ROM piracy in Europe and was one of the world's leading exporters of pirated goods. For this reason, Bulgaria was placed on the U.S. Trade Representative's "Special 301" Priority Watch List in January 1998. In 1998, enforcement improved considerably with the introduction of a CD-production licensing system subject to 24-hour plant surveillance. CD manufacturers must also submit a copy of an agreement with the copyright holder before starting production. In recognition of the significant progress made by the Bulgarian government in this area, the U.S. Trade Representative removed Bulgaria from all Watch Lists in April 1999.

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

8. Worker Rights

a. *The Right of Association:* The 1991 Constitution provides for the right of all workers to form or join trade unions of their choice. This right has apparently been freely exercised. Estimates of the unionized share of the work force range from 30 to 50 percent. There are two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria and Podkrepa, which between them represent the overwhelming majority of unionized workers. The 1992 Labor Code recognizes the right to strike when other means of conflict resolution have been exhausted, but "political strikes" are forbidden. Workers in essential services (primarily military and police) are also subject to a blanket prohibition from striking. However, Podkrepa has complained that a 1998 law denying workers the right to appeal government decisions on the legality of strikes is unconstitutional and violates an ILO convention. The Labor Code's prohibitions against antiunion discrimination include a 6-month period of protection against dismissal as a form of retribution. There are no restrictions on affiliation or contact with international labor organizations, and unions actively exercise this right.

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

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. Many observers argue that the practice of shunting minority and conscientious-objector military draftees into construction battalions that often carry out commercial construction and maintenance projects is a form of compulsory labor. Bulgaria has announced plans to phase out its military construction battalions under its ongoing Plan 2004 reform and reorganization, but it is unclear when this will take place. In the meantime, Bulgaria recently established a conscientious objector program that provides for alternative civilian national service.

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

e. *Acceptable Conditions of Work:* The national monthly minimum wage equates to approximately US$40. Delayed payment of wages continues to be a problem with certain employers in Bulgaria. The constitution stipulates the right to social security and welfare aid assistance for the temporarily unemployed, although in practice such assistance is often late. The Labor Code provides for a standard workweek of 40 hours with at least one 24-hour rest period per week. The MLSW is responsible for enforcing both the minimum wage and the standard workweek. Enforcement has been generally effective in the state sector (although there are reports that state-run enterprises fall into arrears on salary payments to their employees if the firms incur losses), but is weaker in the emerging private sector. The MLSW is responsible for enforcing the national labor safety program, with standards established by the Labor Code. The constitution states that employees are entitled to healthy and non-hazardous working conditions. Under the Labor Code, employees have the right to remove themselves from work situations that present a serious or immediate danger to life or health without jeopardizing their continued employment. In practice, refusal to work in such situations would result in loss of employment for many workers. A 1999 law mandated that employers establish joint employer/labor committees to monitor health and safety issues.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1
Total Manufacturing		20
Food & Kindred Products	(1)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		21

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

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

CZECH REPUBLIC

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Income, Production and Employment:			
Nominal GDP (US$ billion) [2]	53.0	56.4	54.0
Real GDP Growth (pct)	0.3	–2.3	–0.5
GDP by Sector (pct): [2]			
Agriculture	4.6	5.1	5.3
Manufacturing	26.6	31.4	31.2
Services	51.4	51.9	52.1
Government [3]	31.8	31.2	31.9
Per Capita GDP (US$) [2]	5,144	5,483	5,196
Labor Force (000's)	5,000	5,170	5,203
Unemployment (pct)	5.2	7.5	10.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.1	5.2	7.8
Consumer Price Inflation	8.5	10.7	2.2
Exchange Rate (CKR/US$)			
Official	31.71	32.27	34.40
Balance of Payments and Trade: [4]			
Total Exports FOB (USD bill)	22.8	26.3	27.4
Exports to U.S.	586	441	650
Total imports CIF (USD bill)	27.2	28.8	29.2
Imports from U.S.	1,029	786	1,180
Trade Balance (USD bill)	–4.4	–2.5	–1.8
Balance with U.S.	–442	–345	–530
Current Account Deficit/GDP (pct)	–6.1	–1.9	–1.5
External Debt [5]	1.6	24.3	24.3
Debt Service Payments/GDP (pct)	10.0	10.0	7.5
Fiscal Deficit (Central)/GDP (pct)	0.9	1.6	2.1
Gold and Foreign Exchange Reserves	15.0	15.9	13.2
Aid from U.S. [6]	6.0	N/A	N/A

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Aid from All Other Sources	N/A	N/A	N/A

[1] Unless stated otherwise, 1999 figures are based on the latest estimates of the Czech Statistical Office (CSO) dated October 4, 1999, of the Ministry of Finance and/or unofficial estimates from the Czech National Bank.

[2] GDP at factor cost, percentage changes calculated in local currency.

[3] Central government spending as pct of GDP.

[4] Czech imports do not include re-exports of U.S. goods through other countries.

[5] In absolute numbers, the figure for external debt does not change, the growth reflects shifts in DEM vs. US$ exchange rates.

[6] U.S. assistance was phased out by September 30, 1997.

1. General Policy Framework

The Czech Republic is a small and generally open economy. Having largely created a free and competitive market, it is currently struggling with problems stemming from unfinished structural reforms mainly in the field of bank privatization, industrial restructuring, legal reform and improvements of financial markets transparency. Unfinished structural reforms lie at the heart of the Czech Republic's current severe recession, which led to an economic contraction of 2.3 percent in 1998.

Till 1998, the Czech Republic pursued balanced budgets, incurring only small deficits on the way. Budget deficits incurred have traditionally been financed through the issuance of government bonds. Economic recession, failure to collect taxes satisfactorily and the Social Democratic government's pledge to support a wide range of social welfare and investment programs led to the 1999 planned budget deficit of approximately 1.6 percent of then estimated GDP. The government now anticipates the final deficit will be larger and the 2000 budget, currently under discussion, will also be in deficit.

In 1998 the Czech government approved a package of incentives to attract investments. The incentives are offered to foreign and domestic firms that make a $10 million manufacturing investment through a newly registered company. The package includes tax breaks of up to 10 years offered in two five-year periods; duty-free imports of high-tech equipment and a 90-day deferral of value-added tax payments (VAT); potential for creation of special customs zones; job creation benefits; training grants; opportunities to obtain low-cost land; and the possibility of additional incentives for secondary investments and production expansion.

Czech National Bank is by law responsible for monetary policy. The primary instrument used by the bank to influence monetary policy is the two-week repo rate. Following sharp and growing current account imbalances in the spring of 1997, the central bank implemented a series of austerity measures designed to dampen inflation and reduce external imbalances. Monetary policy during most of 1998 remained restrictive, with maintenance of relatively high interest rates designed to reduce inflation and dampen domestic demand and high compulsory bank reserves to lower the amount of money in the economy. In 1999, with the current account well on the way to recovery and the relatively still strong exchange rate of the crown, the central bank, ahead of its inflation target for a second year in row, cut interest rates several times.

The Czech Republic enjoyed a strong inflow of foreign direct investment ($1.3 billion) and portfolio investments ($3.9 billion) to June 30, 1999. Though much needed for the economy and recognized as such by the government, the central bank has expressed concern that the strong inflows are pushing up the exchange rate and hurting overall economic competitiveness. They are currently exploring measures to neutralize the impact of these flows.

2. Exchange Rate Policy

The Czech crown is fully convertible for most business transactions. The Foreign Exchange Act provides a legislative framework for full current account convertibility, including all trade transactions and most investment transactions, pending government action on implementing regulations. As of January 1999 all capital account restrictions were removed except for the ability of Czechs to open bank accounts abroad without a permit by the central bank, and the purchase of real estate in the Czech Republic by foreigners. The permit requirement will lapse in 2000, and foreign company branches will be able to acquire real estate as of 2002, in accordance with the Czech Republic's commitments in the Organization for Economic Cooperation and Development (OECD).

The Czech crown, floating freely since the spring of 1997, has remained relatively steady, withstanding 1998's Russian financial turmoil. Having appreciated in value due to high interest rate differentials between the Czech Republic and its major trading partners, it has remained strong even after the central bank reduced the interest rates significantly in 1998 and 1999, as currency traders bet on EU convergence.

3. Structural Policies

The government sees full membership in the European Union (EU) as one of its highest foreign policy priorities. Relations between the Czech Republic and the EU are currently governed by an EU association agreement signed in 1991. The start of detailed accession negotiations began in November 1998. Most observers do not anticipate that full EU membership will be achieved prior to 2003. As part of the EU accession process, many of the Czech Republic's regulatory policies and practices are slowly evolving toward EU norms. Through membership in OECD, the Czech Republic agreed to meet, with relatively few exceptions, OECD standards for equal treatment of foreign and domestic investors and restrictions on special investment incentives. The United States has succeeded in using the OECD membership process to encourage the Czech Republic to make several improvements to the business climate for U.S. firms.

Czech tax codes are generally in line with European Union tax policies. In 1998, the government reduced taxes on corporate profits to 35 percent from 38 percent. The tax rate for the highest tax bracket for personal income tax stands at 40 percent. Employer and employees social insurance contributions are respectively 35 percent and 12.5 percent. The government permits tax write-offs of bad debts, although with less generous treatment of pre-1995 debts. Firms are allowed to write-off the first year's share of a bad debt without filing suit against the debtor, though subsequent write-offs must document unsuccessful efforts to collect past due amounts. U.S. firms have complained that Czech tax legislation effectively penalizes use of holding company structures by leveling both corporate tax and dividends withholding tax on profit flows between group companies, thus creating double taxation on such profits. Czech law does not permit intra-group use of losses (i.e., offsetting losses in one group entity against profits in another), and imposes corporate tax on dividends received from foreign holding without allowing use of a foreign tax credit for the underlying tax suffered in the subsidiary's home jurisdiction.

Stricter bankruptcy provisions, an important part of the government's structural reforms came into effect in April 1998, but the focus is still on liquidation rather than reorganization. Most observers believe the slow and uneven courts, and close links between banks and firms, limit the effectiveness of the measure. Members of Parliament and others have called for a bankruptcy law closer to the U.S. Chapter Eleven provision to encourage resuscitation of troubled firms. There is a three to four year backlog in the bankruptcy courts and a small secondary market for the liquidation of seized assets. Recognizing that the lack of economic restructuring caused by inadequate bankruptcy laws hampers potential economic growth, the government is preparing another large amendment of the bankruptcy law for 2000.

4. Debt Management Policies

The Czech Republic maintains a moderate foreign debt and has received investment grade ratings from the major international credit agencies. In 1998 gross foreign debt measured $24.3 billion and is not expected to change much in 1999. To June 30, 1999 gross foreign debt measured $22.4 billion, most of the amount being the debt of companies ($11.3 billion) and commercial banks ($9.8 billion). Debt service as a percentage of GDP and debt service to exports stand at 7.5 percent and 13.5 percent, respectively. The Czech Republic repaid its entire debt with the International Monetary Fund (IMF) ahead of schedule. Under the Paris Club, the Czech Republic, as member of OECD, rescheduled its official credits to Russia.

5. Aid

The Czech Republic graduated from U.S. AID assistance on September 30, 1997. In 1998, however, U.S. AID offered the country its program of Partners for Financial Stability and in 1999 two projects were launched. The Czech Republic continues to receive assistance from the European Union's PHARE program and individual EU member states to assist its transformation during the accession period for EU membership. According to the European Commission Delegation in Prague, since 1990 the Czech Republic has received 580 million ECU in PHARE assistance.

6. Significant Barriers to U.S. Exports

The Czech Republic is committed to a free market and maintains a generally open economy with few barriers to trade and investment. It is a member of the World

Trade Organization (WTO), and has adopted a WTO tariff code with a trade-weighted average tariff of 4.8 percent. This is being reduced gradually to 3.5 percent in accordance with Czech commitments in the Uruguay Round of trade negotiations. The Czech Republic is not a signatory to the General Agreement on Tariffs and Trade (GATT) civil aircraft code, but is a member of the WTO's Information Technology Agreement.

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

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

The government is in the process of drafting legislation in line with EU directives to regulate Genetically Modified Organisms (GMOs). A final bill is expected in 2000. The Czech Republic continues to approve new GMO varieties for field testing.

U.S. exporters of beef, poultry, pork and horse meat are not yet able to ship to the Czech Republic due to problems with export certification. USDA's Food Safety Inspection Service (FSIS) is currently reviewing certification documents proposed by the Czech State veterinary Administration.

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

The government is required by law to hold tenders for major procurement. The law, introduced in 1994, proved unsatisfactory. Several revisions aimed at making the law simpler and transparent failed. Recognizing that no amendment will help, the Czech Republic is currently working on a brand new procurement law to enter force in 2001. Fully harmonized with EU legislation, it will remove also the current ten percent price advantage for domestic firms. The Czech Republic is not a member of the WTO Government Procurement Agreement.

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

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

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

The opaque nature of the stock market puts U.S. investors and financial services providers at a competitive disadvantage. While stock market reforms were enacted in 1996 to help protect small shareholders and increase transparency of transactions, enforcement has been uneven. A Czech Securities Commission opened in 1998 with a mission of improving the regulatory framework of the capital market, increasing capital market transparency, and restoring investor confidence. To the date, the Commission issued some 2,300 authorized rulings, and in the re-licensing process revoked 663 licenses. It has, however, been hampered by budgetary constraints and a lack of rule-making authority.

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

7. Export Subsidies Policy

The Czech Export Bank provides export guarantees and credits to Czech exporters. The bank follows OECD consensus on export credits. Additionally, the government maintains a fund through which it purchases domestic agricultural surpluses for resale on international markets. For some commodities, pricing is established at a level that includes a subsidy to local producers.

8. Protection of U.S. Intellectual Property

The Czech Republic is a member of the Berne and Universal Copyright Conventions and the Paris Convention on Industrial Property. Czech laws for the protection of intellectual property rights (IPR) are generally good, but enforcement has lagged. Existing legislation guarantees protection of all forms of property rights, including patents, copyrights, trademarks and semiconductor chip layout design. The Czechs continue to harmonize with the Trade Related Aspects of Intellectual Property Rights (TRIPS) agreement and parliamentary approval is expected on an amendment providing 70 years of copyright protection for literary works, up from the present 50 years. It is likely that the Czech Republic will not meet the January 2000 deadline to implement all of its TRIPs-related obligations, but legislation is pending in Parliament which should address most or all of its commitments in this area.

As a result of enforcement weaknesses and delays in indictments and prosecutions, the U.S. Government placed the Czech Republic on the Watch List during the 1999 "Special 301" cycle. The Embassy continues to work with U.S. industry and Czech government officials to improve enforcement of IPR norms. There are also two legislative amendments, which will expand tools of enforcement of IPR. One, approved to enter force as of December 1, 1999, boosts the powers of the customs service to seize counterfeit goods, and the other, albeit still in drafting stages, would allow the Czech Commercial Inspection (CCI) to act directly in IPR cases. At present, the CCI can only act in conjunction with the police.

9. Worker Rights

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

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

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

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

e. *Acceptable Conditions of Work:* The government sets minimum wage standards. The minimum wage is 3,600 Czech Crowns per month (approximately $100), although the monthly average is 12,766 Czech Crowns (approximately $365) per month. Average net wages are 2.1 times as high as official sustenance costs. The minimum wage provides a sparse standard of living for an individual worker or family, although allowances are available to families with children. The law mandates a standard workweek of 42 1/2 hours. It also requires paid rest of at least 30 minutes during the standard 8 to 8 1/2-hour workday, as well as annual leave from three or four weeks up to eight weeks depending on the profession. Overtime ordered by the employer may not exceed 150 hours per year or 8 hours per week as a standard practice. Industrial accident rates are not unusually high. Workers have the right to refuse work endangering their life or health without risk of loss of employment.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		170
Food & Kindred Products	10	
Chemicals & Allied Products	58	
Primary & Fabricated Metals	6	
Industrial Machinery and Equipment	30	
Electric & Electronic Equipment	-31	
Transportation Equipment	23	
Other Manufacturing	74	
Wholesale Trade		68
Banking		(1)
Finance/Insurance/Real Estate		60
Services		30
Other Industries		38
TOTAL ALL INDUSTRIES		543

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

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

DENMARK

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated)]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	145,280	148,400	148,800
Real GDP Growth (pct) [2 3]	3.1	2.7	1.3
GDP by Sector: [2]			
Agriculture	4,871	4,146	4,300
Manufacturing	25,174	26,028	25,500
Services	66,899	69,808	69,500
Government	33,434	34,385	34,700
Per Capita GDP (US$) [2]	27,493	27,995	28,000
Labor Force (000's)	2,849	2,867	2,864
Unemployment Rate (pct)	7.7	6.4	5.6
Money and Prices (annual percentage growth):			
Money Supply Growth (pct)	5.2	3.0	5.0
Consumer Price Inflation (pct)	2.2	1.8	2.5
Exchange Rate (DKK/US$ annual average) Official	6.61	6.70	7.00

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated)]

	1997	1998	[1] 1999
Balance of Payments and Trade:			
Total Exports FOB [4]	48,590	48,179	47,000
Exports to U.S. [4]	2,260	2,283	2,400
Total Imports CIF [4]	44,405	46,092	44,000
Imports from U.S. [4]	2,134	2,185	2,000
Trade Balance [4]	4,185	2,087	3,000
Balance with U.S. [4]	126	98	400
External Public Debt	40,544	42,000	40,000
Fiscal Deficit/GDP (pct) [5]	–0.1	–0.9	–2.9
Current Account Surplus/GDP (pct) [5]	0.5	–1.4	0.0
Debt Service Payments/GDP (pct) [5]	2.0	2.1	1.9
Gold and Foreign Exchange Reserves	19,620	15,139	24,000
Aid From U.S.	N/A	N/A	N/A
Aid From Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available data as of November.
[2] GDP measured as "Gross Value Added by Industry."
[3] Percentage changes calculated in local currency.
[4] Merchandise trade (excluding European Union agricultural export subsidies).
[5] Gross Domestic Product.

1. General Policy Framework

Denmark is a small, highly industrialized "value-added" country with a long tradition of extensive foreign trade, free capital movement, and political stability. It also has an efficient and well-educated labor force, and a modern infrastructure effectively linking Denmark with the rest of Europe. Denmark's natural resources are concentrated in oil and gas fields in the North Sea which have, together with renewable energy, made Denmark a net exporter of energy.

The Danish economy remains strong, with a public budget surplus and, in the first half of 1999, a small surplus on the balance of payments. However, its extensive foreign trade makes the economy vulnerable to foreign "shocks," including the 1998 Asian and Russian financial crises which particularly impacted on Danish agricultural exports. As a result, the Danish current account turned negative in 1998. As economic growth declined in 1999 with a consequent reduction in imports, the balance of payments again shifted to a small surplus. The government pursues a carefully monitored economic policy including a fiscal policy of small public expenditure increases and a tight monetary and exchange rate policy.

Developments during the first half of 1999 in some key economic indicators—reduced private consumption and the surplus, albeit small, on the current account—suggest that the Government's austerity measures introduced in the summer of 1998 are now working. The 1998 measures, particularly aimed at curbing private consumption and restoring a balance of payments surplus, include reduction of tax credits for debt interest payments in order to discourage new loan taking. The measures, over the longer run, also aim at increasing the incentive to work for low income earners by reducing taxation in the middle bracket of the progressive income tax system. The Government projects that the surplus in the public budget in 1999 will increase to almost three percent of GDP, mostly as a result of increased revenues and reduced expenditures due to increased employment and reduced unemployment. Focus is now on the inflation rate which, although stable at about 2.5 percent, has shifted from being one of the lowest in the European Union (EU) to one of the highest rates. Furthermore, it is entirely fueled domestically with wage inflation running above four percent.

Denmark welcomes foreign investment, and is home to roughly 250 subsidiaries of U.S. companies. Denmark also welcomes foreign firms focused on doing business in the former East Bloc countries. In that respect, Denmark has a number of preferential joint venture investment and investment guarantee programs and also makes available Danish and EU grants for improving the environment in those countries. The American Chamber of Commerce in Denmark was established in 1999 and a number of leading Danish and American firms are members of the Danish-American Business Forum, which aims at promoting direct investment and exchanges of know-how.

Denmark has opted out of the European Monetary Union's (EMU) third phase (establishment of a joint EU currency and relinquishment of jurisdiction over monetary policy), although Denmark's economic performance is well within the established convergence criteria for EMU membership.

2. Exchange Rate Policy

Denmark is a member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). Since the early 1980s until 1999, the government linked the krone closely to the German mark through the ERM and since January 1, 1999 (through the ERM2) to the common EU currency, the Euro. In September 1999, the trade-weighted value of the krone was 3.5 percent lower than in September 1998, due mostly to the krone's depreciation against the yen and the dollar. Since September 1998, the krone has depreciated some eight percent against the dollar (from DKK 6.49 to DKK 7.08 to $1.00). The increase in the dollar rate is likely one of several factors behind the 9.5 percent drop in U.S. exports to Denmark (as measured by the Danish Bureau of Statistics) in the first eight months of 1999.

3. Structural Policies

Danish price policies are based on market forces. Entities with the ability to fix prices because of their market dominance are regulated by the Government's Competition Agency. Denmark during 1997 changed its competition legislation from the former "control" principle to the internationally recognized "prohibition" principle.

The highest marginal individual income tax rate, including the gross labor market contribution "tax," is about 65 percent, and applies to all taxpayers with earnings exceeding some $37,200 (1999). Foreign executives and researchers working in Denmark on a contract may for a period of up to five years benefit from more lenient income taxation (a flat 33 percent tax on gross income). Danish employers are almost alone in the EU in paying virtually no non-wage compensation. Most sick leave and unemployment insurance costs are paid by the government. Employees pay their contribution to unemployment insurance out of their wages, while a major part of unemployment benefits is financed from general revenues.

The Danish Value Added Tax (VAT), at 25 percent, is the highest in the EU. As VAT revenues constitute more than one-quarter of total central government revenues, a reduction would have severe budgetary consequences. The government therefore has no plans to reduce the VAT, and hopes that EU VAT rate harmonization will raise the VAT rates of other EU countries. Environmental taxes are increasingly being imposed on industry (with some roll-back for anti-pollution efforts) and on consumers. The corporate tax rate is 32 percent. Favorable depreciation rules and other deductions exist.

4. Debt Management Policies

Denmark ran a balance of payments surplus from 1990 through 1997. Consequently, foreign debt gradually fell from over 40 percent of GDP in 1990 to 25 percent in 1997. With a deficit of about $2 billion on the balance of payments in 1998 and a similar amount in appreciation of the value of krone-denominated bonds held abroad, the foreign debt's share of GDP increased to 26 percent in 1998. Net interest payments on the foreign debt in 1998 cost Denmark some six percent of its export earnings. Standard and Poor's and Moody's Investors Service rate Denmark AA+ and Aa1, respectively.

Denmark's public sector is a net external debtor, while the private sector is largely in balance. At the end of 1998, the public sector foreign debt, including foreign exchange reserves and krone-denominated bonds held by foreigners, totaled some $42 billion and the private sector foreign debt totaled about $4 billion.

During 1998, central government debt denominated in foreign currencies dropped about 15 percent to $13 billion. Of the total debt, 77 percent was denominated in German marks, 10 percent in European ECU, eight percent in French francs, and 1.5 percent in dollars. The Danish central government debt has an average term of two years.

Denmark's central government deficits are not monetized and the Danish monetary policy is aimed at maintaining a fixed krone in relation to the Euro. Monetary policy is pursued through the Central Bank (Nationalbanken) which sets the day-to-day interest rate on financial sector entities' current account deposits in the Central Bank and/or offer 14-day transactions where the entities either borrow in the Central Bank against collateral in securities or buy Government deposit certificates. Under normal circumstances, there are no limitations on the liquidity. Responding to the European Central Bank's raising of interest rates in early November 1999, the Danish Central Bank raised the official discount rate and the current account rate by 0.25 percent to 3.0 percent. At the same time, the Central Bank's lending rate and the rate on deposit certificates was raised by 0.45 percent to 3.3 percent.

5. Significant Barriers to U.S. Exports

Denmark imposes few restrictions on import of goods and services or on investment. Denmark generally adheres to GATT/WTO codes and EU legislation that impact on trade and investment. U.S. industrial product exporters face no special Danish import restrictions or licensing requirements. Agricultural goods must compete with domestic production, protected under the EU's Common Agricultural Policy.

Denmark provides national and, in most cases, non-discriminatory treatment to all foreign investment. Ownership restrictions apply only in a few sectors: hydrocarbon exploration (which usually requires limited government participation, but not on a "carried-interest" basis); arms production (non-Danes may hold a maximum of 40 percent of equity and 20 percent of voting rights); aircraft (non-EU citizens or airlines may not directly own or exercise control over aircraft registered in Denmark); and ships registered in the Danish International Ships Register (a Danish legal entity or physical person must own a significant share—about 20 percent—and exercise significant control over the ship or the ship must be on bareboat charter to a Danish firm).

Danish law provides a reciprocity test for foreign direct investment in the financial sector, but that has not been an obstacle to U.S. investment. Two U.S. banks—Republic National Bank of New York and the State Street Bank Trust Company—have representative offices in Denmark. A number of other U.S. financial entities operate in Denmark through subsidiaries in other European countries, including Citicorp (through its UK subsidiary), GE Capital Equipment Finance (through Sweden), and Ford Credit Europe (through the UK).

The government liberalized Danish telecommunications services in 1997; however, the network—the raw copper—remained controlled by the former Government-owned Tele Danmark A/S. The large U.S. company Ameritech took over a controlling interest (42 percent) of Tele Danmark A/S in October 1997 in the largest foreign investment ever in Denmark, worth about four billion dollars. Access for other telecom operators to the raw copper opened in 1999. A number of foreign operators, including Sweden's Telia and France's Mobilix, are making strong inroads into the Danish market, which increases competition. Sonofon, a private cellular mobile telephone network with U.S. Bell South participation, competes with Tele Danmark A/S in that area.

Danish government procurement practices meet the requirements of the GATT/WTO Public Procurement Code and EU public procurement legislation. Denmark has implemented all EU government procurement directives. A 1993 administrative note advised the Danish central and local governments of the EU/U.S. agreement on reciprocal access to certain public procurement.

In compliance with EU rules, the government and its entities apply environmental and energy criteria on an equal basis with other terms—price, quality and delivery—in procurement of goods and services. This may eventually restrict U.S. companies' ability to compete in the Danish public procurement market. For example, the EU "Ecolabel" and EU "Ecoaudit" requirements may be difficult for some U.S. companies to meet. Offsets are used by the Danish Government only in connection with military purchases not covered by the GATT/WTO code and EU legislation. Denmark has no "Buy Danish" laws.

There is no record of any U.S. firm complaining about Danish customs procedures. Denmark has an effective, modern and swift customs administration.

U.S. firms resident in Denmark generally receive national treatment regarding access to Danish R&D programs. In some programs, however, Denmark requires cooperation with a Danish company. There is no record of any complaints by U.S. companies in this area.

6. Export Subsidies Policies

EU agricultural export subsidies to Denmark totaled $371 million (some 15 percent of the value of Danish agricultural exports to non-EU countries) in 1998. Danish government support for agricultural export promotion programs is insignificant. Denmark has no direct subsidies for its non-agricultural exports except for shipbuilding. Denmark welcomed the 1994 OECD agreement to phase out shipbuilding subsidies internationally and would like this agreement, or eventually an updated one, to be ratified by the United States.

The Government does not directly subsidize exports by small and medium size companies. Denmark does, however, have programs that indirectly assist export promotion, and establishment of export networks for small and medium sized companies, research and development, and regional development aimed at increasing exports. Denmark has one of the EU's lowest rates of state aid to industry (less than two percent of GDP). Danish subsidization of its shipbuilding industry is within the ceiling set in the EU Shipbuilding Directive (nine percent of the contract value) and accounts for about one-third of total Danish state aid to industry. The shipbuilding subsidies have not prevented the closure of many of Denmark's shipbuilders in the face of increased low-priced production in South Korea and elsewhere.

Denmark also has a well-functioning export credit and insurance system. In its foreign development assistance, Denmark requires that 50 percent of all bilateral assistance be used for Danish-produced goods and services. These programs apply equally to foreign firms that produce in and export from Denmark.

7. Protection of U.S. Intellectual Property

Denmark is a party to and enforces a large number of international conventions and treaties concerning protection of intellectual property rights, including the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement).

Patents: Denmark is a member of the World Intellectual Property Organization, and adheres to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Strasbourg Convention and the Budapest Convention. Denmark has ratified the European Patent Convention and the EU Patent Convention.

Trademarks: Denmark is a party to the 1957 Nice Arrangement and to this arrangement's 1967 revision. Denmark has implemented the EU trademark directive aimed at harmonizing EU member countries' legislation. Denmark strongly supports efforts to establish an EU-wide trademark system. Following a European Court decision in 1998 that "regional trademark consumption" applies within the EU, Denmark is stopping use of the "global consumption principle." Denmark has enacted legislation implementing EU regulations for the protection of the topography of semiconductor products, which also extends protection to legal U.S. persons.

Copyrights: Denmark is a party to the 1886 Berne Convention and its subsequent revisions, the 1952 Universal Copyright Convention and its 1971 revision, the 1961 International Convention for the Protection of Performers, and the 1971 Convention for the Producers of Phonograms. There is little piracy in Denmark of CDs or audio or video cassettes. However, computer software piracy is more widespread and estimated at over $100 million annually.

Piracy of other intellectual property, including books, appears limited. There is no evidence of Danish import or export of pirated products.

New Technologies: There are no reports of possible infringement of new technologies.

Impact on U.S. Trade with Denmark: Denmark is named on the "Special 301" Watch List because of its failure to meet its TRIPS obligations to provide unannounced searches and provisional relief as required by TRIPS Article 50. The issue is the subject of bilateral consultations, and the Danish government has created a committee to determine which legislative changes are needed to meet its TRIPS obligations. The United States is also concerned about Denmark's failure to protect, as required by article 39.3 of the TRIPS Agreement, confidential test data submitted to the Danish Environmental Protection Agency for approval of certain chemical products.

Finally, U.S. authors do not receive royalties from Denmark for photocopying of their works used in Danish schools and universities, because the Danish collecting agency COPYDAN will not accept the validity of "en bloc" powers of attorney issued by U.S. publisher and author organizations. This issue is being pursued with the Danish Government.

8. Worker Rights

a. *Right of Association:* Workers in Denmark have the right to associate freely, and all (except those in essential services and civil servants) have the right to strike. Approximately 80 percent of Danish wage earners belong to unions. Trade unions operate free of government interference. They are an essential factor in political life and represent their members effectively. During 1998, 3.2 million workdays were lost due to labor conflicts in connection with the spring 1998 labor contract negotiations (see below) compared with 101,700 in 1997. Greenland and the Faroe Islands have the same respect for worker rights, including full freedom of association, as Denmark.

b. *Right to Organize and Bargain Collectively:* Workers and employers acknowledge each others' right to organize. Collective bargaining is widespread. Danish law prohibits antiunion discrimination by employers against union members, and there are mechanisms to resolve disputes. Salaries, benefits, and working conditions are agreed in biennial or triennial negotiations between the various employers' associations and their union counterparts. If negotiations fail, a National Conciliation Board mediates, and its proposal is voted on by both management and labor. If the proposal is turned down, the government may force a legislated solution (usually based upon the mediator's proposal). In 1998, for example, failure to reach agreement resulted in a conflict in the industry sector, which lasted 11 days before the government intervened with legislation. Again in 1999, in connection with public sector contract negotiations, the Government had to intervene to avoid a strike by nurses. In case of a disagreement during the life of a contract, the issue may be referred to the Labor Court. Decisions of that court are binding. Labor contracts that result from collective bargaining are, as a general rule, also used as guidelines in the non-union sector.

Labor relations in the non-EU parts of Denmark—Greenland and the Faroe Islands—are generally conducted in the same manner as in Denmark.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited and does not exist in Denmark.

d. *Minimum Age for Employment of Children:* The minimum age for full-time employment is 15 years. Denmark has implemented EU Council Directive 94/33/EU, which tightened Danish employment rules for those under 18 years of age, and set a minimum of 13 years of age for any type of work. The law is enforced by the Danish Working Environment Service (DWES), an autonomous arm of the Ministry of Labor. Danish export industries do not use child labor.

e. *Acceptable Conditions of Work:* There is no legally mandated work week or national minimum wage. The work week set by labor contracts is 37 hours. The lowest wage in any national labor agreement is equal to about $11 per hour. Danish law provides for five weeks of paid vacation each year. However, both private and public sector contract agreements since 1998 provide for 2 to 3 extra holidays plus up to 3 extra days off each year for wage earners with children. Danish law also prescribes conditions of work, including safety and health; duties of employers, supervisors, and employees; work performance; rest periods and days off; medical examinations; and maternity leave. The DWES ensures compliance with work place legislation. Danish law provides for government-funded parental and educational leave programs.

Similar conditions, except for leave programs, are found in Greenland and the Faroe Islands, but in these areas the workweek is 40 hours. Unemployment benefits in Greenland are either contained in labor contract agreements or come from the general social security system. A general unemployment insurance system in the Faroe Islands has been in force since 1992. Sick pay and maternity pay, as in Denmark, fall under the social security system.

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

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		286
Total Manufacturing		638
Food & Kindred Products	160	
Chemicals & Allied Products	60	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	5	
Electric & Electronic Equipment	216	
Transportation Equipment	-8	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		(2)
Finance/Insurance/Real Estate		(1)
Servic		34
Other Industries		54
TOTAL ALL INDUSTRIES		2,628

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/-).

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

FINLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated)]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP (at factor cost) [9]	105.6	111.8	[1] 110.2
Real GDP Growth (pct)	5.6	5.6	[1] 3.8
GDP by Sector:			
Agriculture, Forestry & Logging	4.4	4.2	[1] 4.2
Manufacturing, Construction, Mining & Quarrying	32.1	35.2	[1] 35.2
Electricity, Gas & Water Supply	2.6	2.6	[1] 2.4
Services	69.3	72.8	[1] 71.7
Imputed Bank Service Charges	–2.8	–3.0	[1] –3.3
Per Capita GDP (US$) [9]	23,671	25,084	[1] 24,734
Labor Force (000's)	2,484	2,507	[1] 2,548
Unemployment Rate (pct)	12.7	11.4	[1] 10.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	1.0	4.4	[2] 5.7
Consumer Price Inflation	1.2	1.4	[1] 1.0
Exchange Rate (FIM/US$ annual average)	5.19	5.30	5.6
Balance of Payments and Trade:			
Total Exports FOB	40.7	43.3	[3] 25.7
Exports to U.S.	2.8	3.2	[3] 1.7
Total Imports CIF	30.7	32.5	[3] 19.8
Imports from U.S.	2.3	2.7	[3] 1.6
Trade Balance	10.0	10.8	[3] 5.9
Balance with U.S.	0.5	0.5	[3] 0.1
External Public Debt [4]	–29.8	–21.3	[5] –25.8
Fiscal Deficit-Surplus/GDP (pct) [6]	–1.2	0.9	[1] 3.1
Current Account Surplus/GDP (pct)	5.6	5.9	[1] 4.9
Debt Service Payments/GDP (pct) [7]	5.4	4.9	[1] 4.6
Gold and Foreign Exchange Reserves	9.9	9.7	[8] 9.2
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] Estimate, Ministry of Finance.
[2] Bank of Finland, April 1999-April 1998.
[3] January-August 1999, Board of Customs.
[4] Net international investment position exc. shares and other equity items.
[5] Bank of Finland, August 1999.
[6] Public sector's budget deficit (EMU).
[7] General government interest expenditures.
[8] September 1999, Bank of Finland.
[9] Declines in Nominal and Per Capita GDP (despite positive growth rates) are due to the depreciating value of the Finnish Markka.

1. General Policy Framework

At the beginning of the 1990's, the Finnish economy encountered a severe recession, after a period of rapid growth in the 1980's. GDP growth came to a standstill in 1990 and the following year declined by 7 percent. Industrial output and exports bottomed out in 1991, and total industrial output did not start to grow again until 1993. Unemployment has decreased significantly since 1994, but remains above the European Union (EU) average. EU membership, which took place on January 1, 1995, helped spur structural change in key economic sectors.

The overall economic outlook in Finland is favorable. Inflation has been moderate, and employment has grown robustly. In 1999, the volume of total output is anticipated to grow by 3.8 percent year-on-year. In 1998 GDP growth amounted to 5.6 percent, the same as in 1997. Unemployment rate estimated to drop to 10.3 percent from 1998's 11.4 percent. The national government's budget is expected to be balanced this year, and the surplus in overall government finances (including revenues from state owned corporations) will grow to 3 percent of GDP

The current account surplus reached 40.3 billion FIM in 1998, which is 5.9 percent of GDP. In 1999 the surplus is expected to contract to 34.9 billion FIM, but should rise again in year 2000. As a percentage of GDP the current account surplus is forecast to fall from last year's record level but remain in the range of 5 percent both in 1999 and 2000.

The current account surplus has been export driven during the 1990s. But in 1999, the surplus is expected to dip slightly as the terms of trade deteriorate by 3 percent. In 2000, the terms of trade are projected to fall by another one percent, but accelerated growth in the volume of exports will bring the trade surplus back on a growth track.

Private consumption was up 4.5 percent in 1998 and is forecasted to grow by 3.8 percent in 1999, 3.4 percent in 2000, and 3.2 percent in 2001. Consumer confidence remains high overall.

Finland's net foreign debt was FIM 476.5 billion at the end of 1998. Owing to a rise in share prices and an increase in foreign owned equity, net debt excluding shares and other equity items (the interest bearing net debt) declined in the course of 1998 and stood at 142.3 billion (20.7 percent of GDP) at the end of 1998.

With central government finances on the mend, general government finances have also considerably improved; local government finances are close to balance. The surplus in overall public finances is forecast to reach about 3 percent of GDP in 1999. With the net asset position improving and domestic product growing, the overall government debt ratio (ratio of EMU debt to GDP) is predicted to fall from 49.7 percent in 1998 to 46.6 percent by the end of 1999.

In 1998 Finland's tax ratio (gross wage-earner taxation, including compulsory employment pension contributions, relative to GDP) was down to 46.2 percent from 46.3 percent in 1997. A marginal rise is expected in 1999 (46.7 percent) and in 2000 (46.8 percent).

Finnish economic policy is determined to a large extent by consultation and coordination within the EU. EU membership, for example, has resulted in new competition legislation that could help to reduce the cartelized nature of many Finnish industries. Legislation that took effect at the beginning of 1993 liberalizing foreign investment restrictions has helped spur a sharp increase in foreign portfolio investment and hence has contributed to the internationalization of large Finnish companies. The increase in stock market activity is also due to lower domestic interest rates. Direct foreign investment, however remains modest due to high production costs. Finland is hoping to capitalize on its location and expertise to serve as a gateway for foreign investors in the former Soviet Union and the Baltic States. This effort had scored some successes as foreign firms established production and warehousing facilities in eastern Finland, close to the major Russian markets. The recent Russian financial crisis has caused a significant slowdown in gateway activity.

EU membership and Finland's budget constraints have brought about some reform in Finland's highly protected agricultural sector. Finland is slowly transitioning to the EU agricultural regime. The compromise outcome of Agenda 2000 negotiated by the European Ministers of Agriculture in March 1999, contained some favorable elements with respect to Finland. Of special importance was drying aid for grains and oilseeds, and aid for grass silage. The delay of the price cut of milk reform until 2003, makes the situation easier now, although there might be problems later on if the compensation does not cover losses caused by the price cuts.

2. Exchange Rate Policy

From June 1991 to September 1992 the Finnmark was pegged to the European Currency Unit, the ECU. The fluctuation margins and the midpoint were set so as to correspond to the fluctuation margins and midpoint of the old currency index. In September 1992, the Bank of Finland decided to abandon the limits of the fluctuation range and allow the Finnmark to float. Finland joined the Exchange Rate Mechanism (ERM) of the European Monetary System in October 1996, at the central rate of 1 ECU = FIM 5.80661. As a participant in the ERM, Finland takes part in the mutual intervention arrangements coordinated between the various central banks, which contribute to economic policy goals by stabilizing the exchange rate.

The European Commission reported on 25 March 1998, that 11 EU member countries, one of them Finland, were ready for the economic and monetary union (EMU) and met the conditions to adopt the single currency (Euro).

The bank notes and coins of the single currency will be put into circulation in 2002. As of January 1, 1999, Finland joined the third stage of the EMU. This third and final stage of EMU commenced with the irrevocable locking of the exchange rates of the eleven currencies participating in the Euro area and with the conduct of a single monetary policy under the responsibility of the ECB. The Finnmark was pegged to the Euro at 5.9457.

3. Structural Policies

Finland replaced its turnover tax with a Value-Added Tax (VAT) in June 1994. While the change has had little effect on overall revenues, several sectors not previously taxed or taxed at a lower rate, including corporate and consumer services and construction, are now subject to the new VAT. The government has kept the basic VAT rate at the same level as the old turnover tax (22 percent). Legislation on VAT was harmonized with the European Union. Foodstuffs will still be taxed at a 17 percent rate. Services, including health care, education, insurance, newspaper & periodical subscriptions, and rentals are not subject to VAT.

Agricultural and forestry products continue to be subject to different forms of non-VAT taxation. A uniform tax rate of 28 percent on capital gains took effect in 1996, which includes dividends, rental income, insurance, savings, forestry income, and corporate profits. The sole exception was bank interest, where the tax rate was increased from 20 to 25 percent at the beginning of 1994. The Government's budget proposal for 2000 includes raising the corporate and capital income tax rate from current 28 per cent to 29 per cent.

In March 1997, European Union commitments required the establishment of a tax border between the autonomously governed, but territorially Finnish, Aland Islands (Ahvenanmaa) and the rest of Finland. As a result, the trade of goods and services between the rest of Finland and Aland is now treated as if it were trade with a non-EU area. The trade effect of this treatment is minimal since the Aland Islands are part of the EFTA tariff area.

The current Comprehensive Incomes Policy Agreement expires at the end of January 2000. A new round of wage negotiations is being carried out. Unlike in the past, the new wage negotiations are been carried out on a union by union basis as opposed to collective bargaining with all unions together. There won't be any collective bargaining agreements, but instead agreements on union levels. All main labor market organizations are committed to the target of low inflation, and the government intends to reward a moderate collective wage agreement with tax cuts.

The sharp decline in interest rates and liberalization of foreign investment has resulted in a strong revival of the Finnish stock market and greater corporate use of equity markets. It has also substantially increased the percentage of foreign ownership of many of Finland's leading companies, and is the preferred vehicle for privatization or partial privatization of companies with significant state ownership. The previous Center-Conservative government initiated a program aimed at privatizing as much of the state-owned companies as the Finnish Parliament would permit and the market could absorb. The present government agrees that state ownership at its present level is no longer necessary in manufacturing, energy production and telecommunications-operations. The basic strategy has been to reduce the government's stake through the issuance of stock, rather than by selling off companies to individual investors and to treat each company as an individual case. In its program the government is committed to using privatization proceeds primarily to reduce government debt and to research and development activities.

Recent examples include Sonera (former Telecom Finland) and HPY (Helsinki Telephone Company) and the selling of Enso to Stora. In virtually every case, however, the Finnish government has retained significant minority stakes in privatized companies.

As a result of the recession of the early 1990s, industrial subsidies have increased by about 80 percent of GDP in real terms. The government has begun, however, to reduce subsidies in line with the need for greater fiscal discipline and Maastricht Treaty criteria for monetary union. General horizontal subsidies form the bulk of aid in Finland, including assistance for research and development, environmental protection, energy and investment. All companies registered in Finland have access to government assistance under special development programs. Foreign-owned companies are eligible for government incentives on an equal footing with Finnish owned companies. Government incentive programs are mainly aimed at investment in areas deemed to be in need of development. The support consists of cash grants, loans, tax benefits, investments in equity, guarantees and employee training.

4. Debt Management Policies

Under the government's EMU convergence program, the gross government debt is projected to drop from 49.7 percent last year to 43.2 percent of GDP by the end of 1999. Finnish corporations, formerly heavy users of foreign capital, are now reducing foreign obligations.

In August 1999, Moody's announced that it keeps its rating on Finnish long-term government bonds at their best rating—AAA. Standard & Poor's rating was upgraded in September 1999 to AA+, which is the second best. In November 1999, Fitch IBCA confirmed the rating of Finnish long-term government bonds to AAA.

Finland is an active participant in the Paris Club, the London Club and the Group of 24, providing assistance to East and Central Europe and the former Soviet Union. It has been a member of the IMF since 1948. Finland's development cooperation programs channel assistance via international organizations and bilaterally to a number of African, Asian, and Latin American countries. In response to budgetary constraints and changing priorities, Finland has reduced foreign assistance from 0.78 percent of GDP in 1991 to 0.32 percent of GDP in 1998. The Finnish Government intends to raise foreign assistance to 0.4 percent of GDP by year 2000.

5. Significant Barriers to U.S. Exports

Finland became a member of the EU in 1995, and, as a result, has had to adopt the EU's tariff schedules. The agricultural sector remains the most heavily protected area of the Finnish economy, with the bulk of official subsidies in this sector. The amount of these subsidies is determined by the difference between intervention and world prices for agricultural products. Since joining the EU, the difference between these two prices has decreased for most agricultural items, resulting in lower, albeit still significant, subsidy levels.

In mid-1996 the Finnish government's inter-ministerial licensing authority began to oppose within the EU U.S. company applications for commercialization of genetically modified organisms (GMOs) such as insect resistant corn. The Environmental Ministry appears to favor mandatory consumer-oriented labeling of GMOs. Other ministries are more supportive of GMO commercialization. The government continues to take a case-by-case approach to GMO-related issues.

The Finnish service sector is undergoing considerable liberalization in connection with EU membership. Legislation implementing EU insurance directives have gone into effect. Finland has exceptions in insurance covering medical and drug malpractice and nuclear power supply. Restrictions placed on statutory labor pension funds, which are administered by insurance companies, will in effect require that companies establish an office in Finland. In most cases such restrictions will cover workers' compensation as well. Auto insurance companies will not be required to establish a representative office, but will have to have a claims representative in Finland.

1995 was the first year of fully open competition in the telecommunications sector in Finland. The Telecommunication Act of August 1996 allows both network operators and service operators to use competitor telecommunication networks in exchange for reasonable compensation. The Telecommunication Act was replaced by the Telecommunications Market Act of 1997, which improved the opportunities of telecommunication operators to profitably lease each other's telecommunications connections. Entry to the sector was also made easier, by eliminating a licensing requirement to construct a fixed telephone network. Only mobile telephone networks are still subject to license.

Finland was the first country to grant licenses for third generation mobile phone networks. In March 1999, four telecommunications companies were granted a license to construct a 3G mobile network in Finland. The decision did not include a final position on the technology to be used, since the ITU's international standardization decision (IMT-2000) had not yet been taken. The 3G mobile operations will be launched by January 1, 2002 at the latest.

In the next few years, the telecommunications and information technology sectors will continue to grow rapidly. Finland's telecommunications environment is one of the most advanced in Europe and the growth of international business in telecommunications is of significant importance to the Finnish economy.

The government requires that the Finnish broadcasting company devote a "sufficient" amount of broadcasting time to domestic production, although in practical terms this has not resulted in discrimination against foreign produced programs. Finland has adopted EU broadcasting directives, which recommend a 51 percent European programming target "where practicable" for non-news and sports programming. Finland does not intend to impose specific quotas and has voiced its opposition to such measures in the EU.

With the end of the Restriction Act in January 1993, Finland removed most restrictions on foreign ownership of property in Finland. Only minor restrictions remain, such as requirements to obtain permission of the local government in order to purchase a vacation home in Finland. But even restrictions such as this will be abolished by January 2000, bringing Finland fully in line with EU norms.

Foreigners residing outside of the EEA who wish to carry on trade as a private entrepreneur or as a partner in a Finnish limited or general partnership must get a trade permit from the Ministry of Trade and Industry (MTI) before starting a business in Finland. Additionally, at least one-half of the founders of a limited company must reside in the EEA unless the MTI grants an exemption.

Normally Finland requires that a labor market test be conducted before allowing a foreigner to work in Finland. The purpose of the test is to determine whether or not a Finn could undertake the same work. However, foreign intra-corporate transferees who are business executives or managers are not subject to the labor market test. This standard does not apply to company specialists, who must prove that they possess knowledge at an advanced level of expertise or are otherwise privy to proprietary company business information.

Finland is a signatory to the WTO Government Procurement Agreement and has a good record in enforcing its requirements. In excluded sectors, particularly defense, counter trade is actively practiced. Finland is purchasing fighter aircraft and associated equipment valued at $3.35 billion from U.S. suppliers. One hundred percent offsets are required, as a condition of sale, by the year 2005. As of December 1998, $2.9 billion (or 88 per cent of the total) worth of offsets have been made.

Finland has in most cases completed the process of harmonizing its technical standards to EU norms. It has streamlined customs procedures and harmonized its practices with those of the EU.

6. Export Subsidies Policies

The only significant Finnish direct export subsidies are for agricultural products, such as grain, meat, butter, cheese and eggs as well as for some processed agricultural products.

Finland has advocated worldwide elimination of shipbuilding subsidies through the OECD Shipbuilding Agreement. The EU has decided that payment of shipyard subsidies will end at the end of year 2000.

7. Protection of U.S. Intellectual Property

The Finnish legal system protects property rights, including intellectual property, and Finland adheres to numerous international agreements and organizations concerning intellectual property. In 1996, Finland joined the European Patent Convention (EPC).

Finland is a member of WIPO, and participates primarily via its membership in the EU. The idea of protection of intellectual property is well developed. For example, the incidence of software piracy is lower than in the U.S., and by some measures (e.g. BSA) is the lowest in the world.

The Finnish Copyright Act, which traditionally also grants protection to authors, performing artists, record producers, broadcasting organizations and catalog producers, is being amended to comply with EU directives. As part of this harmonization, the period of copyright protection was extended from 50 years to 70 years. Protection for data base producers (currently a part of catalog producer rights) will be defined consistent with EU practice. The Finnish Copyright Act provides for sanctions ranging from fines to imprisonment for up to two years. Search and seizure are authorized in the case of criminal piracy, as is the forfeiture of financial gains. The Copyright Act has covered computer software since 1991.

Information on copying and copyright infringement is provided by several copyright holder interest organizations such as the Copyright Information and Anti-Piracy Center. The Business Software Alliance (BSA), a worldwide software anti-piracy organization, began operations in Finland in January 1994. According to a BSA survey, the rate of software piracy in Finland dropped to 32 percent in 1998, from 53 percent in 1994.

8. Worker Rights

a. *The Right of Association:* The constitution provides for the rights of trade unions to organize, to assemble peacefully, and to strike, and the government respects these provisions. Over 80 percent of the work force are organized. This applies to employers as well. All unions are independent of the government and political parties. The law grants public sector employees the right to strike, with some exceptions for provision of essential services. In the first half of 1999, there were 28 strikes, of which only one, was not a wildcat strike. Trade unions freely affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The law provides for the right to organize and bargain collectively. Collective bargaining agreements are usually based on incomes policy agreements between employee and employer central organizations and the government. The law protects workers against antiunion discrimination. Complaint resolution is governed by collective bargaining agreements as well as labor law, both of which are adequately enforced. There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor, and this prohibition is honored in practice.

d. *Minimum Age for Employment of Children:* Youths under 16 years of age cannot work more than 6 hours a day or at night, and education is compulsory for children from 7 to 16 years of age. The Labor Ministry enforces child labor regulations. There are virtually no complaints of exploitation of children in the work force. In

1998, a proposal to tighten the law even further has been made. According to a bill introduced to parliament, comprehensive school student (7-15 years) should not be allowed to hold employment during two thirds of the their holidays, but only during one half. This change is prompted by an EU directive to this effect.

e. *Acceptable Conditions of Work:* There is no legislated minimum wage, but the law requires all employers, including non-unionized ones, to meet the minimum wages agreed to in collective bargaining agreements in the respective industrial sector. These minimum wages generally provide a decent standard of living for workers and their families. The legal workweek consists of 5 days not exceeding 40 hours. Employees working in shifts or during the weekend are entitled to a 24-hour rest period during the week. The law is effectively enforced as a minimum, and many workers enjoy even stronger benefits through effectively enforced collective bargaining agreements. The government sets occupational health and safety standards, and the Labor Ministry effectively enforces them. Workers can refuse dangerous work situations, without risk of penalty.

f. *Rights in Sectors with U.S. Investment:* There is no difference in the application of worker rights between sectors with U.S. investment and those without.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		104
Total Manufacturing		1,004
Food & Kindred Products	11	
Chemicals & Allied Products	308	
Primary & Fabricated Metals	14	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	48	
Wholesale Trade		302
Banking		20
Finance/Insurance/Real Estate		(1)
Services		67
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,700

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

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

FRANCE

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated)]

	1997	1998	1999 (est)
Income, Production and Employment:			
Nominal GDP	1,409	1,449	1,449
Real GDP Growth	2.0	3.4	2.7
GDP by Sector (previous year prices): [2]	1,264	1,283	N/A
Agriculture	42	43	N/A
Manufacturing	271	277	N/A
Services	635	647	N/A
Government and Non-Profit Services	257	258	N/A
Per Capita GDP (US$)	24,043	24,873	24,770
Labor Force (thousands)	25,642	25,915	25,995
Unemployment Rate (average)	12.5	11.8	11.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M3) [3]	1.7	1.2	5.8

Key Economic Indicators [1]—Continued

[Billions of U.S. Dollars unless otherwise indicated)]

	1997	1998	1999 (est)
Consumer Price Inflation (average)	1.2	0.7	0.6
Exchange Rate (FF/US$ annual average)	5.8	5.9	6.1
Balance of Payments and Trade:			
Total Exports FOB [4]	290	304	293
Exports to U.S.[4]	19	22	21
Total Imports CIF [4]	271	288	282
Imports from U.S.[4]	23	25	24
Trade Balance CIF/FOB	19	16	11
Balance with U.S.[4]	–4	–3	–2
External Public Debt	N/A	N/A	N/A
Fiscal Deficit/GDP (pct)	3.0	2.9	2.3
Current Account [5]	39	40	35
Current Account Surplus/GDP (pct)	2.8	2.8	2.4
Debt Service Payments (pct of GDP)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves [6]	57	69	71
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

N/A = non available/non applicable.
[1] Embassy estimates based on published French government data unless otherwise indicated.
[2] GDP excludes value added tax and other taxes.
[3] 1999 figure reflects M3 as of August.
[4] 1999 estimate based on eight months.
[5] 1999 estimate based on eight months.
[6] 1999 figure reflects reserves as of October.

1. General Policy Framework

France is the fourth largest industrial economy in the world, with annual gross domestic product about one-fifth that of the United States. France is the fourth largest importer and exporter in the global market, and is a world leader in high technology, defense, agricultural products, and services. France is the eighth largest trading partner of the United States and the third largest in Europe (after Germany and the United Kingdom). According to U.S. Department of Commerce data, U.S. merchandise exports to France increased by 11.0 percent to $17.7 billion in 1998, while merchandise imports from France grew 16.3 percent to $24.0 billion, again according to Commerce Department data. This resulted in a U.S. merchandise trade deficit with France of about $6 billion. French trade data shown in the table above account differently for re-exports and transshipments via neighboring European countries. They thus tell a different story: France believes that it had a trade deficit of about $3 billion with the U.S. in 1998. Trade in services is expanding rapidly. In 1998, it added about $2 billion more to the total volume of trade between the U.S. and France. The U.S. and France are the world's top two exporters in several important sectors: defense products, agricultural goods, and services.

The annual real GDP growth rate in 1999 should be about 2.7 percent, following 3.4 percent in 1998 and 2.0 percent in 1997. The main reason for a slowdown in late 1998 and early 1999 was the impact of the Asian and Russian financial crises. Resilient domestic consumption and investment have, however, limited this impact. Growth in the second half of 1999 is strengthening significantly. Most economists expect annual growth in 2000 to return to the 3.0 percent level. Growth has also permitted a reduction in the unemployment rate (from a high of 12.6 percent in June 1997 to 11.1 percent by September 1999) and a continued reduction in the general government budget deficit as a share of GDP to 2.3 percent in 1999.

Considerable progress has been made over the past decade on structural reforms. However, additional efforts will be necessary for France to achieve its full economic potential. Prime areas for reforms identified by international organizations include continued tax and government spending reduction, increasing the flexibility of labor markets, and further deregulation of goods and services sectors.

With exports and imports of goods and services each accounting for about 25 percent of GDP, France's open external sector is a vital part of its economy. The government has encouraged the development of new markets for French products and investors, particularly in Asia and Latin America. It especially seeks to promote exports by small and medium-sized firms. Foreign investment, both inward and outward, also plays a very important role in the French economy, helping generate employment and growth. With about 20 percent of the total, U.S. investment accounts for the largest share of foreign direct investment in France. Restrictions on non-EU investors apply only in sensitive sectors, such as telecommunications, agriculture, defense, and aviation, and are generally applied on a reciprocal basis.

France offers a variety of financial incentives to foreign investors and its investment promotion agency, DATAR, provides extensive assistance to potential investors in France.

2. Exchange Rate Policies

France adopted the euro currency as of January 1, 1999. Responsibility for exchange rate policy is shared between national finance ministries and the European Central Bank.

3. Structural Policies

Over the past decade, the government has made efforts to reduce its role in economic life through fiscal reform, privatization, and the implementation of European Union liberalization and deregulation directives. Yet the government remains deeply involved in the functioning of the economy through national and local budgets, remaining state holdings of major corporations, and extensive regulation of labor, goods, and services markets. This can sometimes result in a lack of transparency in the making of decisions that affect U.S. and other firms. While U.S. and foreign companies often cite concerns about relatively high tax rates on business—particularly payroll and social security taxes—state action does not discriminate against foreign firms or investments. There are very few, generally clearly defined exceptions, such as those notified to the OECD under its investment codes.

4. Debt Management Policies

The budget deficit is financed through the sale of government bonds at weekly and monthly auctions. A member of the group of leading financial nations, France participates actively in the International Monetary Fund, the World Bank, and the Paris Club. France is a leading donor nation and is actively involved in development issues, particularly with its former colonies in North and Sub-Saharan Africa. France has also been a leading proponent of debt reduction and relief for the highly indebted poor countries.

5. Significant Barriers to U.S. Exports

In general, European Union agreements and practices determine France's trade policies. These policies include preferential trade agreements with many countries.

Although in most cases France follows import regulations as prescribed by the Common Agricultural Policy and various EU directives, there are a number of agricultural products for which France implements unilateral restrictions (irrespective of EU policy) that affect U.S. exports. For instance, French decrees and regulations currently prohibit the import of the following agricultural products: poultry, meat and egg products from countries (including the United States) that use certain feed compounds; products made with enriched flour; and exotic meats (e.g., ostrich, emu and alligator); and live crawfish unless authorized by special derogation. Current regulations discriminate against imports of bovine semen and embryos (from the United States) by strictly controlling their marketing in France.

France established a new national policy toward Genetically Modified Organisms (GMOs) in 1998 that has restricted imports and production of certain types of GMO products.

France's implementation of the EU broadcast directive limits U.S. and other non-EU audiovisual exports. France strictly applies quotas mandating local content. Continuation and growth of a strong French A/V sector is a government priority.

Government efforts to balance the national social security health care budget continue to target (via price/volume agreements, reduced reimbursement rates, taxes, and slow approvals) products brought to the market by research-based pharmaceutical firms and health equipment firms. The U.S. health equipment and research-based pharmaceutical industries continue to press the French Government for more transparency in government regulation.

6. Export Subsidies Policy

France is a party to the OECD guidelines on the arrangement for export credits, which includes provisions regarding the concessionality of foreign aid. The French Government has increased its export promotion efforts, particularly to the emerging markets in East Asia and Latin America. These efforts include providing information and other services to potential exporters, particularly small and medium-sized enterprises.

Support of the agricultural sector is a key government priority. Government support of agricultural production comes mainly from the budget of the European Union under the Common Agricultural Policy. There are virtually no direct French government subsidies to agricultural production. France strongly supports continued EU export subsidies The government offers indirect assistance to French farmers in many forms, such as easy credit terms, start-up funds, and retirement funds.

7. Protection of U.S. Intellectual Property

As a major innovator, France has a strong stake in defending intellectual property rights worldwide. Under the French intellectual property rights regime, industrial property is protected by patents and trademarks, while literary/artistic property and software are protected by the French civil law system of "authors rights" and "neighboring rights." France is a party to the Berne Convention on copyrights, the Paris Convention on industrial property, the Universal Copyright Convention, the Patent Cooperation Treaty, and the Madrid Convention on trademarks. U.S. nationals are entitled to receive the same protection of industrial property rights in France as French nationals. In additiôn, U.S. nationals have a "priority period" after filing an application for a U.S. patent during which to file a corresponding application in France.

8. Worker Rights

a. *The Right of Association:* The French Constitution guarantees the right of workers to form unions. Although union membership has declined to less than ten percent of the workforce, the institutional role of organized labor in France is far greater than its numerical strength. The government regularly consults labor leaders on economic and social issues, and joint works councils play an important role even in industries that are only marginally unionized.

b. *The Right to Organize and Bargain Collectively:* The principle of free collective bargaining was established after World War II, and subsequent amendments to labor laws encourage collective bargaining at national, regional, local and plant levels.

c. *Prohibition of Forced or Compulsory Labor:* French law prohibits antiunion discrimination and forced or compulsory labor.

d. *Minimum Age for Employment of Children:* With a few minor exceptions for those enrolled in apprenticeship programs or working in the entertainment industry, children under the age of 16 may not be employed in France.

e. *Acceptable Conditions of Work:* The current minimum wage is FF 40.72 per hour (about $6.67). Legislation lowering the legal work week from 39 to 35 hours was passed in 1998. A second law on overtime and other details should be adopted by Parliament before the end of 1999. The reduced work week takes legal effect starting in 2000. In general terms, French labor legislation and practice (including occupational safety and health standards) are fully comparable to those in other industrialized market economies. France has three small export processing zones, where regular French labor law and wage scales apply.

f. *Rights in Sectors with U.S. Investment:* Labor law and practice are uniform throughout all industries, including those sectors and industries with significant U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		1,162
Total Manufacturing		18,974
Food & Kindred Products	3,615	
Chemicals & Allied Products	4,227	
Primary & Fabricated Metals	4,034	
Industrial Machinery and Equipment	2,358	
Electric & Electronic Equipment	974	
Transportation Equipment	676	
Other Manufacturing	3,089	
Wholesale Trade		2,587
Banking		2,388
Finance/Insurance/Real Estate		7,778
Services		4,570
Other Industries		1,729

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
TOTAL ALL INDUSTRIES	39,188

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

GERMANY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated)]

	1997	[1] 1998	1999
Income, Production and Employment:			
Nominal GDP [2]	2,095	2,109	2,128
GDP Growth (pct) [3]	1.8	2.3	1.4
GDP by Sector (pct):			
Agriculture	1.3	1.2	N/A
Manufacturing	25.0	25.4	N/A
Services	73.7	73.4	N/A
Per Capita GDP (US$)	25,549	25,675	25,920
Labor Force (000's)	40,116	40,278	40,220
Unemployment Rate (pct)	11.4	11.2	10.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [5]	1.1	9.3	7.0
Consumer Price Inflation	1.9	1.0	0.6
Exchange Rate (DM/US$ annual average)	1.73	1.76	1.82
Balance of Payments and Trade:			
Total Exports FOB [4]	513.7	544.7	615.9
Exports to U.S. [4,5]	44.3	50.4	25.7
Total Imports CIF [4]	446.3	463.4	591.3
Imports from U.S. [4,5]	33.8	38.219.4	
Trade Balance [4]	67.4	81,324.6	
Balance with U.S. [4,5]	10.5	12.2	6.3
Current Account Balance/GDP (pct)	–0.2	–0.2	–0.1
Public Debt	1,267	1,284	1,284
Fiscal Deficit/GDP (pct)	–1.7	–1.5	–1.4
Debt Service Payments/GDP (pct)	3.7	3.7	N/A
Gold and Foreign Exchange Reserves	73.4	76.1	N/A
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 Figures are all estimates based on available monthly data in October and consensus forecasts.
[2] GDP at factor cost.
[3] Percentage changes calculated in national currency.
[4] Merchandise trade.
[5] 1999 figures for trade with U.S. show first half only.
[6] For 1999, growth in Euro-11 money supply in August 1999 over August 1998.

1. General Policy Framework

Germany's economy is the world's third largest, with total output equivalent to just over $2 trillion in 1999 (in nominal terms). Real GDP growth, which reached 2.2 percent in 1998, dropped to 1.4 percent in the first three quarters of 1999. Most German public and private forecasters estimate growth of around 2.5 percent for 2000, with the acceleration primarily export-led. Germany is highly integrated into the global economy: just as the slowdown in German growth in late 1998 and early 1999 resulted mainly from adverse international economic conditions, so the expectation of higher growth is based on the recent recovery in global conditions. Inflation is extremely low, partly as a result of deregulation in the electricity and telecommunications sectors.

The German "social market" economy is organized on market principles and affords its citizenry a secure social safety net characterized by generous unemployment, health, educational and basic welfare benefits. At the same time, economic growth in recent years has been below potential, and unemployment rates have been very high, with about 4 million people unemployed nationwide. Growth is now faster in western Germany than in the east, slowing—at least temporarily—progress toward economic convergence between the two regions, a key national objective. Unemployment is also about twice as high in eastern Germany as in the west.

Increased government outlays associated with German unification have put pressure on fiscal policy during the 1990s. The country's generous social welfare system was extended as a whole to eastern Germany, and the government further committed itself to raise eastern German production potential via public investment and generous subsidies to attract private investment. However, overall unit labor costs in eastern Germany are still quite high, as productivity growth has lagged behind wage increases. This process led to the higher unemployment in the east and resulted in a sharp increase in federal unemployment compensation costs. As a result, western Germany continues to transfer substantial sums to eastern Germany (more than DM 140 billion annually, or roughly four percent of German GDP). These transfers accounted for the dramatic ballooning of public sector deficits and borrowing since 1990, and contributed to the need for the current government's belt-tightening measures.

Top policy priorities of the coalition government elected in September 1998 are to lower unemployment and reduce the fiscal deficit. The government has organized an Alliance for Jobs also involving labor union and employer representatives, with the aim of fostering wage restraint, job security and training programs. Deficit reduction efforts have focused on federal spending restraint. The government also intends to introduce tax reforms over a period of four years, aimed at reducing corporate income tax rates and closing loopholes, extending relief to families, and raising energy taxes for environmental reasons. So far the government has been more successful at reducing the budget deficit than at tackling unemployment. The labor minister recently admitted that significant job creation might not occur until late 2000.

2. Exchange Rate Policies

On January 1, 1999, the euro was introduced in Germany and the Deutsche Mark was fixed at 1.95 to the euro. The euro has become a transactional currency until the introduction of notes and coins on January 1, 2002. The DM will be phased out beginning January 1, 2002, with the euro remaining sole currency as of March 1, 2002. Over the next two years, the DM will be phased out and the euro will become the exclusive currency in Germany. All monetary and exchange policies are now handled by the European Central Bank.

3. Structural Policies

Since the end of the Second World War, German economic policy has been based on a "social-market" model which is characterized by a substantially higher level of direct government participation in the production and services sector than in the United States. In addition, an extensive regulatory framework, which covers most facets of retail trade, service licensing and employment conditions, has worked to limit market entry by not only foreign firms, but also German entrepreneurs.

Although the continuation of the "social market" model remains the goal of all mainstream political parties, changes resulting from the integration of the German economy with those of its European Union partners, the shock of German unification, pressure from globalization on traditional manufacturing industries, and record-high unemployment have forced a rethinking of the German post-war economic consensus. A number of structural impediments to the growth and diversification of the German economy have been identified. These can be broadly grouped as follows:

(1) a rigid labor market;
(2) a regulatory system that discourages new entrants; and
(3) high marginal tax rates and high social charges.

While many Germans value these structural features for their presumed benefits in terms of social security and relative equality, the public debate has focused on their suitability to desired economic growth and employment levels and Germany's competitiveness as a location for business and investment. The government, as noted, intends to pursue modest tax reform but has not undertaken structural reform of the labor market.

In recent years, the government has carried out a reorganization of the German Federal Railroad and completed transforming most operating entities of the German

Federal Post into stock companies. An initial public offering for the DeutschePost (DP) is expected in mid-2000 in conjunction with the liberalization of the telecommunications sector, the government-owned Deutsche Telekom has been substantially privatized (34 percent of shares have been made public) in several tranches. The German Government has largely fulfilled its commitment to open the telecommunications network monopoly to competition as of January 1, 1998, the date when its new Regulatory Authority for Telecommunications and Post began operation. However, the USTR continues to monitor Germany's compliance with the Basic Telecommunications Agreement, after a U.S. firm filed a complaint in February 1999 under section 1377 of the Omnibus Trade and Competitions Act of 1988. The federal government also has sold its remaining stake in the national airline, Lufthansa.

Despite the progress in recent years, lack of competition remains a problem in many regulated sectors and drives up business costs in Germany. Services which continue to be subject to excessive regulation and market access restrictions include communications, utilities, banking and insurance. The government intends to review existing legislation that limits price competition between firms, as well as laws that reduce competition in the insurance and transport sectors. The Regulatory Authority for Telecommunications and Post has issued new regulations to encourage competition in the telecom sector. Paralleling German Government efforts to deregulate the economy, the European Commission is expected to continue to pressure member states to reduce barriers to trade in services within the Community. U.S. firms, especially those with operations located in several European Union member states, should benefit from such market integration efforts over the long term.

4. Debt Management Policies

As a condition of its participation in the European Monetary Union, the government was required to reduce its accumulated public debt and lower its debt/GDP ratio. Germany is also subject to a constitutional limitation to hold its new net borrowing, at or below the amount invested in public sector infrastructure. Current policies seek to achieve a balanced budget by 2003.

Germany has recorded persistent current account deficits since 1991 due to a drop in the country's traditionally strong trade surplus, related in part, to strong consumer demand in eastern German demand. These deficits have been small, however, in relation to GDP. The strong deterioration of the services balance in recent years, caused principally by German tourism expenditures abroad, has contributed to the current account deficits. Nonetheless, Germany continues to maintain a surplus in the merchandise trade balance.

5. Significant Barriers to U.S. Exports

Germany is the United States' fifth-largest export market and its fifth-largest source of imports. During the first seven months of 1999, U.S. exports to Germany totaled $17.68 billion (FOB basis), while U.S. imports from Germany reached $25.6 billion (FOB basis). Other than EU-imposed restrictions, there are few formal barriers to U.S. trade and investment in Germany. Ingrained consumer behavior and strong domestic players prevailing in German product and services markets often make gaining market share a difficult challenge, especially for new-to-market companies.

Import Licenses: Germany has abolished almost all national import quotas. The country enforces, however, import license requirements placed on some products by the European Union, such as the tariff quota on Latin American bananas imposed by the EU's banana import regime. As a result of this discriminatory marketing arrangement, U.S. fruit trading companies have lost market share in Germany. The World Trade Organization's dispute resolution panel and the WTO Appeals body, have found the EU banana regime to violate both the General Agreement on Trade in Services and the General Agreement on Trade in Goods, requiring EU members (including Germany) to reform this trading regime, which it has yet to do.

Services Barriers: Foreign access to Germany's insurance market is still limited to some degree. All telecommunications services have been fully open to competition since January 1998, when the EU's telecommunications market liberalization came into effect; great dynamism and intense competition characterize the long-distance, but not local, market. Liberalization has opened up opportunities for U.S. telecommunications service providers. Germany has no foreign ownership restrictions on telecommunications services. An EU data privacy directive came into force on October 25, 1998. The directive prohibits businesses from exporting "personal information" unless the receiving country has in place privacy protections that the EU deems adequate. The U.S. and the EU are engaged in ongoing discussions to establish "safe harbor" principles as a way to allow the continued free flow of data.

Standards, Testing, Labeling, and Certification: Germany's regulations and bureaucratic procedures are complex and can prove to be a hurdle for U.S. exporters unfamiliar with the local environment. Overly complex government regulations offer—intentionally or not—local producers a degree of protection. EU health and safety standards, for example, when overzealously applied, can restrict market access for many U.S. products (e.g., genetically modified organisms and hormone-treated beef). The European Union's attempts to harmonize the various product safety requirements of its member states have further complicated the issue. Existing high German standards will likely form the basis in a number of cases for eventual EU standards.

Government Procurement: In May 1998, the government passed the Public Procurement Reform Act. It establishes examining bodies that have the responsibility to review the awarding of public contracts and to investigate complaints pertaining to the procurement process. Since the law went into force January 1, 1999 it has been successfully applied to one case in September 1999.

Investment Barriers: Under the terms of the 1956 Treaty, U.S. investors are afforded national treatment. The government and industry actively encourage foreign investment in Germany. Foreign companies with investment complaints in Germany generally list the same investment problems as domestic firms: high tax rates, expensive labor costs, and burdensome regulatory requirements.

Customs Procedures: Administrative procedures at German ports of entry do not constitute a problem for U.S. suppliers.

6. Export Subsidies Policies

Germany does not directly subsidize exports outside the European Union's framework for export subsidies for agricultural goods. Governmental or quasi-governmental entities do provide export financing, but Germany subscribes to the OECD guidelines that restrict the terms and conditions of export finance.

U.S. companies allege that several German parastatal entities or former monopolies have cross-subsidized portions of their business to unfairly invest and expand their operations overseas. Several German enterprises including Deutsche Post and Deutsche Telekom have been accused of cross subsidization in order to gain market entry and increase market share, thereby disturbing a competitive market interest to U.S. companies. The European Commission agreed to accept a complaint by one U.S. parcel delivery company for charging DP with abuse of a dominant market position.

7. Protection of U.S. Intellectual Property

Intellectual property is generally well protected in Germany. Germany is a member of the World Intellectual Property Organization; a party to the Berne Convention for the Protection of Artistic and Literary Works, the Paris Convention for the Protection of Industrial Property, the Universal Copyright Convention, the Geneva Phonograms Convention, the Patent Cooperation Treaty, the Brussels Satellite Convention, and the Treaty of Rome on Neighboring Rights. U.S. citizens and firms are entitled to national treatment in Germany, with certain exceptions. Despite Germany's implementation of its commitment under the intellectual property rights portions (TRIPS) of the Uruguay Round, some U.S. firms have raised concerns about the level of software piracy in Germany. Germany's 1993 implementation of the EU's Software Copyright Directive, as well as an educational campaign by the software industry have helped improve Germany's performance in this area.

8. Worker Rights

a. *The Right of Association:* Article IX of the German Constitution guarantees full freedom of association. Workers' rights to strike and employers' rights to lockout are also legally protected.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right to organize and bargain collectively, and this right is widely exercised. Due to a well-developed system of autonomous contract negotiations, mediation is uncommon. Basic wages and working conditions are negotiated at the industry level and then are adapted, through local collective bargaining, to particular enterprises. Nonetheless, some firms in Eastern Germany have refused to join employer associations, or have withdrawn from them, and then bargained independently with workers. In other cases, associations are turning a "blind eye" to firm-level negotiations. Likewise, some large firms in the west withdrew at least part of their workforce from the jurisdiction of the employers association, complaining of rigidities in the centralized negotiating system. They have not, however, refused to bargain as individual enterprises. The law mandates a system of work councils and worker membership on supervisory boards, and thus workers participate in the management of the enterprises in which they work. The law thoroughly protects workers against antiunion discrimination.

c. *Prohibition of Forced or Compulsory Labor:* The German Constitution guarantees every German the right to choose his own occupation and prohibits forced labor, although some prisoners are required to work.

d. *Minimum Age for Employment of Children:* German legislation in general bars child labor under age 15. There are exemptions for children employed in family farms, delivering newspapers or magazines, or involved in theater or sporting events.

e. *Acceptable Conditions of Work:* There is no legislated or administratively determined minimum wage. Wages and salaries are set either by collective bargaining agreements between unions and employer federations, or by individual contracts. Covering about 90 percent of all wage and salary earners, these agreements set minimum pay rates and are legally enforceable. These minimums provide an adequate standard of living for workers and their families.

f. *Rights in Sectors with U.S. Investment:* The enforcement of German labor and social legislation is strict, and applies to all firms and activities, including those in which U.S. capital is invested. Employers are required to contribute to the various mandatory social insurance programs and belong to and support chambers of industry and commerce which organize the dual (school/work) system of vocational education.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		2,860
Total Manufacturing		22,259
Food & Kindred Products	922	
Chemicals & Allied Products	3,894	
Primary & Fabricated Metals	1,848	
Industrial Machinery and Equipment	3,887	
Electric & Electronic Equipment	565	
Transportation Equipment	7,106	
Other Manufacturing	4,038	
Wholesale Trade		2,759
Banking		1,510
Finance/Insurance/Real Estate		11,022
Services		1,905
Other Industries		537
TOTAL ALL INDUSTRIES		42,853

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

GREECE

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated)]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	105,600.0	105,825.0	109,700.0
Real GDP growth (pct) [3]	3.0	3.7	3.5
GDP by Sector:			
Agriculture	8,960.0	8,800.0	8,740.0
Manufacturing	25,130.0	25,400.0	26,300.0
Services	71,510.0	71,625.0	74,660.0
Of which:			
Government	10,130.0	9,625.0	9,465.0
Per Capita GDP (US$)	11,334.6	11,305.2	11,335.0
Labor Force (000's)	4,262.0	4,445.7	4,481.3

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated)]

	1997	1998	[1] 1999
Unemployment Rate (pct)	9.6	10.8	10.4
Money and Prices (annual percentage growth):			
Money Supply Growth (M3 Dec)	9.6	8.9	4.0
Consumer Price Inflation	5.5	4.8	2.5
Exchange Rate (DRS/US$ annual average)			
Official	273.1	295.5	305.0
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4A]	10,934.0	10,758.0	10,000.0
Total Exports FOB [4B]	5,373.3	5,556.0	8,000.0
Exports to U.S. [4C]	453.0	467.1	[5] 350.0
Total Imports CIF [4A]	25,560.0	28,587.0	28,000.0
Total Imports CIF [4B]	23,644.1	23,246.9	26,000.0
Imports from U.S. [4C]	954.0	1,355.1	[5] 640.5
Trade Balance [4A]	−14,626.0	−17,829.0	−18,000.0
Trade Balance [4B]	−18,271.0	−17,681.0	18,000.0
Balance with U.S.	496.0	888.0	N/A
External Public Debt	29,167.1	32,000.0	33,000.0
Fiscal Deficit/GDP (General Government) (pct)	4.0	1.6	1.2
Current Account Deficit/GDP (pct)	4.9	4.0	2.5
Debt Service (Public Sector) Payments/GDP (pct)	6.2	6.3	6.0
Gold and Foreign Exchange Reserves	13,337.0	18,191.2	20,000.0
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data in November.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4A] Merchandise Trade; National Statistical Service of Greece; Customs Data.
[4B] Trade; Bank of Greece data; on a settlement basis for 1997 and 1998. The Bank of Greece data, especially those on exports, underestimate true trade figures since exporters are no longer obliged to deposit their export receipts in Greece. The Bank of Greece is preparing a new set of accounts to be in line with other EU central banks. The 1999 estimates are based on the January-April 1999 data following the new system (resident/non-resident basis).
[4C] U.S. Department of Commerce. U.S. exports and general imports, customs value.
[5] January-July 1999 data.

1. General Policy Framework

Greece has been a member of the European Union (EU) since 1981. Its economy is segmented into the state sector (estimated at 45 percent of GDP) and the private sector (55 percent of GDP). It has a population of 10.6 million and a workforce of about 4 million. Some of Greece's economic activity remains unrecorded. (Estimates of how much of the economy remains unrecorded vary, due, at least in part, to deficient data collection). The moderate level of development of Greece's basic infrastructure—road, rail, telecommunications—reflects its middle-income status. Per capita GDP is $11,335, the lowest in the EU. However, with GDP growth well above the EU average, this gap is slowly closing.

Services make up the largest and fastest growing sector of the Greek economy, accounting for about 68 percent of GDP (including government services). Tourism, shipping, trade, banking, transportation, communications, and construction are the largest service sub-sectors. Greece is an import-dependent country, importing substantially more than it exports. In 1998, imports were $28.6 billion while exports were only $10.75 billion. A relatively small industrial base and lack of adequate investment in the past have restricted the export potential of the country. As a general trade profile, Greece exports primarily light manufactured and agricultural products, and imports more sophisticated manufactured goods. Tourism receipts, emigrant remittances, shipping receipts, and transfers from the EU form the core of Greece's invisible earnings. Substantial funds from the EU (about $20 billion) have been allocated for major infrastructure projects (road and rail networks, ports, airports, telecommunications etc.) over the period 1994-99. Greece will get another EU structural funds package of about $22 billion for the period 2000-2006. Greece will undertake a number of infrastructure projects to host the 2004 Summer Olympic games, although some were already underway.

The government is in its sixth year of an austerity program designed to meet the Maastricht Treaty's convergence criteria for the European Monetary Union (EMU). Greece failed to meet the criteria in 1997 to enter EMU in 1999; it aims to join the EMU on January 1, 2001, based on 1999 economic performance. The results of the convergence program on the economy have been generally positive. The drop of inflation to 2 percent on an annualized basis in September raised hopes that they would meet the criteria to join the EMU (presently around 2 percent.) Investment and consumer confidence remains strong and the growth of GDP in 1999 is projected to be 3.5 percent, slightly lower than 1998 growth (3.7 percent). Unemployment, which stood at 10.8 percent in1998, is projected to drop to 10.4 percent in 1999. By the end of 1998, as a result of a fiscal policy focused on expanding revenue collection, the government budget deficit to GDP ratio had fallen to 1.6 percent. However, real progress in reducing public expenditures has been limited due to continued opposition to structural reforms by labor unions, professional associations, politicians, and the media.

Greece's huge general government debt (104 percent of GDP or 126.8 billion U.S. dollars in 1999) stems to a great extent from government acquisition of failing enterprises and a bloated public sector. Greece's social security program has also been a major drain on public spending. Deficits are financed primarily through issuance of government securities.

Monetary policy is implemented by the Bank of Greece (the Central Bank). The Bank uses the discount and other interest rates in its transactions with commercial banks as tools to control the money supply. The government continues to retain privileged access to credit via the still low-taxed status accorded to government debt obligations (which includes the right of Greek residents to purchase government debt obligations without having to declare their source of income to the tax authorities). Treasury bills and state bonds are issued by the Ministry of Finance but they are expected to comply with the monetary targets set by the Bank of Greece.

2. Exchange Rate Policy

Greece's foreign exchange market is in line with EU rules on free movement of capital. On March 16, 1998, the Greek currency was included in the European Union's Exchange Rate Mechanism (ERM). This was preceded by a drachma devaluation of 12.3 percent on March 14. The drachma participates in the ERM-2 as of January 1, 1999. The drachma's central parity to the euro (which also sets the entry level into EMU on January 1, 2001) was set at 353.109 drachmas per euro.

3. Structural Policies

Greece's structural policies are largely dictated by the need to comply with the provisions of the EU Single Market and the Maastricht Treaty on Economic and Monetary Union. The 1994-99 Convergence Program, designed to enable Greece to comply with the Maastricht Treaty criteria, set targets that should encourage significant structural reforms, including privatizations. Progress in this area, however, has been limited. The Convergence Program itself has been revised twice. The Greek Government has a plan stretching until the end of 2000 to privatize or sell minority stakes in public sector enterprises and organizations including Hellenic Petroleum (23 percent currently traded in the mar'.et), the Hellenic Duty Free shops, the Public Power Corporation, the Athens Water Company, the Athens Stock Exchange and the port operations in Piraeus and Thessaloniki. Restructuring the operations of the public sector (i.e., elimination of unnecessary activities/entities, changes in the labor and social insurance regimes) are also at the top of the Greek Government's agenda.

Pricing Policies. The only remaining price controls are on pharmaceuticals. The government can also set maximum prices for fuel and private school tuition fees, and has done so several times in the last two years.

About one quarter of the goods and services included in the Consumer Price Index (CPI) are produced by state-controlled companies. As a result, the government retains considerable indirect control over pricing. While this distorts resource allocations in the domestic economy, it does not directly inhibit U.S. imports (with the exception of pharmaceuticals).

Tax Policies: Businesses complain about frequent changes in tax policies (there is a new tax law practically every year). More tax reforms were introduced in October 1999:

—objective tax criteria for small businesses and self-employed are abolished;

—tax rates on small businesses were reduced from 35 to 30 percent;

—indirect taxes on imported cars and fuel were reduced.

4. Debt Management Policies

Greece's "General Government Debt" (the Maastricht Treaty definition) was 126.8 billion dollars, or 104.0 percent of GDP (market prices) in 1999. Foreign exchange reserves fluctuated in the first four months of 1999 between 21.6 and 22.1 billion dollars or about 9 months of imports.

Servicing of external debt (public sector) in 1998 (interest and amortization) equaled 70 percent of exports and 6.3 percent of GDP. About 65 percent of the external debt is denominated in currencies other than the dollar. Foreign debt does not affect Greece's ability to import U.S. goods and services.

Greece has regularly serviced its debts and has generally good relations with commercial banks and international financial institutions. Greece is not a recipient of World Bank loans or International Monetary Fund programs. In 1985, and again in 1991, Greece received a balance of payments loan from the EU.

5. Significant Barriers to U.S. Exports

Greece, which is a WTO member, has both EU-mandated and Greek Government-initiated trade barriers.

Law: Greece maintains nationality-based restrictions on a number of professional and business services, including legal advice. These restrictions have been lifted in the recent years for EU citizens. U.S. companies can generally circumvent these barriers by employing EU citizens.

Accounting/Auditing: The transitional period for de-monopolization of the Greek audit industry officially ended on July 1, 1997. Numerous attempts to reserve a portion of the market for the former state audit monopoly during the transition period (1994-97) were blocked by the European Commission and peer review in the OECD. However, in November 1997, the Greek Government issued a presidential decree that reduced the competitiveness of the multinational auditing firms. The decree established minimum fees for audits, and imposed restrictions on utilization of different types of personnel in audits. It also prohibited audit firms from doing multiple tasks for a client, thus raising the cost of audit work. The government has defended these regulations as necessary to ensure the quality and objectivity of audits. In practical effect, the decree constitutes a step back from deregulation of the industry.

Aviation: The Greek flag air carrier, Olympic Airways, used to have a monopoly in providing ground handling services to other airlines. As of January 1, 1998, all major airports in the EU had to offer at least two ground handling options. However, in practice Olympic remains the only ground handling option for foreign airlines other than self-handling.

Motion Pictures: Greek film production is subsidized by a 12 percent admissions tax on all motion pictures. Enforcement of Greek laws protecting audio-visual intellectual property rights has improved in 1998-99, but rights for software, music, and books remains problematic.

Agricultural Products: Greek testing methods for Karnal bunt disease in U.S. wheat have served as a de facto ban on imports and transshipment of wheat for the last three years due to a high incidence of false positive results. The Ministry of Agriculture has recently agreed to procedures that will allow a resumption of transshipments through Greek ports to neighboring countries.

Generally, Greece has not been responsive to applications for introduction of bioengineered (genetically modified) seeds for field tests despite support for such tests by Greek farmers.

Investment Barriers: Both local content and export performance are elements which are seriously taken into consideration by Greek authorities in evaluating applications for tax and investment incentives. However, they are not legally mandatory prerequisites for approving investments.

Greece, which currently restricts foreign and domestic private investment in public utilities (with the exception of cellular telephony and energy from renewable sources, e.g. wind and solar), has deregulation plans for telecommunications and energy. Greece has been granted a derogation until January 1, 2001 to open its voice telephony and the respective networks to other EU competitors. In the energy field, the Greek energy market will be gradually deregulated, starting in February 2001.

U.S. and other non-EU investors receive less advantageous treatment than domestic or other EU investors in the banking, mining, maritime, and air transport sectors, and in broadcasting (these sectors were opened to EU citizens due to EU single market rules). There are also restrictions for non-EU investors on land purchases in border regions and certain islands (on national security grounds).

Greek laws and regulations concerning government procurement nominally guarantee nondiscriminatory treatment for foreign suppliers. Officially, Greece also adheres to EU procurement policy, and Greece has adhered to the GATT Government

Procurement Code since 1992. Nevertheless, many of the following problems still exist: occasional sole-sourcing (explained as extensions of previous contracts); loosely written specifications which are subject to varying interpretations; and allegiance of tender evaluators to technologies offered by longtime, traditional suppliers. Firms from other EU member states have had a better track record than U.S. firms in winning Greek Government tenders. It has been noted that U.S. companies submitting joint proposals with European companies are more likely to succeed in winning a contract. The real impact of Greece's "buy national" policy is felt in the government's offset policy (mostly for purchases of defense items) where local content, joint ventures, and other technology transfers are required.

In December 1996, the Greek Parliament passed legislation (Law 2446, article 16) which allows public utilities in the energy, water, transport, and telecommunications sectors to sign "term agreements" with local industry for procurement. "Term agreements" are contracts in which Greek suppliers are given significant preference. The official explanation for these agreements is the need to support the national manufacturing base. This was made possible as a result of Greece's receipt of an extension until January 1, 1998, to implement the EU's Utilities Directive 93/38. Before expiration of the extension, in November-December 1997, numerous contracts potentially worth of billions of dollars were signed by Greek public utilities with Greek suppliers. Some of these term agreements have no less than 3-5 years duration, thus effectively excluding foreign suppliers from vital sectors of government procurement for several years. The European Commission has been examining the hurried manner in which these contracts were approved.

6. Export Subsidies Policies

The government does not use national subsidies to support exports. However, some agricultural products (most notably cotton, olive oil, tobacco, cereals, canned peaches, and certain other fruits and vegetables) receive production subsidies from the EU which enhance their export competitiveness.

7. Protection of U.S. Intellectual Property

Greek laws extend protection of intellectual property rights to both foreign and Greek nationals. Greece is a party to the Paris Convention for the Protection of Industrial Property, the European Patent Organization, the World Intellectual Property Organization, the Washington Patent Cooperation Treaty, and the Berne Copyright Convention. As a member of the EU, Greece has harmonized its legislation with EU rules and regulations. The WTO TRIPS agreement was incorporated into Greek legislation as of February 28, 1995 (Law 2290/95).

Greece has been on the "Special 301 Priority Watch List" since 1994. Just prior to an out-of-cycle review in December 1996, the Greek Government submitted an "Action Plan" laying out the steps it would take to reduce audio-visual piracy. While some of these steps were taken, the government lagged behind severely in licensing television stations in accordance with the provisions of the 1995 media law; the process, which only got underway after extremely long delays, was less than halfway through in mid-1999. As a result of slow movement in many areas of concern to U.S. companies, the U.S. Government launched a WTO TRIPS non-enforcement challenge and consultations under WTO auspices were started in June 1998.

To fulfill in part its obligations under Part III of the TRIPS Agreement, Greece passed legislation on October 13, 1998 (Law 2444/98, commonly known a the Digital TV Law of 1998), Article 17 of which provides an additional enforcement remedy for copyright holders whose works were infringed by television stations that infringe intellectual property rights. Over the past year, acting on complaints by U.S. right holders, the Government of Greece has taken action under Article 17 to close down several television stations that were shown to have broadcast illegally U.S. copyrighted works.

The United States, Greece and the European Communities observe that estimated levels of television piracy in Greece have fallen significantly since the initiation of these consultations, and that the first criminal convictions for television piracy have also been issued in Greece during this time. The United States, Greece and the European Communities also note that Greece's Ministry of Justice has formally instructed public prosecutors to ensure the timely prosecution of intellectual property cases and to avoid postponements of court hearings to ensure that such cases are not subject to unwarranted delays in the courts. Consultations under WTO auspices are continuing.

Three other significant intellectual property protection problems are lack of effective protection of copyrighted software, no protection of trademarked products in the apparel sector and no laws protecting the use of U.S. copyrighted Internet domain names. Although Greek trademark legislation is fully harmonized with that of the

EU, claims by U.S. companies of counterfeiting appear to be on the increase. In addition, a growing problem is the legality in Greece of using an already copyrighted domain name, if it is succeeded by ".gr." In a recent court case, however, the Greek judge ruled in favor of a U.S. company who claimed that a Greek company was intentionally using the U.S. Internet domain name to misrepresent itself as a Greek subsidiary of the U.S. company.

Intellectual property appears to be adequately protected in the field of patents. Patents are available for all areas of technology. Compulsory licensing is not used. Law protects patents and trade secrets for a period of twenty years. There is a potential problem concerning the protection of test data relating to non-patented products. Violations of trade secrets and semiconductor chip layout design are not problems in Greece.

8. Worker Rights

The Greek economy is characterized by significant labor-market rigidities. Greek labor law prohibits laying off more than two percent per month of total personnel employed by a firm. This restricts the flexibility of firms and the mobility of Greek labor and contributes to unemployment. A law, which came into force in November 1999, obliges public and private firms employing more than 50 persons to hire up to 8 percent of their staff from among the disabled, veterans descendants and families with more than four children.

a. *The Right of Association:* Approximately 30 percent of Greek workers are organized in unions, most of which tend to be highly politicized. While unions show support for certain political parties, particularly on issues of direct concern to them, they are not controlled by political parties or the government in their day-to-day operations. The courts have the power to declare strikes illegal, although such decisions are seldom enforced.

Employers are not permitted to lock out workers, or to replace striking workers (public sector employees under civil mobilization may be replaced on a temporary basis).

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was guaranteed in legislation passed in 1955 and amended in February 1990 to provide for mediation and reconciliation services prior to compulsory arbitration. Antiunion discrimination is prohibited, and complaints of discrimination against union members or organizers may be referred to the Labor Inspectorate or to the courts. However, litigation is lengthy and expensive, and penalties are seldom severe. There are no restrictions on collective bargaining for private workers. Social security benefits are legislated by Parliament and are not won through bargaining. Civil servants negotiate their demands with the Ministry for Public Administration.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is strictly prohibited by the Greek Constitution and is not practiced. However, the government may declare "civil mobilization" of workers in case of danger to national security or to social and economic life of the country.

d. *Minimum Age of Employment of Children:* The minimum age for work in industry is 15, with higher limits for certain activities.

e. *Acceptable Conditions of Work:* Minimum standards of occupational health and safety are provided for by legislation, which the General Confederation of Greek Workers (GSEE) characterizes as satisfactory. In 1998, GSEE complaints regarding inadequate enforcement of legislation were met when the Ministry of Labor established a new central authority, the Labor Inspectors Agency. The agency is accountable to the Minister of Labor and has extended powers which include the power to close a factory that does not comply with minimum standards of health and safety.

Legislation providing for the legalization of illegal immigrants came into force in January 1998. About 350,000 illegal immigrants were registered and will be entitled to one to three-year renewable work and residence permit. Those issued a permit will have the same labor and social security rights as Greek workers. Non-registered immigrants will be liable to summary deportation if arrested.

f. *Rights in Sectors with U.S. Investment:* Although labor/management relations and overall working conditions within foreign business enterprises may be among the most progressive in Greece, worker rights do not vary according to the nationality of the company or the sector of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		75
Total Manufacturing		91
Food & Kindred Products	–9	
Chemicals & Allied Products	45	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	9	
Transportation Equipment	3	
Other Manufacturing	41	
Wholesale Trade		92
Banking		166
Finance/Insurance/Real Estate		126
Services		59
Other Industries		50
TOTAL ALL INDUSTRIES		660

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

HUNGARY

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated)]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP	44.7	47.0	[2] 448.8
Real GDP Growth (pct)	4.6	5.1	3.8
GDP by Sector: [3]			
Agriculture	3.1	98.5	N/A
Manufacturing	9.4	111.2	N/A
Construction	2.0	112.1	N/A
Services	23.1	105.2	N/A
Government	6.6	N/A	N/A
Per Capita GDP (US$)	4,415	4,694	4,851
Labor Force (000's)	6,253	6,368	6,200
Unemployment Rate (pct)	10.4	9.1	9.2
Money and Prices (annual percentage growth):			
Money Supply Growth	23.2	18.1	[4] 17.7
Average Consumer Price Inflation	18.4	14.3	10.5
Official Exchange Rate (HUF/$ annual average)	186.8	214.5	237
Balance of Payments and Trade:			
Total Exports FOB	19.1	23	23
Exports to U.S. (US$ millions)	1,079	1,567	[5] 1,595
Total Imports CIF	21.1	25,7	26
Imports from U.S. (US$ millions)	485	482	[5] 524
Trade Balance	–2.6	–2.7	–3
Balance with U.S. (US$ millions)	–543	–1,085	[5] –1,071
Current Account Deficit/GDP (pct)	2.2	4.8	4.9
Net External Public Debt	4.6	4,4	[6] 3.8
Debt Service Payments/GDP (pct)	13.8	10.3	11
Fiscal Deficit/GDP (pct)	4.6	4.5	5.1
Gold and Foreign Exchange Reserves	8.2	9.3	[7] 10.2
Aid from U.S. (US$ millions)	15.0	9.9	4.0
Aid from All Other Sources	N/A	N/A	N/A

[1] Source: Central Statistical Office and National Bank data available through October 1999, except where otherwise noted.

[2] Apparent inconsistency with the growth figures is due to the ongoing Hungarian forint devaluation against the U.S. dollar.
[3] GDP by sectors is higher than total GDP due to double counting.
[4] July-on-July M1 growth (no M2 data available since 1998).
[5] Source: U.S. Department of Commerce; 1998 projected from January-August data. Note that U.S.-source and Hungarian-source bilateral trade figures differ markedly, due largely to country-of-origin distinctions in exports whose final assembly occurs in Hungary.
[6] August 1999.
[7] October 1999.

1. General Policy Framework

Hungary has been transformed into a middle-income country with a market economy and a well-elaborated but still developing Western-oriented legal and regulatory framework. The first post-communist government (1990-94) began significant economic reform, but was unable to privatize many state enterprises and implement systemic fiscal reforms, which led to large imbalances in Hungary's fiscal and external accounts. A successor government (1994-98) achieved economic stabilization through an IMF-coordinated austerity program adopted in March 1995, and accelerated privatization and economic reform. In 1999, Hungary posted solid increases in industrial output, exports, and overall output, while continuing to reduce inflation. Continued economic restructuring under the current government (elected in May 1998) is expected to allow for sustainable growth in the medium term. Substantial regional disparities exist in Hungary, though they will likely narrow in the future.

A revised privatization program enacted in 1995 gave new momentum to sales of government enterprises and assets, largely to Western companies. Privatization contributed to a rapid transformation of the energy, telecommunication, and banking sectors. Currently, over 80 percent of the country's GDP is derived from the private sector, and Hungary has lowered government expenditures as a percentage of GDP. Other significant reforms include means testing of social-welfare payments (partially reversed by the current government) and partial privatization of the pension system (implemented in January 1998). The unfinished reform agenda includes rationalizing health care and local government financing.

Privatization revenues have reduced Hungary's foreign debt burden substantially. The government has an unblemished debt payments record and its foreign-currency obligations have been rated investment grade by all major rating agencies since late 1996. Foreign currency reserves stood at $9.8 billion through July 1999, enough for five months of imports.

In part reflecting concerns about the Russian financial crisis, the government has pledged to continue reducing fiscal deficits and inflationary wage increases. The consolidated budget deficit in 1999 will equal about 5 percent of GDP, down from 8.2 percent in 1994. Hungary finances its state deficit primarily through foreign and domestic bond issues. The government projects a $2.3 to 2.5 billion current account deficit for 1999, almost unchanged from $2.3 billion in 1998. Foreign direct investment will exceed the current account deficit, preventing an increase in net external debt. Following a cumulative decline of 17 percent from 1995 to 1996, net real wages continued to increase by 5.6 percent in 1998 and an estimated 2.7 percent in 1999, matched by large productivity gains over this period.

Hungary is a leader in attracting foreign direct investment, with an estimated $21 billion in cumulative inflows since 1989. The U.S. is a leading investor in Hungary with over $8 billion in cumulative FDI since 1989. Although in the process of being scaled down, tax incentives and related credits are available for foreign investments, especially in underdeveloped regions. Hungarian law currently permits the establishment of companies in customs-free zones, which are also exempt from indirect taxation tied to the turnover of goods.

A signatory to the Uruguay Round Agreement and a founding member of the World Trade Organization, Hungary joined the Organization for Economic Cooperation and Development (OECD) in May 1996 and, as a part of that process, is further liberalizing capital account transactions. Hungary has harmonized many laws and regulations with European Union standards and has oriented economic policy towards earliest possible accession.

2. Exchange Rate Policy

The revised Foreign Exchange Law, effective January 1, 1996, made the Hungarian forint essentially convertible for current account transactions. Foreigners and Hungarians can maintain both hard currency and forint accounts. The forint exchange rate is managed within a +/– 2.25 percent band ("crawling peg") against a currency basket composed of the euro (70 percent) and the dollar (30 percent). As of January 1, 2000, the forint will cease to be pegged against a basket of currencies and will be pegged 100 percent to the euro. In November 1999, the rate of devaluation was 0.4 percent a month against the currency basket. Also in November of 1999, the Hungarian Finance Ministry indicated the devaluation of the forint could end in 2001 or 2002. Improved macroeconomic performance has helped slow average annual inflation from 28.3 percent in 1995 to a projected 10 percent for 1999.

The Hungarian National Bank (MNB) carries out monetary policy through open market operations focusing on an interest rate policy consistent with price stability and within the constraints of the foreign exchange regime. Commercial banks can conclude foreign exchange swap transactions with the MNB.

3. Structural Policies

The market freely sets prices for most products and services. User prices for pharmaceuticals, public transport, and utilities continue to be partially set by the state. The government offers a wholesale floor price for many agricultural products. Public opposition and regulatory intervention have prevented utility prices from reaching market levels, causing energy companies to receive less than the cost-plus-eight percent return stipulated in privatization contracts.

Starting in 1997, successive governments have reduced income tax rates and employer social contributions in an effort to cut inflation, spur job growth, and shrink the gray economy. Corporate tax remains low at 18 percent. Currently, a ten-year corporate tax holiday applies to investments of at least HUF 10 billion (about $41,000 as of November 1999) or HUF 3 billion in less developed regions, and a five-year 50 percent tax holiday applies to investments of at least HUF 1 billion. Other incentive programs exist; consult the Country Commercial Guide. Many municipalities offer local incentives.

Major structural budget reform has been implemented and further legislation is expected in this area. In January 1998, a new "three pillar" pension system was introduced in which private funds initially augment and gradually supplant more of the current state-funded, pay-as-you-go public system. The government is likely to focus on reforming health care and local government financing, in order to reduce further state expenditures.

4. Debt Management

Hungary is a moderately indebted country (though high by per capita standards), with gross foreign debt expected to be $24.9 billion at the end of 1999. In addition, net foreign debt is projected to be $12 billion at the end of 1999, down from $14 billion in 1996. Net public domestic debt was $5.0 billion at the end of October 1998, slightly over half the level at the end of 1996. Hungarian governments have consistently met external debt service payments. A standby credit arrangement with the International Monetary Fund ended in February 1998 by mutual agreement. Hungary has prepaid all past borrowings from the IMF, and received an investment grade rating on sovereign long-term foreign currency debt from leading U.S. credit rating agencies in late 1996. Hungary is expected to have reserves of $9.5 to $10 billion by the end of 1999.

5. Significant Barriers to U.S. Exports

On July 1, 1997, Hungary joined the Pan European Free Trade Zone and Cumulation System. Combined with tariff reductions stipulated in Hungary's 1993 EU Association Agreement, industrial imports from EU members and associated states face declining tariffs (to be eliminated in 2001), while U.S.-origin goods will face Hungary's MFN tariff rates until Hungary's adoption of the common external tariff upon accession to the EU. The increasing differential between tariffs on EU industrial goods and on U.S. industrial goods has disadvantaged many U.S. exporters. Duty must be paid on imports from outside the Pan-European Zone, which may then be exported duty-free to other countries within the Pan European Zone. Duty paid on inputs processed and then exported within the zone is no longer refunded, a problem the Hungarian Government has addressed on a case-by-case basis for U.S. firms exporting from Hungary to European markets.

Although 95 percent of imports (in value terms) no longer require prior government approval, quota constraints apply to some 20 product groups, mainly cars, textiles, and precious metals (but quotas did not restrict imports in most of these areas). Under WTO rules, Hungary will phase out quotas on textiles and apparel by 2004. As a result of the WTO Agricultural Agreement, quotas on agricultural products and processed foods have been progressive replaced by tariff-rate quotas. In 1997, Hungary eliminated an import surcharge imposed as part of the March 1995 austerity package.

Importers must file a customs document (VAM 91 form) with a product declaration and code number, obtained from the Central Statistical Office. Upon importation, the importer must present Commercial Quality Control Institute (KERMI) certified documentation to clear customs. This permit may be replaced by other national certification and testing agency documents, such as those of the National Institute for Drugs. Hungary participates in the International Organization for Standardization (ISC) and the International Electro-Technical Commission (IEC).

Foreign investment is allowed in every sector open to private investment. Foreign ownership is restricted to varying degrees in civil aviation, defense, and broadcasting. Only Hungarian citizens may own farmland.

Under the November 1995 Law on Government Procurement, public tenders must be invited for purchases of goods with a value over HUF 10 million ($41,000 as of November 1999), construction projects worth HUF 20 million and designs and services worth over HUF 5 million. Bids containing more than 50 percent Hungarian content receive a 10 percent price preference. This process does not apply to military purchases affecting national security, or to gas, oil, and electricity contracts. Hungary is not a party to the WTO Government Procurement Code, and some U.S. firms have taken legal action against non-transparency and procedural irregularities in government tenders.

6. Export Subsidies Policies

The Export-Import Bank and Export Credit Guarantee Agency, both founded in 1994, provide credit and/or credit insurance for less than ten percent of total exports. There are no direct export subsidies on industrial products, but some agricultural products receive export subsidies from the state. After 1993, agricultural export subsidies exceeded Hungary's Uruguay Round commitments in the range and value of products subsidized; in October 1997, the WTO approved an agreement in which Hungary committed to phase out excess subsidies and not to expand exports of subsidized products to new markets. Hungary is sticking to the terms of that agreement in phasing out subsidies, despite continued political pressure from domestic constituencies.

7. Protection of U.S. Intellectual Property

In 1993, the United States and Hungary signed a comprehensive Bilateral Intellectual Property Rights Treaty. Hungary also belongs to the World Intellectual Property Organization; Paris Convention on Industrial Property; Hague Agreement on Industrial Designs; Nice Agreement on Classification and Registration of Trademarks; Madrid Agreement Concerning Registration and Classification of Trademarks; Patent Cooperation Treaty; and Berne and Universal Copyright Conventions. In 1998, Hungary ratified the new WIPO Copyright Treaty and Performances and Phonograms Treaty.

Legal implementation of intellectual property rights in Hungary is generally good, but insufficient resources, court delays, and light penalties hamper enforcement. The Government of Hungary enacted a new Copyright Law in 1999, which came into effect on September 1, 1999. This replaced the 1969 Copyright Law and introduced modern copyright legislation. The 1995 Media Law makes broadcast transmission licenses conditional on respect for international copyrights. In 1997, legislation strengthened access to legal injunctions in infringement cases.

8. Worker Rights

a. *The Right of Association:* The 1992 Labor Code, as amended in 1999, recognizes the right of unions to organize and bargain collectively and permits trade union pluralism. Workers have the right to associate freely, choose representatives, publish journals, and openly promote members' interests and views. With the exception of military personnel and the police, they also have the right to strike.

b. *The Right to Organize and Bargain Collectively:* Labor laws permit collective bargaining at the enterprise and industry levels. The Economic Council (formerly the Interest Reconciliation Council), a forum of representatives from employers, employees, and the government, sets the minimum and recommended wage levels in the public sector. Trade unions and management negotiate private wage levels. Special labor courts enforce labor laws. Affected parties may appeal labor court decisions in civil court. The 1992 legislation prohibits employers from discriminating against unions and their organizers.

c. *Prohibition of Forced or Compulsory Labor:* The government enforces the legal prohibition of compulsory labor.

d. *Minimum Age for Employment of Children:* The Labor Code forbids work by minors under the age of 14, and regulates labor conditions for minors age 14 to 16 (e.g., in apprenticeship programs).

e. *Acceptable Conditions of Work:* The Labor Code specifies conditions of employment, including: working time, termination procedures, severance pay, maternity leave, trade union consultation rights in management decisions, annual and sick leave entitlement, and conflict resolution procedures.

f. *Rights in Sectors with U.S. Investment:* Conditions in specific goods-producing sectors in which U.S. capital is invested do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		3
Total Manufacturing		537
Food & Kindred Products	52	
Chemicals & Allied Products	238	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	8	
Electric & Electronic Equipment	32	
Transportation Equipment	(1)	
Other Manufacturing	122	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		17
Services		–34
Other Industries		715
TOTAL ALL INDUSTRIES		1,353

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

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

IRELAND

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	78,771	85,050	90,536
Real GDP Growth (pct) [2]	10.7	8.9	8.2
GDP By Sector: [3]			
Agriculture	4,338	3,990	N/A
Industry	26,624	29,590	N/A
Services	35,677	38,368	N/A
Government	3,099	3,123	N/A
Per Capita GDP (US$)	21,519	22,956	24,177
Labor Force (000's)	1,538	1,622	1,688
Unemployment Rate (pct) [4]	10.3	7.8	5.7
Money and Prices (annual percentage growth):			
Money Supply Growth (M3e) [5]	19.1	18.1	21.0
Consumer Price Inflation	1.5	2.4	1.8
Exchange Rate (IP/US$)			
Official	0.66	0.70	0.74
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [6]	53,711	64,032	71,584
Exports to U.S.	6,045	8,743	10,500
Total Imports CIF [6]	39,341	44,468	47,300
Imports from U.S.	5,893	7,167	7,600
Trade Balance	14,370	19,564	24,284
Balance with U.S.	152	1,576	2,900
External Public Debt [7]	18,886	15,559	13,000
Fiscal Deficit/GDP (Pct) [8]	1.1	2.3	3.2
Current Account Balance/GDP (pct)	2.5	0.9	–0.2
Debt Service Payments/GDP (pct)	5.3	4.3	3.8

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999[1]
Gold and Foreign Exchange Reserves	7,047	9,220	9,000
Aid from U.S.[9]	5	5	5
Aid from Other Sources[10]	1,497	1,574	1,530

[1] U.S. Embassy forecasts.
[2] GDP at constant market prices (local currency).
[3] GDP at factor cost.
[4] ILO definition.
[5] Broad money. Irish monetary aggregates were redefined as part of entry into EMU from January 1, 1999.
[6] Merchandise trade.
[7] Foreign currency denominated debt plus non-resident holdings of Irish Pound denominated debt; end year.
[8] General government.
[9] Each year the United States contributes 19.6 million dollars to the International Fund to Ireland (IFI). A quarter of this amount is estimated to be spent in the Republic of Ireland's border counties.
[10] These figures include transfers from the EU's European social fund, regional development fund, cohesion fund and special programme for Northern Ireland and the border counties of the Republic of Ireland.

Sources: Central Bank Of Ireland (CBI); Central Statistics Office (CSO); Irish Trade Board (ITB); National Treasury Management Agency (NTMA).

1. General Policy Framework

In 1999, Ireland will have the fastest growing economy in the industrialized world for the sixth consecutive year. Most commentators trace the origins of Ireland's "Celtic Tiger" economy to the economic policy mix put in place in the late 1980s and maintained by successive governments since then. This included:

(1) Tight control of public spending in order to reduce government borrowing and taxation on corporate and personal incomes;

(2) A de facto incomes policy, operated through national wage agreements agreed by the government, employers and trade unions, in order to limit wage growth and boost employment creation;

(3) The ten percent corporate tax rate for international manufacturing and service companies;

(4) High levels of investment in education, training and physical infrastructure, much of it funded by generous transfers from the European Union; and

(5) Reform of the tax and welfare system to improve work incentives. In contrast to the economic policies of the 1970s and early 1980s, the policy mix in the last decade has centered on supply-side reforms to the economy, aimed at improving the attractiveness of Ireland as a location for overseas investment and increasing competitiveness of Irish-made goods in the international marketplace.

This policy mix produced impressive economic results in the 1990s. Real Irish GDP growth has averaged almost nine percent since 1994, and real Irish incomes have increased by over two-thirds since the beginning of the decade. In 1998, per capita output overtook both the EU and the OECD average. Unemployment fell below six percent in 1999, down from 16 percent in 1993. Traditional migration patterns have been reversed, as thousands of former Irish émigrés, and other nationals, arrive in Ireland to take up employment. Fast growth has been accompanied by increasing openness to the world economy. In 1998, total imports and exports were equivalent to over 157 percent of GDP, making Ireland one of the most trade-dependent economies in the world. Thanks in large part to the special 10 percent tax rate for manufacturing activities, industry accounts for almost 40 percent of total economic activity, compared with an average of 20 percent in the European Union (EU). Correspondingly, the share of services in Irish output is small by the standards of other industrialized countries. This unusual economic structure in also reflected in Ireland's trade relationship with the rest of the world. Reflecting the heavy presence of Irish-based U.S. and other multinational manufacturing firms (mostly in the high-tech sector), Ireland now enjoys a huge surplus in merchandise trade (equivalent to 27 percent in GDP in 1998), which is mirrored by large deficits in services trade.

At the end of the 1990s, Ireland's policy makers face a much-changed economic landscape. Now that Ireland's traditional economic ailments—unemployment and emigration—have largely been solved, policy makers are now faced with the challenges brought about by five years of exceptional economic growth. Of greatest concern is how to sustain rapid economic growth in the face of shortages of skilled and unskilled labor, worsening transport congestion and chronic housing shortages. Irish policy makers fear that "excessive" economic growth in the short-term could result in a hard landing for the Irish economy down the road. In a society wedded to the concept of "social cohesion," sharing the benefits of rapid economic growth with those social groups and regions that have so far been left behind by the "Celtic tiger" economy has become another top priority.

Secondly, the economic policy tools available to Irish policy makers to pursue national economic and social goals has been severely limited by Irish participation in European economic and monetary (EMU) from the beginning of 1999. With both monetary and exchange rate policy now out of the control of national authorities, the government now depends on more effective use of fiscal, structural and incomes policies to bring the Irish economy onto a more sustainable growth path. Since 1987, Irish governments have exchanged cuts in income tax for pay restraint by trade unions, thereby boosting competitiveness and employment. In late 1999, the government, trade unions and industry will attempt to negotiate a new national wage agreement to replace "partnership 2000," which expires next year. As the economy moves rapidly towards full employment, pay "flexibility" rather than pay restraint has become the new-goal of income policy. The government also believes further income tax cuts for low- and medium-income earners will increase labor supply, thereby more than offsetting the stimulative effects of looser fiscal policy. This highly unorthodox approach to economic policy has been endorsed by the OECD, but not by the IMF, who have called on Irish authorities to tighten fiscal policy to combat overheating. In the highly open Irish economy, however, fiscal policy is of limited use as a tool of demand management.

Since the beginning of 1999, monetary policy in Ireland, as in the other ten EU states that adopted the single European currency, has been formulated by the European central bank (ECB) in Frankfurt. The Irish central bank continues to exist as a constituent member of the European System of Central Banks (ESCB) and is responsible for implementing a common European monetary policy in Ireland (i.e. providing and withdrawing liquidity from the Irish inter-bank market at an interest rate set by the ECB.) The governor of the Irish central bank (currently Maurice O'Connell) has, ex officio, one vote in the ECB's 17-member monetary policy committee, although each national central bank governor is expected to disregard the individual performances of their own national economies in formulating a common monetary policy for the Euro area.

The 1992 treaty on European Union identifies price stability as the primary objective of monetary policy under EMU. Price stability is defined by the ECB as a year-on-year increase in the harmonized index of consumer prices for the Euro area in the range of zero to two percent. In making its assessment of future consumer price movements, the ECB will take account of trends in money supply, private sector credit, and a range of intermediate price indicators. The primary instrument of monetary policy is refinancing operations by the ECB and the national central banks (purchases and repurchases of government securities at a discount rate announced weekly.) Ireland accounts for just over one percent of total economic activity in the Euro zone, and less than two percent of the broad money stock. Fast economic and monetary growth in Ireland alone, therefore, has little impact on monetary policy formulation at the European level, highlighting the difficulties that Ireland, and other small Euro nations, may have with a "one-size-fits-all" single European monetary policy.

2. Exchange Rate Policies

At the beginning of 1999, the Irish pound ceased to exist as Ireland's national currency, and the new single European currency, the Euro, became the official unit of exchange. Although Irish currency will continue to circulate until the introduction of Euro notes and coins in 2002, it will be no more than a "denomination" of the Euro, with an irrevocably fixed exchange rate to the Euro and the nine other participating currencies. The conversion rate between the Irish pound and the Euro was Euro 1.2697:ip 1.

The Euro and the pound are freely convertible for both capital and current account transactions. Under 1992 treaty on European Union, the European central bank has operational responsibility for the exchange rate of the Euro and conducts foreign exchange market transactions in relation to the currency on a day-to-day basis. However, the treaty provides that the council of ministers may formulate "general orientations" for exchange rate policy in relation to the Euro, without prejudice to the ECB's primary objective to maintain price stability. These general orientations will only be agreed in exceptional circumstances. Unlike any other Euro participant, Ireland's two largest trading partners, the UK and the United States, are outside the Euro zone. Ireland's loss of control over its exchange rate with UK sterling and the dollar makes Irish exports more vulnerable to swings in the external value of the Euro than any other Euro country, and places pressure on Irish exporters to increase the flexibility of their cost base, particularly labor costs. The Irish pound averaged US$ 1:ip 0.70 in 1998, and is likely to average in the region of US$ 1:ip 0.74 in 1999.

3. Structural Policies

In Ireland, as in other EU states, a considerable degree of structural reform of capital, labor and product markets has been undertaken in recent years through various "processes" coordinated by the European commission. Irish authorities recognize that fostering greater competition in product and labor markets will be necessary for Ireland to sustain a rapid rate of economic growth in a supply-constrained economy over the coming years. Policy makers also recognize that flexible and well-functioning markets will be necessary to buffer the Irish economy from unexpected asymmetric shocks in the context of EMU without losses of output and employment. Ireland's high degree of openness to trade means that product markets in Ireland are highly competitive. EU liberalization in energy and telecommunications markets has opened up Irish sectors traditionally dominated by state-owned enterprises to private sector competition. Regulation of Irish labor markets is light compared with continental European economies. Labor market reform efforts have concentrated on removing distortions in the tax and welfare system in order to improve work incentives for the unemployed and other non-labor force participants. There is little doubt that effective structural reform of the Irish economy over the last decade has increased the ability of the Irish economy to sustain fast rates of economic growth without spurring inflation. Fast Irish economic growth has in turn fueled Irish demand for U.S. imports. Other important structural economic policies over the last decade include:

(a) The development of a social consensus on economic policy through national wage agreements negotiated by the government, employers and trade unions. The latest agreement, partnership 2000, took effect at the beginning of 1997 and trades off continued moderation by trade unions in wage demands against substantial cuts in personal taxation;

(b) The availability of a special ten percent rate of corporate taxation and generous grants to attract foreign investment;

(c) A commitment to the single European market and to Irish participation in EMU;

(d) High levels of investment in education and training—of all OECD countries only the Japanese workforce has a higher proportion of trained engineers and scientists;

(e) And improvements in physical infrastructure—structural investment between 1993 and 1999 are expected to total around 16 billion dollars (almost 4,500 dollars per head). Generous EU transfers have funded much of this.

The success of the above policies in attracting foreign investors and raising incomes has also boosted U.S. exports to Ireland. Over 500 U.S. firms are now located in Ireland. These companies import a large proportion of their capital equipment and operating inputs from parent companies and other suppliers in the United States. Accordingly, the largest component of U.S. exports to Ireland is office machinery and equipment, followed by electrical machinery and organic chemicals. Furthermore, as U.S. firms in Ireland become increasingly integrated with the local economy, sales by U.S. parent companies to local Irish enterprises are believed to have increased dramatically in recent years, although the data on this remains sketchy. The combination of the above two effects has helped increase U.S. exports to Ireland by a factor of six between 1983 to 1998. As a result, the United States has become Ireland's second largest trading partner, behind only the UK.

4. Debt Management Policies

The National Treasury Management Agency (NTMA) is the state agency responsible for the management of the government debt. At the end of 1998, Ireland's general government debt amounted to 45.9 billion dollars (using average 1998 exchange rates), equivalent to 52 percent of GDP This is down from 102% of GDP in 1989, reflecting strong fiscal rectitude in the 1990s and the fast pace of economic growth over this period. The bulk of the national debt was accumulated in the 1970's and early 1980's, partly as a result of high oil prices, but more generally as a result of expanding social welfare programs and public-sector employment. Foreign currency debt at the end of 1998 made up approximately 25 percent of the total. This is down from just over 40 percent at the end of 1993, reflecting the government's strong financial position and Ireland's substantial balance of payments surplus, and a deliberate policy to reduce foreign currency debt as much as possible.

Most new government borrowing, generally used to roll-over maturing debt, is financed through the issuance of Irish pound securities, although a substantial proportion of these are purchased by non-resident investors. The total debt servicing cost in 1998 was 3.7 billion dollars, equivalent to 4.3 percent of GDP. Lower interest rates, falling nominal debt levels and fast Irish income growth have reduced debt servicing costs as a proportion of total government revenue significantly in recent years, providing scope for reform of the personal taxation system, thus increasing consumer demand for U.S. exports of goods and services. In May 1999 the NTMA completed a re-denomination of Euro 16 billion ($16.5 billion) worth of Irish government bonds into four giant issues, whose maturity ranges from three to 17 years. The re-denomination replaced high-coupon government debt with a relatively low nominal value, issued over the last decade, with low coupon debt with a high nominal value and which carries conditions closer to European norms. The move gives Ireland, the second smallest borrower in the Euro zone, the largest single Euro bond issue, with Euro 5.5 billion ($5.7 billion) in its 2010 treasury stock. Irish authorities hopes that the re-denomination will, over time, increase the liquidity of the Irish debt market and make holding Irish debt more attractive to foreign investors, thus lowering yields.

5. Aid

In 1998, the United States contributed 19.6 million dollars to the international fund for Ireland (IFI), of which around five million is estimated to have been spent in the border constituencies of the republic of Ireland, with the balance being spent in the UK province of northern Ireland. The IFI funds business/community development programs intended to build cross-border (north-south) trade and economic ties

6. Significant Barriers to U.S. Exports

The United States is Ireland's second largest source of imports, behind only the UK. Total exports from the United States into Ireland in 1998 were valued at US$ 7.2 billion (16.1 percent of total Irish imports), up from just over US$ 3 billion in 1990. Irish exports to the United States have, however, increased at an even faster rate over the same period. Total Irish exports to the United States in 1998 were valued at US$ 8.7 billion (13.7 percent of total Irish exports.) Accordingly, the trade balance between the two countries in 1998 favored Ireland by almost US$ 1.6 billion. Before 1997, the trade balance between the two countries favored the United States for several decades. The changed U.S.-Irish trade relationship in recent years in large part reflects high levels of direct investment by U.S. companies in Ireland in recent years, many of which use Ireland as a base for exporting not only into European markets, but also back into the United States.

As a member of the EU, Ireland administers tariff and non-tariff barriers in accordance with applicable EU policies. With regard to trade in services, Ireland maintains some barriers in the aviation industry: airlines serving Ireland may provide their own ground handling services, but are prohibited from providing similar services to other airlines. The bilateral U.S.-Ireland aviation agreement also places some restrictions on aviation services between the United States and Ireland. Under the agreement, any carrier providing North Atlantic services to Dublin airport, must also provide service to Shannon airport on Ireland's west coast, which makes additional Dublin service unprofitable for some U.S. airlines at this time.

Ireland has consistently complied with the provisions of the 1989 EU "television without frontiers" broadcasting directive. This requires that EU member states reserve a majority of television transmission time for European works. Irish television industry sources are skeptical, however, whether Irish compliance with the directive has impacted negatively on U.S. programming exports to Ireland over this period.

The market for telecommunications services in Ireland was fully liberalized in December 1998—more than one year ahead of the timetable agreed with the European commission in 1996. Until then, Eircom, the former state-owned telecommunications company, was the monopoly provider of voice telephony services to the general public, although the market for leased lines, mobile telephony and other data transmission services was progressively liberalized earlier in the 1990s. Regulatory confusion and legal battles over interconnection rates between Eircom and new market entrants have, however, hampered the development of effective competition in this sector, and may prove a barrier to U.S. service providers.

As a member of the EU, Ireland applies a community-wide product certification process and community-wide product standards. With only minor exceptions, there are no requirements for marking imported goods. Packaged goods must carry labels that conform to Irish labeling requirements. The information on the labels must include details on ingredients, net weight, "best before" date and general usage instructions. Unlike many other EU countries, Irish labeling requirements also require that the name and EU address of the manufacturer, distributor or packer appear on the label. This has often caused difficulties for U.S. exporters, although the financial cost has probably been small.

Although some liberalization has taken place in recent years, Ireland still maintains some of the strictest animal and plant health import restrictions in the EU. These together with EU import duties, effectively exclude many meat-based foods, fresh vegetables and other agricultural exports from the United States. Restrictions also apply to foods containing genetically modified organisms, bananas from outside the Caribbean area, cosmetics containing specified risk materials, and some wines, although as with other goods, these policies are determined at EU level.

Ireland has been a member of the world trade organization (WTO) since it came into effect on January 1, 1995. The WTO agreement was ratified by the Irish parliament in November 1994. As member of the EU, however, Ireland participates in a large number of EU regional trade agreements, which may distort trade away from countries with whom Ireland trades purely on a MFN, non-preferential WTO basis.

7. Export Subsidies Policies

The government generally does not provide direct or indirect support for local exports. However, companies located in designated industrial zones, namely the Shannon Duty Free Processing Zone (SDFPZ) and Ringaskiddy port, receive exemption from taxes and duties on imported inputs used in the manufacture of goods destined for non-EU countries. Furthermore, Ireland applies a special 10 percent rate of corporation tax (the standard rate is 28 percent) to companies producing internationally-traded manufactures and services and to companies operating out of the SDFPZ and the international financial services center in Dublin. Under pressure from the European commission, which viewed the tax as a subsidy to industry, the Irish government is committed to eliminating the special 10 percent rate of tax by harmonizing the special and standard rates of tax at 12.5 percent by 2003, thereby abolishing the differential treatment.

Other activities that qualify for the special ten percent rate of corporate of taxation include design and planning services rendered in Ireland in connection with specified engineering works outside the European Union. This applied mainly to services provided by engineers, architects and quantity surveyors. Profits from the provision of identical services in connection with works inside the EU are taxed at the standard 28 percent rate.

Since January 1992, the government has provided export credit insurance for political risk and medium-term commercial risk in accordance with OECD guidelines. As a participant in the EU's common agricultural policy, the Irish department of agriculture and food administers cap export refund and other subsidy programs on behalf of the EU commission.

8. Protection of U.S. Intellectual Property

Ireland is a member of the world intellectual property organization and a party to the international convention for the protection of intellectual property. The Irish government is currently in the process of enacting new copyright legislation to bring Ireland's laws into line with its obligations under the WTO TRIPs agreement. Examples of existing TRIPs inconsistencies in current Irish law, which the government is committed to addressing, include absence of a rental right for sound recordings, no "anti-bootlegging" provision, and low criminal penalties which fail to deter piracy, all of which have contributed to high levels of piracy in Ireland (industry sources estimate that up to 57 percent of PC software used in Ireland is pirated.) To address several of the most glaring discrepancies between Irish law and Dublin's obligations under TRIPs, a "break-out" copyright bill was enacted in June 1998, which strengthens the presumption of copyright ownership and increases penalties for copyright violation. The Irish Seanad (upper house) passed more comprehensive copyright legislation in October 1999, and the Irish government has pledged to complete passage in the Dail (lower house) before the end of the year. When enacted, the legislation will give Ireland one of the most comprehensive IPR legal regimes in Europe. In light of government commitments to enact new copyright legislation, USTR suspended WTO dispute settlement proceedings against Ireland, though Ireland remains on the USTR's section 301 "watchlist" pending enactment of this IPR reform legislation.

The comprehensive copyright bill currently before parliament also addresses non-TRIPs conforming provisions of Irish patent law. Ireland's patent law, as it currently stands, fails to meet TRIPs obligations in at least two respects:

(1) The compulsory licensing provisions of the 1992 patent law are inconsistent with the "working" requirement prohibition of TRIPs articles 27.1 and the general compulsory licensing provisions of article 31; and

(2) Applications processed after December 20, 1991 do not conform to the nondiscrimination requirement of TRIPs article 27.1.

—Trademarks: in accordance with EU council directive 89/104/European economic community (the harmonization of trademark laws), and EU council regulation number 40/94 (community trademark and the registration of trademarks in services industries), new legislation was required to replace the trademarks act of 1963. The trademarks act of 1996 was signed into law in July of that year. There appear to be no problems with the new law.

9. Worker Rights

a. *The Right of Association:* The right to join a union is guaranteed by law, as is the right to refrain from joining. The industrial relations act of 1990 prohibits retribution against strikers and union leaders. Embassy calculates that approximately 45 percent of workers in the private sector are trade union members. Police and military personnel are prohibited from joining unions or striking, but they may form associations to represent them in matters of pay, working conditions, and general welfare. The right to strike is freely exercised in both the public and private sectors. The Irish Congress of Trade Unions (ICTU), which represents unions in both the republic and Northern Ireland, has 64 member-unions with 699,190 members.

b. *The Right to Organize and Bargain Collectively:* Labor unions have full freedom to organize and to engage in free collective bargaining. Legislation prohibits antiunion discrimination. In recent years, most terms and conditions of employment in Ireland have been determined through collective bargaining in the context of a national economic pact. Under the current three-year agreement, partnership 2000, which expires in 2000, trade unions traded off moderation in wage demands for cuts in personal taxation by the government. The Irish Business and Employers Confederation (IBEC) generally represent employer interests in labor matters.

The labor relations commission, established by the industrial relations act of 1990, provides advice and conciliation services in industrial disputes. The commission may refer unresolved disputes to the labor court. The labor court, consisting of an employer representative, a trade union representative, and an independent chairman, may investigate labor disputes, recommend the terms of settlement, engage in conciliation and arbitration, and set up joint committees to regulate conditions of employment and minimum rates of pay for workers in a given trade or industry.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by law and does not exist in Ireland.

d. *Minimum Age for Employment of Children:* New legislation introduced in 1997 prohibits the full-time employment of children under the age of 16, although employers may hire 14 or 15 year olds for light work on school holidays, or on a part-time basis during the school year. The law also limits the number of hours which children under age 18 may work. These provisions are enforced effectively by the Irish department of enterprise, trade and employment.

e. *Acceptable Conditions of Work:* After persistent lobbying by trade unions, in April 1998, the Irish government announced proposals for the introduction of a national hourly minimum wage of IP 4.40 (around US$ 6.70) beginning in April 2000. Although minimum wages already exist in certain low-paid industries, such as textiles and cleaning, these only apply to a relatively small proportion of the workforce. The full minimum wage will not apply to trainees or workers under 18 years of age.

The standard workweek is 39 hours. In May 1997, a European commission directive on working time was transposed into Irish law, through the "organization of working time act, 1997." The act sets a maximum of 48 working hours per week, requires that workers be given breaks after they work certain periods of time, sets limits to shift work, and mandates four weeks annual holidays for all employees by 1999.

f. *Rights in Sectors With U.S. Investment:* Worker rights described above are applicable in all sectors of the economy, including those with significant U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount
Petroleum	[1]

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Total Manufacturing		8,090
Food & Kindred Products	669	
Chemicals & Allied Products	3,184	
Primary & Fabricated Metals	177	
Industrial Machinery and Equipment	185	
Electric & Electronic Equipment	1,529	
Transportation Equipment	15	
Other Manufacturing	2,332	
Wholesale Trade		332
Banking		(1)
Finance/Insurance/Real Estate		6,638
Services		305
Other Industries		(1)
TOTAL ALL INDUSTRIES		15,936

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

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

ITALY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Real GDP [2]	1,123.1	1,138.1	1,148.6
Real GDP Growth (pct) [3]	1.5	1.3	0.9
GDP (at current prices)	1,159.5	1,184.8	1,177.1
GDP by Sector:			
Agriculture	30.6	30.4	N/A
Manufacturing	291.3	294.3	N/A
Construction	53.4	53.2	N/A
Services	682.2	674.7	N/A
Per Capita GDP (US$)	20,839	20,834	20,699
Labor Force (millions)	23.0	23.1	23.1
Unemployment Rate (pct)	11.7	11.8	11.6
Money and Prices (annual percentage growth):			
Money Supply (M2) [4]	9.0	5.6	5.2
Consumer Price Inflation	2.0	2.0	1.6
Exchange Rate (Lira/US$ annual average of market rate)	1703	1737	1800
Balance of Payments and Trade:			
Total Exports FOB [4]	238.2	242.3	148.6
Exports to U.S. [4]	18.9	20.8	N/A
Total Imports CIF [5]	208.1	215.5	136.6
Imports from U.S. [5]	10.2	10.9	N/A
Trade Balance [5]	30.3	26.8	12.0
Balance with U.S. [5]	8.5	9.9	7.6
External Public Debt	80.0	78.6	77.8
Fiscal Deficit/GDP	2.7	2.6	2.2
Current Account Surplus/GDP (pct)	3.2	1.9	1.5
Debt Service Payments/GDP (pct) [6]	10.7	10.7	6.6
Gold and Foreign Exchange Reserves	76.0	53.6	43.4

[1] 1999 estimates based on data available through October.

[2] 1995 prices; GDP at factor cost.

[3] Percentage changes calculated in local currency.

[4] 1999 data is the growth rate of the Italian components of M2 in the Euro area through August.

[5] Merchandise trade. 1999 data through August
[6] Represents total debt servicing costs; less than six percent of total debt is foreign debt.

1. General Policy Framework

Italy has the world's sixth largest economy, having grown into an industrial power in the last 50 years. Italy maintains an open economy, and is a member of major multilateral economic organizations such as the Group of Seven (G-7) industrialized countries, the Organization for Economic Cooperation and Development, the World Trade Organization, the International Monetary Fund, and the European Union.

Italy is one of the 11 founding members of the European Economic and Monetary Union (EMU). Beginning in January 1999, EMU member countries adopted the euro as their currency and the new European Central Bank as their monetary authority. National currencies are being phased out and only euros will be used beginning in 2002. Public opinion polls consistently rank Italy as one of the most "pro-euro" countries in Europe.

Italy has a private sector characterized primarily by a large number of small and medium-sized firms and a few multinational companies with well-known names such as Fiat and Pirelli. Economic dynamism is concentrated in northern Italy, resulting in an income divergence between north and south that remains one of Italy's most difficult and enduring economic/social problems.

Government has traditionally played a dominant role in the economy through regulation and through ownership of large industrial and financial companies. Privatizations and regulatory reform since 1994 have reduced that presence somewhat. However, government retains a potentially blocking "golden share" in all the industrial companies privatized thus far; government and the Bank of Italy continue to shape merger and acquisition activity involving Italian financial and non-financial firms considered "key" to the economy and/or employment; and business surveys continue to cite a heavy bureaucratic burden as one of the main impediments to investing or doing business in Italy.

For years, government spending has been inflated by generous social welfare programs, inefficiency and projects designed to achieve political objectives. The result has been large public sector deficits financed by debt. Beginning in the early 90's, Italy started to address a number of macroeconomic problems in order to qualify for first-round EMU membership. The public sector deficit fell slightly from 2.7 percent in 1997 to 2.6 percent of GDP in 1998, and is expected to be close to 2.2 percent at end-1999—aided until late 1999 by declining interest rates which lowered the GOI's debt servicing cost. The level of public debt, second highest among the EMU countries as a share of GDP, also started to decline but remains over 100 percent of GDP. The GOI plans to reduce the debt level gradually to the EMU target level of 60 percent of GDP.

Up to December 31, 1998, price stability was the primary objective of monetary policy; the Bank of Italy carried out a restrictive monetary policy in an effort to defeat Italy's long-term inflation problem. Now all these powers have been transferred to the European Central Bank, with the Bank of Italy retaining banking supervision responsibilities. Consumer inflation increased only 2.0 percent in 1998 and a 1.6 percent average is expected for 1999, and producer price inflation is negligible, despite a recent upturn mostly related to the increase of prices of utilities and oil and raw materials.

2. Exchange Rate Policy

On January 1, 1999, Italy relinquished control over exchange rate policy to the European Central Bank.

3. Structural Policies

Italy has not implemented any structural policies over the last two years that directly impede U.S. exports. Certain characteristics of the Italian economy impede growth and reduce import demand. These include rigid labor markets, underdeveloped financial markets, and a continued heavy state role in the production sector. There has been some progress at addressing these structural issues. Privatization is reducing the government's role in the economy. The 1993 "Single Banking Law" removed a number of anachronistic restrictions on banking activity. Italy's implementation of EU financial service and capital market directives has injected further competition into the sector.

U.S. financial service firms are no longer subject to an incorporation requirement to operate in the Italian market, although they must receive permission to operate from the government's securities regulatory body.

U.S. financial service firms and banks are active in Italy, in particular in the wholesale banking and bond markets. In general, U.S. and foreign firms can invest freely in Italy, subject to restrictions in sectors determined to be of national interest, or in cases which create anti-trust concerns.

4. Debt Management Policy

Although the domestic public debt level is high, Italy has not had problems with external debt or balance of payments since the mid 1970's. Public debt is financed primarily through domestic capital markets, with securities ranging from three months to thirty years. Italy's official external debt is relatively low, constituting roughly 5.9 percent of total debt. Italy maintains relatively steady foreign debt targets, and uses issuance of foreign-denominated debt essentially as a source of diversification, rather than need.

5. Significant Barriers to U.S. Exports

Import Licensing: With the exception of a small group of largely agricultural items, practically all goods originating in the U.S. and most other countries can be imported without import licenses and free of quantitative restrictions. There are, however, monitoring measures applied to imports of certain sensitive products. The most important of these measures is the automatic import license for textiles. This license is granted to Italian importers when they provide the requisite forms.

Services Barriers: Italy is one of the world's largest markets for all forms of telephony and the largest and fastest-growing European market for mobile telephony. In recent years, the Italian Government has undertaken a liberalization of this sector, including privatization of the former parastatal monopoly Telecom Italia (formerly STET); creation of an independent communications authority; and allowing both fixed-line and mobile competitors to challenge the former monopoly (which Olivetti acquired in a hostile takeover in 1999). Following the EU's January 1, 1998 deadline for full liberalization of its telecoms sector, Italy issued more than 40 fixed-line licenses, including to new entrants (with U.S. participation). Omnitel Pronto Italia, which is partly U.S.-owned, began offering cellular service in December 1995.

In 1998, Italy established an independent regulatory authority for all communications, including telecoms and broadcasting. Concerns remain regarding upcoming licensing and frequency allocation for "third generation" mobile carriers, regulatory due process, transparency and even-handedness in general. But the Italian market is much more open to services exports in this sector than it was prior to implementation of the EU telecoms directive.

In 1998, the Italian Parliament passed government-sponsored legislation including a provision to make Italy's national TV broadcast quota stricter than the EU's 1989 "Broadcast Without Frontiers" Directive. The Italian law exceeds the EU Directive by making 51 percent European content mandatory during prime time, and by excluding talk shows from the programming that may be counted towards fulfilling the quota. Also in 1998, the government issued a regulation requiring all multiplex movie theaters of more than 1300 seats to reserve 15-20 percent of their seats, distributed over no fewer than three screens, to showing EU films on a "stable" basis. In 1999, the government introduced "antitrust" legislation to limit concentration in ownership of movie theaters and in film distribution—including more lenient treatment for distributors that provide a majority of "made in EU" films to theaters.

Firms incorporated in EU countries may offer investment services in Italy without establishing a presence. U.S. and other firms that are from non-EU countries may operate based on authorization from CONSOB, the securities oversight body. CONSOB may deny such authorization to firms from countries that discriminate against Italian firms.

Foreign companies are increasingly active in the Italian insurance market, opening branches or buying shares in Italian firms. Government authorization is required to offer life and property insurance; this authorization is usually based on reciprocal treatment for Italian insurers. Foreign insurance firms must prove that they have been active in life and property insurance for not less than 10 years and must appoint a general agent domiciled in Italy.

There are some limits regarding foreign private ownership in banks. For instance, according to the Banking Law a foreign institution wanting to increase its stake in a bank above five percent needs authorization by the Bank of Italy.

Some professional categories (e.g. engineers, architects, lawyers, accountants) face restrictions that limit their ability to practice in Italy without either possessing EU/Italian nationality, having received an Italian university degree, or having been authorized to practice by government institutions.

Standards: As a member of the EU, Italy applies the product standards and certification approval process developed by the European Community. Italy is required by the Treaty of Rome to incorporate approved EU directives into its national laws.

However, there has frequently been a long lag in implementing these directives at the national level, although Italy has been improving its performance in this regard. In addition, in some sectors such as pollution control, the uniformity in application of standards may vary according to region, further complicating the certification process. Italy has been slow in accepting test data from foreign sources, but is expected to adopt EU standards in this area.

Most standards, labeling requirements, testing and certification for food products have been harmonized within the European Union. However, where EU standards do not exist, Italy can set its own national requirements and some of these have been known to hamper imports of game meat, processed meat products, frozen foods, alcoholic beverages, and snack foods/confectionery products. Import regulations for products containing meat and/or blood products, particularly animal and pet food, have become more stringent in response to concerns over transmission of Bovine Spongiform Encephalopathy (BSE). U.S. exporters of "health" and/or organic foods, weight loss/diet foods, baby foods and vitamins should work closely with an Italian importer, since Italy's labeling laws regarding health claims can be particularly stringent. In the case of food additives, coloring and modified starches, Italy's laws are considered to be close to current U.S. laws, albeit sometimes more restrictive.

U.S. exporters should be aware that any food or agricultural product transshipped through Italian territory must meet Italian requirements, even if the product is transported in a sealed and bonded container and is not expected to enter Italian commerce.

Rulings by individual local customs authorities can be arbitrary or incorrect, resulting in denial or delays of entry of U.S. exports into the country. Considerable progress has been made in correcting these deficiencies, but problems do arise on a case-by-case basis.

Investment Barriers: While official Italian policy is to encourage foreign investment, industrial projects require a multitude of approvals and permits, and foreign investments often receive close scrutiny. These lengthy procedures can present extensive difficulties for the uninitiated foreign investor. There are several industry sectors which are either closely regulated or prohibited outright to foreign investors, including domestic air transport and aircraft manufacturing.

Italian anti-trust law gives the government the right to review mergers and acquisitions over a certain threshold value. The government has the authority to block mergers involving foreign firms for "reasons essential to the national economy" or if the home government of the foreign firm does not have a similar anti-trust law or applies discriminatory measures against Italian firms. A similar provision requires government approval for foreign entities' purchases of five or more percent of an Italian credit institution's equity.

Government Procurement: In Italy, fragmented, often non-transparent government procurement practices and previous problems with corruption have created obstacles to U.S. firms' participation in Italian government procurement. Italy has made some progress in making the laws and regulations on government procurement more transparent, by updating its government procurement code to implement EU directives. The pressure to reduce government expenditures while increasing efficiency is resulting in increased use of competitive procurement procedures and somewhat greater emphasis on best value rather than automatic reliance on traditional suppliers.

6. Export Subsidies Policies

Italy subscribes to EU directives and Organization for Economic Cooperation and Development (OECD) and World Trade Organization (WTO) agreements on export subsidies. Through the EU, it is a member of the General Agreement on Tariffs and Trade (GATT) agreements on agriculture and subsidies, and as a WTO member, is subject to WTO rules. Italy also provides extensive export refunds under the Common Agricultural Policy (CAP), as well as a number of export promotion programs. Grants range from funding of travel for trade fair participation to funding of export consortia and market penetration programs. Many programs are aimed at small-to-medium size firms. Italy provides some direct assistance to industry and business firms, in accordance with EU rules on support to depressed areas, to improve their international competitiveness. This assistance includes export insurance through the state export credit insurance body, as well as interest rate subsidies under the OECD consensus agreement.

The Italian peach processing sector receives subsidies to compensate it for having to pay the EU minimum grower price for its raw product. It is recognized that this grower price is above the world market price for peaches and a U.S.-EU agreement is in place to monitor the level of subsidies paid. However, there is concern that the processors may receive extra benefits from loopholes in the system.

The Italian wheat processing sector (pasta) in the past received indirect subsidies to build plants and infrastructure. While these plants are still operating, there are no known programs similar to the initial subsidies operating at present.

7. Protection of U.S. Intellectual Property

Italy is a member of the World Intellectual Property Organization, and a party to the Berne and Universal Copyright Conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

In 1998, the U.S. Trade Representative placed Italy on the Intellectual Property Rights (IPR) "Priority Watch List" under the "Special 301" provision of the United States Trade Act of 1988, due to the aforementioned national TV broadcast quotas in excess of the EU norm, and to a lengthy delay in passage of national legislation to address ongoing serious deficiencies in protection of copyright for sound recordings, computer software and film videos. In October 1996, the government introduced anti-piracy legislation in parliament that would impose administrative penalties and increase criminal sanctions. As of the end of 1999, the bill was still awaiting final parliamentary approval. The U.S. will continue to closely monitor developments in this area.

New Technologies: In the spring of 1997, the Italian Minister of Health signed a decree banning the cultivation of Ciba Geigy's BT Corn in Italy, despite the fact that no BT seed varieties are currently included in Italy's National Seed Register. This decision was taken on the advice of Italy's Interministerial Biotechnology Commission, ostensibly based on its opinion that there was a lack of a proper monitoring program regarding BT corn's effect on the ecosystem. After the Biotech Commission reversed its decision, and following EC pressure to remove the ban, the Minister of Health signed the legislation removing the ban in late September.

Italy adopted the EU patent law on biotech inventions in July 1999, but only after an intense debate.

8. Worker Rights

a. *The Right of Association:* The law provides for the right to establish trade unions, join unions, and carry out union activities in any workplace employing more than 15 employees. Trade unions are free of government controls and no longer have formal ties with political parties. Workers are protected from discrimination based on union membership or activity. The right to strike is embodied in the Constitution, and is frequently exercised. Hiring workers to replace strikers is prohibited. A 1990 law restricts strikes affecting essential public services such as transport, sanitation, and health.

The law prohibits discrimination by employers against union members and organizers. It requires employers who have more than 15 employees and are found guilty of anti-union discrimination to reinstate the workers affected. In firms with fewer than 15 workers, an employer must state the grounds for firing a union employee in writing. If a judge deems these grounds spurious, he can order the employer to reinstate or compensate the worker.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right of workers to organize and bargain collectively and these rights are respected in practice. In practice (though not by law), national collective bargaining agreements apply to all workers regardless of union affiliation. There are no export processing zones.

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

d. *Minimum Age for Employment of Children:* The law forbids employment of children under 15 years of age (with some exceptions). There are also specific restrictions on employment in hazardous or unhealthy occupations of males under age 18 and females under age 21. Enforcement of the minimum age laws is effective only outside the extensive "underground" economy, which is mainly in southern Italy.

e. *Acceptable Conditions of Work:* Minimum wages are set not by law but rather by national collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. In case of disputes, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

A 1997 law reduced the work week from 48 hours to 40. The regular work week should not exceed six days, and the regular work day eight hours, with some exceptions. Most collective agreements provide for a 36- to 38-hour workweek. Overtime may not exceed two hours a day or an average of 12 hours per week.

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7. Protection of U.S. Intellectual Property

Italy is a member of the World Intellectual Property Organization, and a party to the Berne and Universal Copyright Conventions, the Paris Industrial Property and Brussels Satellite conventions, the Patent Cooperation Treaty, and the Madrid Agreement on International Registration of Trademarks.

In 1998, the U.S. Trade Representative placed Italy on the Intellectual Property Rights (IPR) "Priority Watch List" under the "Special 301" provision of the United States Trade Act of 1988, due to the aforementioned national TV broadcast quotas in excess of the EU norm, and to a lengthy delay in passage of national legislation to address ongoing serious deficiencies in protection of copyright for sound recordings, computer software and film videos. In October 1996, the government introduced anti-piracy legislation in parliament that would impose administrative penalties and increase criminal sanctions. As of the end of 1999, the bill was still awaiting final parliamentary approval. The U.S. will continue to closely monitor developments in this area.

New Technologies: In the spring of 1997, the Italian Minister of Health signed a decree banning the cultivation of Ciba Geigy's BT Corn in Italy, despite the fact that no BT seed varieties are currently included in Italy's National Seed Register. This decision was taken on the advice of Italy's Interministerial Biotechnology Commission, ostensibly based on its opinion that there was a lack of a proper monitoring program regarding BT corn's effect on the ecosystem. After the Biotech Commission reversed its decision, and following EC pressure to remove the ban, the Minister of Health signed the legislation removing the ban in late September.

Italy adopted the EU patent law on biotech inventions in July 1999, but only after an intense debate.

8. Worker Rights

a. *The Right of Association:* The law provides for the right to establish trade unions, join unions, and carry out union activities in any workplace employing more than 15 employees. Trade unions are free of government controls and no longer have formal ties with political parties. Workers are protected from discrimination based on union membership or activity. The right to strike is embodied in the Constitution, and is frequently exercised. Hiring workers to replace strikers is prohibited. A 1990 law restricts strikes affecting essential public services such as transport, sanitation, and health.

The law prohibits discrimination by employers against union members and organizers. It requires employers who have more than 15 employees and are found guilty of anti-union discrimination to reinstate the workers affected. In firms with fewer than 15 workers, an employer must state the grounds for firing a union employee in writing. If a judge deems these grounds spurious, he can order the employer to reinstate or compensate the worker.

b. *The Right to Organize and Bargain Collectively:* The constitution provides for the right of workers to organize and bargain collectively and these rights are respected in practice. In practice (though not by law), national collective bargaining agreements apply to all workers regardless of union affiliation. There are no export processing zones.

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

d. *Minimum Age for Employment of Children:* The law forbids employment of children under 15 years of age (with some exceptions). There are also specific restrictions on employment in hazardous or unhealthy occupations of males under age 18 and females under age 21. Enforcement of the minimum age laws is effective only outside the extensive "underground" economy, which is mainly in southern Italy.

e. *Acceptable Conditions of Work:* Minimum wages are set not by law but rather by national collective bargaining agreements. These specify minimum standards to which individual employment contracts must conform. In case of disputes, the courts may step in to determine fair wages on the basis of practice in comparable activities or agreements.

A 1997 law reduced the work week from 48 hours to 40. The regular work week should not exceed six days, and the regular work day eight hours, with some exceptions. Most collective agreements provide for a 36- to 38-hour workweek. Overtime may not exceed two hours a day or an average of 12 hours per week.

The law sets basic health and safety standards and guidelines for compensation for on-the-job injuries. European Union directives on health and safety have also been incorporated into domestic law. Labor inspectors are from local health units or from the Ministry of Labor. They are few, given the scope of their responsibilities. Courts impose fines and sometimes prison terms for violation of health and safety laws. Workers have the right to remove themselves from dangerous work situations without jeopardy to their continued employment. Women are usually forbidden to work at night.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		8,559
Food & Kindred Products	406	
Chemicals & Allied Products	2,267	
Primary & Fabricated Metals	137	
Industrial Machinery and Equipment	2,201	
Electric & Electronic Equipment	928	
Transportation Equipment	715	
Other Manufacturing	1,905	
Wholesale Trade		2,725
Banking		334
Finance/Insurance/Real Estate		774
Services		1,082
Other Industries		(1)
TOTAL ALL INDUSTRIES		14,638

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

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

THE NETHERLANDS

Key Economic Indicators [1]

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[2] 1999
Income, Production and Employment:			
Nominal GDP [3]	337.6	349.7	347.1
Real GDP Growth (pct) [4]	3.8	3.0	2.75
GDP by Sector:			
Agriculture	11.8	11.0	11.0
Manufacturing	59.9	60.9	60.5
Services	199.8	211.5	209.9
Government	40.5	41.6	41.2
Per Capita GDP (US$)	21,781	22,417	22,108
Labor Force (000's)	7,105	7,206	7,311
Unemployment Rate (percent)	6.2	4.8	4.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	7.2	9.9	9.0
Consumer Price Inflation	2.2	2.0	2.0
Exchange Rate (guilders/US$ annual average)			
Official	1.95	1.98	2.05
Balance of Payments and Trade:			
Total Exports FOB [5]	166.0	197.6	196.7
Exports to U.S. [6]	7.3	7.6	8.0
Total Imports CIF [5]	151.8	184.0	185.6
Imports from U.S. [6]	19.8	19.0	20.0

Key Economic Indicators[1]**—Continued**

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[2]1999
Trade Balance[5]	14.2	13.6	11.1
Balance with U.S.[6]	−12.5	−12.4	−12.0
Current Account Surplus/GDP (pct)	7.0	6.0	5.25
External Public Debt[6]	0	0	0
Debt Service Payments/GDP (pct)[7]	6.7	9.4	12.3
Fiscal Deficit/GDP (pct)	−1.2	−0.8	−0.6
Gold and Foreign Exchange Reserves	31.6	26.7	29.9
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] All figures have been converted at the average guilder exchange rate for each year.
[2] 1999 figures are official forecasts or estimates based on available monthly data in October.
[3] GDP at factor costs.
[4] Percentage changes calculated in local currency.
[5] Merchandise trade. Government of the Netherlands data.
[6] Sources: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through October 1999.
[7] All public debt is domestic and denominated in guilders. Debt service payments refers to domestic public debt.

Sources: Central Bureau of Statistics (CBS), Netherlands Central Bank (NB), Central Planning Bureau (CPB).

1. General Policy Framework

The Netherlands is a prosperous and open economy, and depends heavily on foreign trade. It is noted for stable industrial relations; a large current account surplus from trade and overseas investments; net exports of natural gas; and a unique position as a European transportation hub with excellent ports, and air, road, rail, and inland waterway transport.

Dutch trade and investment policy is among the most open in the world. The government has successfully reduced its role in the economy during the 1990s, and structural and regulatory reforms have been an integral part of a major reorientation of Dutch economic policy since the early 1980s. Although telecommunication services have been fully liberalized since January 1 1998, deregulation and privatization of the Dutch electricity and gas market will have to wait until 2003. The government continues to dominate the energy sector, and will play an important role in public transport and aviation for some time.

Dutch economic policy is geared chiefly towards environmentally sustainable economic growth and development by way of economic restructuring, energy conservation, environmental protection, regional development, and other national goals. Economic policy is guided by a national environmental action plan.

General elections in May of 1998 resulted in a clear vote of confidence for the ruling three-party coalition, which returned to office for another four-year term. Policy intentions of the new coalition government are articulated in the 1998 coalition accord, with reductions in the tax burden and the fiscal deficit, as well as further labor and product market reforms as chief priorities. The government coalition accord is based on a "conservative" 2.25 percent average annual GDP growth scenario between 1999 and 2002. Average GDP growth so far has been well in excess of 3 percent.

Only mildly affected by the crisis in emerging markets and subsequent slowdown in the euro area, the Dutch economy remains strong, combining sustained GDP growth with falling unemployment and moderate inflation. The success of the Dutch economy can be attributed to a combination of a rigorous and stable macro-economic policy with wide-ranging structural and regulatory reforms. After a period of exceptional strong (near 4 percent) growth in 1998, the OECD expects real GDP growth in the Netherlands to weaken to 3 percent in 1999 and just below 3 percent in 2000. The European Union seems more optimistic and projects economic growth in 1999 and 2000 to exceed 3 percent. Expectations are that private consumption may loose some of its buoyancy and investment will remain sluggish. The deceleration in domestic demand is likely to be offset to some extent by a stronger foreign balance as export market growth picks up. The unemployment rate is forecast to fall to around 3.25 percent in 1999 and in 2000, a level last seen in the early 1970s. Reflecting continuing pressure on resource utilization, inflationary pressure remains. Consumer price inflation in 1999 and 2000 is forecast to edge up to exceed 2 percent. The OECD sees risks and uncertainties mainly concern domestic developments. Wide-ranging structural and regulatory reforms make it difficult to assess the degree of tightness of the labor market and of the pressure on resource utilization.

The Netherlands was one of the first EU member states to qualify for Economic and Monetary Union (EMU). Fiscal policy aims to strike a balance between further reducing public spending, and lowering taxes, and social security contributions. The fiscal deficit is expected to narrow to narrow to 0.6 percent of GDP in 1999. This is well below the three percent of GDP criterion in the EMU's Growth and Stability Pact. A balanced budget is well within reach in 2000. The stock of public debt will fall from a high of 69.9 percent in 1997 to 64.3 percent in 1999. Both fiscal deficit and public debt are forecast to converge below or closer to EMU deficit and debt criteria.

Government bonds largely fund the deficit. Since January 1, 1994 Dutch Treasury Certificates (DTC) have also covered financing. DTCs replace a standing credit facility for short-term deficit financing with the central bank which, under the Maastricht Treaty, was abolished in 1994.

2. Exchange Rate Policies

Since the European Central Bank (ECB) assumed monetary responsibility on January 1, 1999, monetary conditions are no longer under the exclusive control of the Dutch authorities but are determined by the Eurosystem (the European Central Bank and the 11 national Central Banks in the euro area), and are attuned to the euro area as a whole. Conversion of the currencies of the euro area on December 31 1998, fixed the exchange rate of the euro vis-à-vis the guilder at 2.20371 guilders to the euro. There are no multiple exchange rate mechanisms.

3. Structural Policies

Tax Policies: Partly with an eye to further EU integration, the Dutch recently took the first step towards a fundamental reform of the tax system. The new tax regime for the 21st century entails a shift from direct to indirect taxes, a broadening of the tax base and a reduction of the tax rate on labor. When implemented in 2001, wage and individual income taxes will be lowered, while excise duties, "green" taxes and VAT rates will be raised. The highest marginal tax rate on wage and salary income will be reduced from 60 percent to 50 percent, while the top VAT rate will rise from 17.5 percent to 19 percent. The Dutch corporate income tax rate is among the lowest in the European Union. Effective January 1, 1998 the standard corporate tax rate paid by corporations (including foreign-owned corporations) has been reduced from 36 percent to 35 percent on all taxable profits. Since January 1, 1997 the Dutch have been offering multinationals a more friendly tax regime on their group finance activities, effectively reducing tax on internal banking activities from 35 percent (the standard corporate tax rate) to 7 percent.

Regulatory Policies: Limited, targeted, transparent investment incentives are used to facilitate economic restructuring and to promote economic growth throughout the country. Measures blend tax incentives and subsidies and are available to foreign and domestic firms alike. There are also subsidies to stimulate R&D and to encourage development and use of new technology by small and medium sized firms.

Complying with EU competition legislation, new Dutch competition legislation became effective on January 1, 1998. The new Competition Law includes a provision for the supervision of company mergers by the Netherlands Competition Authority (NMA). The law is expected to boost competition, improve transparency, and provide greater de facto access to a number of sectors for foreign companies.

4. Debt Management Policies

With a current account surplus of well over five percent of GDP and no external debt, the Netherlands is a major creditor nation. The Dutch have run a surplus on current account since the early 1980s. During that period, gross public sector debt (EMU criterion) grew sharply, to 81.2 percent of GDP by 1993. Since the late 1980s, the Dutch fiscal balance has drastically improved. Most observers now predict a significant decline of the debt to GDP ratio towards the EMU 60 percent criterion over the next three years. Debt servicing and rollover has fallen to slightly over nine percent of GDP, with interest payments alone at four percent of GDP. All government debt is domestic and denominated in guilders. There are no difficulties in tapping the domestic capital market for loans, and public financing requirements are generally met before the end of each fiscal year. The Netherlands is a major foreign assistance donor nation with a bilateral and multilateral development assistance budget of 1.1 percent of GDP equal to $4.8 billion in 1999. Official Development Aid (ODA) amounts to 0.8 percent of GDP or $3.4 billion. The Netherlands belongs to, and strongly supports, the IMF, the World Bank, EBRD, and other international financial institutions.

5. Significant Barriers to U.S. Exports

The Dutch pride themselves on their open market economy, nondiscriminatory treatment of foreign investment, and a strong tradition of free trade. Foreign investors receive full national treatment, and the Netherlands adheres to the OECD investment codes and the International Convention for the Settlement of Investment Disputes. There are no significant Dutch barriers to U.S. exports, and U.S. firms register relatively few trade complaints. The few trade barriers that do exist result from common EU policies. The following are areas of potential concern for U.S. exporters:

Agricultural Trade Barriers: These result from the Common Agricultural Policy (CAP) and common external tariffs, which severely limit imports of U.S. agricultural products, e.g., canned fruits (high tariffs), frozen whole turkeys and parts (high tariffs). Bilateral import barriers, although usually connected with EU-wide regulations, do arise in customs duties, grading, inspection and quarantine, e.g., fresh beef (hormones) and poultry (phytosanitary). EU rules and procedures sometimes hinder commodity and product entry. Although only a few cases have been reported to date, an increasing pattern of delayed or rejected shipments of agricultural commodities, food and beverages appears to have developed. Current EU-wide regulations, and the lack of timely approval processes for agricultural products, including Genetically Modified Organisms (GMOs), hinder U.S. exports. Some of these rejections or delays in clearance cause major financial and logistical problems to Dutch importers and U.S. exporters for particular products, thus dampening trade prospects and flows.

Offsets for Defense Contracts: All foreign contractors must provide at least 100 percent offset/compensation for defense procurement over five million Dutch Guilders (about $2.5 million). The seller must arrange for the purchase of Dutch goods or permit the Netherlands to domestically produce components or subsystems of the systems it is buying. A penalty system for noncompliance with offset obligations is under consideration. The United States has discussed this issue with the government of the Netherlands.

Broadcasting and Media Legislation: The Dutch fully comply with the EU Broadcast Directive, but this has not in any way impeded the transmission of non-European programs. U.S. television shows and films are popular and readily available. Commercial broadcasters may apply for temporary exemptions of the quota requirement on an ad hoc basis.

Cartels: Although the export sector of the Dutch economy is open and free, cartels have long been a component of the domestic sector of the economy. A new Cartel Law which took effect in 1996 bans cartels unless its proponents can conclusively demonstrate a public interest. Since 1998, the United States received no complaints by U.S. firms of having been disadvantaged by cartels in the Netherlands.

Public Procurement: Dutch public procurement practices comply with the requirements of the GATT/WTO Agreement on Public Procurement and with EU public procurement legislation. The Netherlands has fully implemented the EU's Supplies Directive 93/36/EEC, Works Directive 93/37/EEC, and the Utilities Directive 93/38/EEC. Implementation of EU and GATT public procurement obligations have contributed to greater transparency of the Dutch public procurement environment at the central and local government levels. Independent studies show that transparency and enforcement in this area can be deficient, especially at the local level, and procurement may be contingent on offset or local content requirements. As part of its plan to encourage electronic transactions, the government has declared its intention to begin posting all national and local government procurement tenders on websites in the near future. The EU Utilities Directive may force more public notification and end the effective duopoly in Dutch power generation and distribution, and the monopoly in production and distribution of natural gas.

6. Export Subsidies Policies

Under the Export Matching Facility, the government provides interest subsidies for Dutch export contracts competing with government subsidized export transactions in third countries. These subsidies bridge the interest cost gap between Dutch export contracts and foreign contracts which have benefited from interest subsidies. The government provides up to 10 million guilders (about $5.5 million) of interest subsidies per export contract, up to a maximum of 35 percent per export transaction. An export transaction must have at least 60 percent Dutch content to be eligible. For defense, aircraft and construction transactions, the minimum Dutch content is one-third.

There is a local content requirement of 70 percent for exporters seeking to insure their export transactions through the Netherlands Export Insurance Company.

The Dutch provide some subsidies for shipping. In conformity with the OECD understanding on subsidies, the government grants interest rate subsidies (maximum two percent) to Dutch shipbuilders up to 80 percent of a vessel's cost with a maximum repayment period of 8.5 Years. This subsidy is only available when "matched" by similar offers by non-EU shipyards. Despite termination of the EU shipbuilding subsidies regime in 1996, the shipbuilding subsidies budget earmarked 70 million guilders ($35 million) annually in 1999 and 2000. As long as the 1994 OECD agreement to phase out shipbuilding subsidies internationally has not been ratified by all parties, the Dutch will continue to support their shipbuilding industry adhering to EU shipbuilding regulations.

7. Protection of U.S. Intellectual Property

The Netherlands has a generally good record on IPR protection. It belongs to the World Intellectual Property Organization (WIPO), is a signatory of the Paris Convention on Industrial Property and the Berne Copyright Convention, and conforms to accepted international practice for protection of technology and trademarks. Patents for foreign investors are granted retroactively to the date of original filing in the home country, provided the application is made through a Dutch patent lawyer within one year of the original filing date. Patents are valid for 20 years. Legal procedures exist for compulsory licensing if the patent is determined to be inadequately used after a period of three years, but these procedures have rarely been invoked. Since the Netherlands and the United States are both parties to the Patent Cooperation Treaty (PCT) of 1970, patent rights in the Netherlands may be obtained if PCT application is used.

The Netherlands is a signatory of the European Patent Convention, which provides for a centralized Europe-wide patent protection system. This convention has simplified the process for obtaining patent protection in the member states. Infringement proceedings remain within the jurisdiction of the national courts, which could result in divergent interpretations detrimental to U.S. investors and exporters. The limited scope of resources devoted to enforcement of anti-piracy laws is of concern to U.S. producers of software, audio and video tapes, and textbooks. Legislation was enacted in early 1994 to explicitly include computer software as intellectual property under the copyright statutes, and the government is working with industry on enforcement.

8. Worker Rights

a. *The Right of Association:* The right of Dutch workers to associate freely is well established. One quarter of the employed labor force belongs to unions, but union-negotiated collective bargaining agreements are usually extended to cover about three-quarters of the workforce. Membership in labor unions is open to all workers including military, police, and civil service employees. Unions are entirely free of government and political party control and participate in political life. They also maintain relations with recognized international bodies and form domestic federations. The Dutch unions are active in promoting worker rights internationally. All union members, except most civil servants, have the legal right to strike. Civil servants have other means of protection and redress. There is no retribution against striking workers. In the European Union, the Netherlands has one of lowest percentages of days lost due to labor strikes. In 1998, some 33 labor days per 1000 workers were lost due to industrial disputes compared with 15 days in 1997.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively is recognized and well established. There are no union shop requirements. Discrimination against workers because of union membership is illegal and does not exist. Dutch society has developed a social partnership among the government, employers' organizations, and trade unions. This tripartite "Social Partnership" involves all three participants in negotiating guidelines for collective bargaining agreements which, once reached in a sector, are extended by law to cover the entire sector. Such generally binding agreements (AVVs) cover most Dutch workers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor, including that by children, is prohibited by the Constitution and does not exist.

d. *Minimum Age for Employment of Children:* Child labor laws exist and are enforced. The minimum age for employment of young people is 16. Even at that age, youths may work full time only if they have completed the mandatory 10 years of schooling and only after obtaining a work permit (except for newspaper delivery). Those still in school at age 16 may not work more than eight hours per week. Laws prohibit youths under the age of 18 from working at night, overtime, or in areas which could be dangerous to their physical or mental development.

e. *Acceptable Conditions of Work:* Dutch law and practice adequately protect the safety and health of workers. Although a forty hours workweek is established by law, the average workweek for adults working full time currently stands at 37.5

hours. The high level of part-time work has lowered the estimated actual workweek to 35.8 hours. Collective bargaining negotiations are heading towards an eventual 36 hours workweek for full-time employees. The gross minimum wage in mid-1999 amounted to about 2,376 guilders (US$ 1,188) per month. The legally mandated minimum wage is subject to semiannual cost of living adjustment. Working conditions are set by law, and regulations are actively monitored.

f. *Rights in Sectors with U.S. Investments:* The worker rights described above hold equally for sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		2,826
Total Manufacturing		16,242
Food & Kindred Products	1,078	
Chemicals & Allied Products	10,212	
Primary & Fabricated Metals	224	
Industrial Machinery and Equipment	993	
Electric & Electronic Equipment	1,860	
Transportation Equipment	348	
Other Manufacturing	1,526	
Wholesale Trade		9,446
Banking		(1)
Finance/Insurance/Real Estate		42,836
Services		6,985
Other Industries		(1)
TOTAL ALL INDUSTRIES		79,386

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

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

NORWAY

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	153,380	146,636	150,645
Real GDP Growth (pct) [2]	4.3	2.1	0.9
Real Mainland GDP Growth (pct)	4.4	3.3	0.5
Nominal GDP by sector:			
Agriculture	3,089	3,161	3,200
Oil and Gas Production	23,491	15,463	18,500
Manufacturing	16,932	17,422	17,500
Services	86,470	86,646	86,945
Government	23,398	23,944	24,500
Per capita GDP	34,237	32,586	33,255
Labor force (000's)	2,285	2,330	2,340
Unemployment Rate (percent)	4.1	3.2	3.3
Money and Prices (annual percentage growth):			
Money supply (M2)	4.6	5.6	5.4
Consumer Price Inflation	2.6	2.3	2.2
Exchange rate (NOK/US$ annual average)	7.10	7.55	7.75
Balance of payments and trade:			
Total Exports FOB	48,228	40,649	43,700
Exports to U.S. [3]	3,735	2,874	3,200
Total Imports CIF	35,526	39,656	36,500
Imports from U.S. [3]	1,720	1,709	1,500
Trade Balance	12,702	993	7,200

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Balance with U.S.	2,015	1,165	1,700
External Public Debt	3,085	900	2,000
Debt Service Payments	3,446	2,185	90
Fiscal Surplus/GDP (pct)	5.6	2.9	6.2
Current Account Surplus/ GDP (pct)	5.2	(1.5)	3.0
Foreign Exchange Reserves [4]	24,136	18,813	20,400
Aid from U.S.	0	0	0
Aid From Other Countries	0	0	0

[1] 1999 figures are all estimates based on monthly data in November.
[2] Growth figures are based on the basis of the local currency.
[3] U.S. Department of Commerce trade statistics.
[4] Includes gold; but excludes assets in the state petroleum fund.
Source: Government of Norway data.

1. General Policy Framework

Exploitation of Norway's major non-renewable energy resources—crude oil and natural gas—will continue to drive the country's economic growth for at least the next three decades. Offshore, Norway's remaining oil reserves (discovered plus undiscovered) will last for another 30 years at current extraction rates, while the equivalent figure for natural gas is 131 years. Energy-intensive industries such as metal processing and fertilizer production will remain prominent on the mainland due to the availability of abundant hydropower.

Some constraints continue to limit Norway's economic flexibility and ability to maintain international competitiveness. Labor availability remains limited by Norway's small population of 4.5 million and a restrictive immigration policy. Norway is also a high-cost country with a centralized collective wage bargaining process and government-provided generous social welfare benefits. Norway's small agricultural sector survives largely through subsidies and protection from international competition.

State intervention in the economy remains significant. The government owns just over 50 percent of domestic businesses, including majority stakes in the two largest oil and industry conglomerates and the country's biggest commercial bank. While new legislation governing investment was implemented in 1995 to meet European Economic Area ("EEA") and WTO obligations, screening of foreign investment and restrictions on foreign ownership remains.

The government's dependence on petroleum revenue has increased substantially since the early 1970's, generating an estimated 15 percent of total government 1999 revenue. Since 1995, Norway has been a net foreign creditor and has posted budget surpluses. The surpluses are invested in a petroleum fund for future use.

No general tax incentives exist to promote investment. Tax credits and government grants are offered, however, to encourage investment in northern Norway; and tax incentives are granted to encourage the use of environmentally friendly products such as the electric car think. Several specialized state banks provide subsidized loans to sectors including agriculture and fishing. Transportation allowances and subsidized power are also available to industry. Norway and the EU have preferential access to each other's markets, except for the agricultural and fisheries sectors, through the EEA agreement which entered force in January 1994. Although in a 1994 national referendum Norwegians rejected a proposal to join the EU, Norway routinely implements most EU directives as required by the EEA.

The government controls the growth of the money supply through reserve requirements imposed on banks, open market operations, and variations in the central bank overnight

Lending rate. The central bank's flexibility in using the money supply as an independent policy instrument is limited by the government's priority to maintain a stable rate of exchange.

2. Exchange Rate Policy

The Norwegian krone was un-pegged from the ecu in December 1992. The government's stated policy since 1994 has been to maintain a stable krone vis-à-vis European currencies. The central bank uses interest rate policy and open market operations to keep currency stable in a managed float that follows a range of values defined in the exchange rate regulation. With the introduction of the euro January 1, 1999, Norway currently keeps the krone stable vis-à-vis the euro-zone currency (euro).

Quantitative restrictions on credit flows from private financial institutions were abolished in the late 1980's. Norway dismantled most remaining foreign exchange controls in 1990. U.S. companies operating within Norway have not reported any problems to the embassy in remitting payments.

3. Structural Policies

The government's top economic priorities include maintaining high employment, generous welfare benefits, and rural development. These economic priorities are part of Norway's regional policy of discouraging internal migration to urban centers in the south and east and of maintaining the population in the north and other sparsely populated regions. Thus, parts of the mainland economy—particularly agriculture and rural industries—remain protected and cost-inefficient from a global viewpoint with Norway's agricultural sector remaining the most heavily subsidized in the OECD. While some progress has been made in reducing subsidies manufacturing industry, support remains significant in areas including food processing and shipbuilding.

A revised legal framework for the functioning of the financial system was adopted in 1988, strengthening competitive forces in the market and bringing capital adequacy ratios more in line with those abroad. Further liberalization in the financial services sector occurred when Norway joined the EEA and accepted the EU's banking directives. The Norwegian banking industry has returned to profitability following reforms prompted by the banking crises in the early 1990's.

Norway has taken some steps to deregulate the non-bank service sector. Although large parts of the transportation markets (including railways) remain subject to restrictive regulations, including statutory barriers to entry, the government telecommunications services to competition in 1998.

4. Debt Management Policies

The state's exposure in international debt markets remains very limited because of Norway's prudent budgetary and foreign debt policies. The government's gross external debt situation significantly improved in 1990's, declining from about US$10 billion in 1993 to about US$900 million at the end of 1998. Norway's status changed from a net debtor to a net creditor country in 1995 largely because of the contributions from the oil and gas sector.

5. Aid

There are no aid flows between Norway and the U.S.

6. Significant Barriers to U.S. Exports

Norway is a member of the World Trade Organization and supports the principles of free trade but significant barriers to trade remain in place. The government maintains high agricultural tariffs that are administratively adjusted when internal market prices fall outside certain price limits. These unpredictable administrative tariff adjustments disrupt advance purchase orders and severely limit agricultural imports into Norway from the U.S. and other distant markets.

State ownership in Norwegian industry continues to complicate competition in a number of sectors including telecommunications, financial services, oil and gas, and alcohol and pharmaceutical distribution. Despite some ongoing reforms, Norway still maintains regulatory practices, certification procedures and standards that limit market access for U.S. materials and equipment in a variety of sectors, including telecommunications and oil and gas materials and equipment. U.S. companies, particularly in the oil and gas sector, operate profitably in Norway.

While there has been substantial banking reform, competition in this sector still remains distorted due to government ownership of the largest commercial bank, and the existence of specialized state banks that offer subsidized loans in certain sectors and geographic locations.

Restrictions also remain in the distribution of alcohol, which historically has been handled through state monopolies, and in the way pharmaceutical drugs are marketed. Norway is obligated to terminate these monopolies under the EEA accord but implementation is slow. The European Free Trade Association (EFTA) surveillance agency (ESA—the organization responsible for insuring EEA compliance) has been monitoring Norway's progress in these areas.

7. Export Subsidy Policies

As a general rule the government of Norway does not subsidize exports, although some heavily subsidized goods, such as dairy products, may be exported. The government indirectly subsidizes chemical and metal exports by subsidizing the electricity costs of manufacturers. In addition, the government provides funds to Norwegian companies for export promotion purposes. Norway is reducing its agricultural subsidies in stages over six years in accordance with its WTO obligations. Norway has also ratified the OECD shipbuilding subsidy agreement and has indicated it will eliminate shipbuilding subsidies as soon as the agreement is ratified by other major shipbuilding countries including the United States and Japan.

8. Protection of U.S. Intellectual Property

Norway is a signatory of the main intellectual property accords, including the Berne copyright and universal copyright conventions, the Paris convention for the protection of industrial property, and the patent cooperation treaty. Any adverse impact of Norwegian IPR practices on U.S. trade is negligible.

Norwegian officials believe that counterfeiting and piracy are the most important aspects of intellectual property rights protection. They complain about the unauthorized reproduction of furniture and appliance designs and the sale of the resultant goods in other countries, with no compensation to the Norwegian innovator.

Product patents for pharmaceuticals became available in Norway in January 1992. Previously, only process patent protection was provided to pharmaceuticals.

9. Worker Rights

a. *Right of Association:* Workers have the right to associate freely and to strike. The government can invoke compulsory arbitration under certain circumstances with the approval of parliament.

b. *The Right to Organize and Bargain Collectively:* All workers, including government employees and the military, have the right to organize and to bargain collectively. Labor legislation and practice is uniform throughout Norway.

c. *Prohibition of Forced or Compulsory Labor:* The GON prohibits forced and compulsory labor by law.

d. *Minimum Age for Employment of Children:* Children are not permitted to work full time before age 18. However, children 13 to 18 years may be employed part-time in light work that will not adversely affect their development.

e. *Acceptable Conditions of Work:* Ordinary working hours do not exceed 37.5 hours per week, and four weeks plus one day of paid leave are granted per year (31 days for those over 60). There is no minimum wage in Norway, but wages normally fall within a national wage scale negotiated by labor, employers, and the government. The workers' protection and working environment act of 1977 assures all workers safe and physically acceptable working conditions.

f. *Rights in Sectors With U.S. Investment:* Norway has a tradition of protecting worker rights in all industries, and sectors where there is heavy U.S. investment are no exception.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		4,045
Total Manufacturing		831
Food & Kindred Products	(1)	
Chemicals & Allied Products	17	
Primary & Fabricated Metals	3	
Industrial Machinery and Equipment	168	
Electric & Electronic Equipment	7	
Transportation Equipment	15	
Other Manufacturing	(1)	
Wholesale Trade		303
Banking		(1)
Finance/Insurance/Real Estate		1,881
Services		290
Other Industries		(1)
TOTAL ALL INDUSTRIES		7,609

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

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

POLAND

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999[1]
Income, Production and Employment:			
Nominal GDP	135,600	146,031	158,780
Real GDP Growth (pct)	6.8	4.8	4.0
GDP by Sector (pct):			
Agriculture	4.8	4.2	N/A
Manufacturing	20.2	24.4	N/A
Services	N/A	N/A	N/A
Government	N/A	N/A	N/A
Per Capita GDP (US$)	3,507	3,800	4,090
Labor Force (000's)	17,052	17,162	N/A
Unemployment Rate (pct)	10.3	10.4	11.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	29.0	25.2	N/A
Consumer Price Inflation	13.2	9.5	8.5
Exchange Rate (PZL/US$ annual average)			
Official	3.28	3.49	3.90
Balance of Payments and Trade:			
Total Exports FOB (US$ billions)[2]	27.2	30.1	28.0
Exports to U.S. (US$ billions)[3]	0.7	0.8	0.5
Total Imports CIF (US$ billions)	38.5	43.8	42.1
Imports from U.S. (US$ billions)[3]	1.2	0.9	0.5
Trade Balance (US$ billions)	–11.3	–13.7	–14.1
Balance with U.S. (US$ billions)[3]	–0.52	–0.1	0.0
External Public Debt (US$ billions)	38.5	43.0	N/A
Fiscal Deficit/GDP (pct)	2.8	2.7	2.8
Current Account Surplus/Deficit/GDP (pct)[4]	–3.0	–4.3	–6.8
Debt Service Payments/GDP (pct)[5]	3.5	3.2	3.4
Gold and Foreign Exchange Reserves (US$ billions)[6]	20.7	27.4	27.3
Aid from U.S. (US$ millions)[7]	52.7	62.7	26.3
Aid from Other Sources (US$ millions)	N/A	N/A	N/A

[1] 1999 figures are Polish Government estimates as of October 1999, unless otherwise noted.
[2] Polish Government trade figures, without transshipments via third countries.
[3] U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.
[4] Including estimated unrecorded trade.
[5] Debt service includes paid interest and principal.
[6] Data available through August 1999.
[7] U.S. Government estimate; includes economic and military assistance (USAID and FMF.)

1. General Policy Framework

In the past decade, Poland has transformed its economy with mostly sound financial policies and commitment to structural reforms (the government adopted into law reforms on regional government, health care, pension system, and education in 1998-1999 alone), making it one of the most successful and open transition economies. After four consecutive years of growth at about 6 percent or 7 percent per year, the Polish economy, affected by the Asian and Russian crises, slowed in 1998. By the end of 1999, the Polish economy is expected to see 3.5 percent to 4 percent growth, with 5.2 percent projected for 2000. The private sector is thriving as a result of privatization and liberalization, although Poland's large agriculture sector remains handicapped by surplus labor, inefficient small farms, and lack of investment. The (shrinking) shadow "gray economy" was estimated to generate around 17 percent of GDP in 1999.

Government Priorities: A member of the WTO, OECD, and NATO, Poland now considers membership in the European Union (EU) one of its highest priorities with a self-imposed accession date of January 1, 2003. The process is exacting a political toll (lack of effective support from the opposition and declining public support) and affects most economic policies, from the budget to reforms. By late 1999, Poland had provisionally closed eight of the 30 chapters. In addition, Poland has agreed to liberalization of its trade and investment regimes through international (WTO, OECD), regional (Central European Free Trade Agreement or "CEFTA"), and various bilateral agreements, including one concluded in 1999 with Turkey. Poland also seeks to improve bilateral economic relations with Russia, Ukraine and Belarus.

Fiscal Policy: The government seeks to reduce the central government budget deficit to 1.9 percent of GDP in 2000, and to eliminate it altogether by 2003. Financing comes principally from privatization revenues and the domestic non-banking private sector (e.g., insurance companies and pension funds). The constitution prohibits the National Bank of Poland (NBP) from financing the budget deficit. Reforms, generous social programs (disability, unemployment and welfare), and debt service obligations constitute the heaviest burdens on the budget. The 1998 Act on Public Finances, a framework for fiscal consolidation to manage public finances, clarifies the responsibilities of the various budgetary players, sets measures to improve transparency in public finances, establishes rules for local governments, and prepares for EU accession. It also establishes procedures to be followed if total public debt, including state guarantees, exceeds certain limits.

Monetary Policy: The independent Monetary Policy Council (MPC) sets monetary policy, implemented by the NBP, using an inflation target. The MPC's goal for 2000 is to reduce inflation to between 5.4 and 6.8 percent. In the medium-term, the goal is to curb inflation to 4.0 percent or less by 2003. Tight fiscal policy reduced inflation from 600 percent in 1990 to below 10 percent in 1999. As inflation slowed in 1998, the MPC started to cut its intervention rates. However, a resurgence of inflation in late 1999, coupled with fears that rising household credit and growing off-budget spending could fuel inflation in 2000, led the MPC to sharply tighten monetary policy in November, raising key interest rates by 3.5 points. After a long period of appreciation, the Polish zloty fell from 3.5 to 4.0 against the dollar in early 1999, making U.S. exports to Poland less competitive.

2. Exchange Rate Policies

Since 1991, the NBP has managed the exchange rate by a crawling peg mechanism against a basket of reserve currencies (45 percent U.S. dollars, 35 percent German marks, and the rest in pounds sterling and French and Swiss francs). As of 1999, the basket is composed of 55 percent euros and 45 percent dollars. The MPC now depreciates the central parity rate for the zloty by 0.3 percent per month, but allows the currency to float within a 15 percent band around that rate. The NBP plans to float the zloty in 2000 to let it find its equilibrium level before applying for participation in European Exchange Rate Mechanism (ERM2) and then EMU.

Poland achieved current account convertibility in 1995, eliminated the requirement for Polish firms to convert their foreign currency earnings into zlotys in 1996, removed most limits on capital account outflows by Polish citizens in 1997, and enforced a new foreign exchange law in January 1999. Restrictions were removed on foreign exchange transactions for resident portfolio investments, investment in OECD issued securities, and operations in negotiable securities, including collective investment securities, with some exceptions, such as transactions in debt instruments with a maturity of less than one year and derivatives. The law authorizes further liberalization measures, but also contains safeguards to allow the government to temporarily re-establish restrictions under certain circumstances, such as extraordinary risk to the stability and integrity of the financial system. By January 2000, Poland's remaining restrictions on capital movements, other than foreign direct investment flow and short-term capital flow, should be limited to real estate investment abroad and in Poland. The current foreign direct investment restrictions are foreign acquisitions of certain categories of real estate, indirect ownership of Polish insurance companies, air and shipping transport, broadcasting, certain telecommunication services, and gaming.

3. Structural Policies

Prices: Most price subsidies and controls disappeared during Poland's 1990 economic shock therapy, although those on public transportation and some pharmaceuticals continue. The government hopes to eventually eliminate all controls, providing interim support for coal and some agricultural products, and allowing new regulatory bodies to play a central role in setting prices in the energy and telecommunications sectors.

Taxes: A government tax reform package debated in late 1999 aimed to cut income tax rates, eliminate exemptions, and bring the VAT into line with EU rules. After weeks of intense debate parliament approved the reform proposals; the president, however, refused to sign into law the revisions to personal income taxes. The corporate income tax will be reduced to 30 percent in 2000 from the 1999 level of 34 percent; personal income tax rates of 19, 30 and 40 percent will remain in effect in 2000. Under pressure from the EU, Poland will likely amend the rules on its special economic zones that provide foreign investors with tax breaks, resulting in the closure of some zones and no access for new entrants to others.

Regulatory Policies: Primary concerns are current product certification standards and the continuing lack of an independent regulatory commission for telecommunications.

4. Debt Management Policies

Poland's foreign debt situation improved with rescheduled agreements with the Paris Club (1991) and the London Club (1994), reducing Poland's debt by nearly half. By end-1999, Poland's total official foreign debt was $32 billion, including $23 billion to the Paris Club, $5 billion in Brady bonds (London Club), $2.3 billion to other institutions (IMF, World Bank, EBRD and BIS), and $0.8 billion in Rebounds and Yankee bonds. Since 1995, Poland has held investment grade ratings from various agencies, boosted by a return to international capital markets with a $250 million Eurobond flotation. In October 1999, Poland received a Moody's rating of Baaa1 and a Standard and Poor's rating of BBB. Debt servicing remains relatively low both in relation to government expenditure (12 percent) and GDP (3 percent to 4 percent). Foreign debt servicing represents a sustainable proportion of exports of goods and services; as of late 1999, the private sector has an estimated $11 to $12 billion in foreign debt. Having prepaid all outstanding IMF drawings in 1995, Poland's total state debt (foreign and domestic) shrank to 44 percent of GDP by the end of 1998.

5. Aid

The U.S. gave Poland $26.3 million in aid in 1999, $20 million of which was SEED Act funds to help Poland's transition to a free market democracy. The remaining $6.3 million was military and other aid. 2000 will be the last year for SEED Act assistance to Poland; military aid will continue.

6. Significant Barriers to U.S. Exports

Tariffs: In 1999, Poland entered a new stage of free trade in industrial products with the EU, EFTA and CEFTA countries. Currently, 73 percent of all industrial imports from these countries are duty free, 23 percent fall under MFN tariffs, and about 3 percent are subject to the GSP system. The exceptions are tariffs on cars (to be eliminated in 2002), steel products, gasoline and fuel, and heating oils. As a result of required Uruguay Round implementations, Poland reduced tariffs in 1999 on many agricultural products, but simultaneously increased tariffs on others, e.g., pork and malt. While Poland's EU association agreement established preferential tariffs for non-agricultural, EU-origin imports into the Polish market, Poland has maintained its higher MFN tariffs for U.S. and other non-EU products. All U.S. exporters within a broad range of industry sectors have complained that the differentials have diminished their business prospects and ability to compete against EU-origin products which enter Poland duty-free. The U.S. and Polish governments are currently discussing possible resolutions to this issue. In late 1999 the Polish Government announced plans to raise agricultural tariffs from current applied levels to Poland's WTO bound levels, which in many cases are much higher.

Import Licenses: Licenses are required for strategic goods on Wassenaar dual use and munitions lists, as well as for beer, wine, fuel, tobacco, dairy products, meat, poultry, semen, and embryos. The plant quarantine inspection service issues a mandatory phytosanitary import permit for the import of live plants, fresh fruits and vegetables into Poland. U.S. grain and oilseed exports to Poland have been hampered by Polish regulations requiring zero tolerance for several common weed seeds. Certificates from the Veterinary Department in the Ministry of Agriculture are also required for meat, dairy and live animal products. Poland intends to implement regulations on biotechnology and genetically modified organisms, following EU norms. Import licenses for dairy cattle genetics already have limited U.S. access to the Polish market.

Services Barriers: Poland has made progress, but many barriers remain, especially in audio-visuals, legal services, financial services, and telecommunications. In November 1997, the government enacted a rigid 50 percent European production quota for all television broadcasters, raising concerns about certain liberalization commitments undertaken by Poland upon joining the OECD. However, legislation introduced into Parliament in late 1999 would require broadcasters to meet the 50 percent quota only where practical, bring Polish regulations into line with EU directives. In January 1998, new laws on banking and the central bank came into force. As a condition of its accession to the OECD, Poland agreed to allow firms from OECD countries to open branches and representative offices in the insurance and banking sector starting in 1999, as well as subsidiaries of foreign banks. The government began privatizing the state telecommunications monopoly in October 1998, and agreed to open domestic long-distance service to competition in 1999 and international services in 2003. Local telephone service licenses are being awarded, but interconnection remains the domain of the state monopoly.

Standards, Testing, Labeling, and Certification: One Polish regulation which may adversely affect U.S. exports is a requirement for some 1,400 products sold in Poland to obtain a safety "B" certificate from a Polish test center. Enforcement of this regulation has been postponed each year since 1995, and following an August 1999 amendment, products fall into two groups: those requiring a B certificate, and those for which producer conformity declaration is sufficient. Under the "B" rule, the EU "CE" mark and ISO 9000 can accelerate the certification process. Poland wants a mutual recognition agreement with the EU, but this would require enacting a new law on product liability. In the past, U.S. companies complained about the complexity and slowness of the testing process, as well as vague information on fees and procedures, but recently these complaints have been fewer. Phytosanitary standards on weed seeds have had a major adverse impact on the ability of U.S. farmers to export certain grains to Poland.

Investment Barriers: Polish law permits 100 percent foreign ownership of most corporations, although some obstacles remain for foreign investment in certain "strategic sectors" such as mining, steel, defense, transport, energy, and telecommunications, and certain controls remain on other foreign investment. Broadcasting legislation still restricts foreign ownership to 33 percent (although proposed legislation would increase this to 49 percent for terrestrial broadcasting and 100 percent for satellite) and foreign stakes in air and maritime transport, fisheries, and long-distance telecommunications are confined to 49 percent. No foreign investment is currently allowed in international telecommunications or gambling. The government is working on privatization of telecommunications, steel mills, and energy, as well as a restructuring plan for the defense industry that calls for significant foreign investment. As a result of OECD accession, foreigners in Poland may purchase up to 4000 square meters of urban land or up to one hectare of agricultural land without a permit. Larger purchases, or the purchase of a controlling stake in a Polish company owning real estate, require approval from the Ministry of Interior and the consent (not always automatic) of both the Defense and Agriculture Ministries.

Government Procurement Practices: Poland's government procurement law is modeled on the UN procurement code and is based on competition, transparency, and public announcement, but does not cover most purchases by state-owned enterprises. Single source exceptions to the stated preference for unlimited tender are allowed only for reasons of state security or national emergency. The domestic performance section in the law requires 50 percent domestic content and gives domestic bidders a 20 percent price preference. Companies with foreign participation organized under the Joint Ventures Act of 1991 may qualify for "domestic" status. There is also a protest/appeals process for tenders thought to be unfairly awarded. As of September 1997, Poland has the status of an observer to the WTO's Government Procurement Agreement (GPA).

Customs Procedures: Since signing the GATT customs valuation code in 1989, Poland has a harmonized tariff system. The customs duty code has different rates for the same commodities, depending on the point of export. Poland's Association Agreement with the EU, the CEFTA agreement, FTAs with Israel, Croatia, Latvia, Estonia and Lithuania (and Turkey, for implementation in January 2000), as well as GSP for developing countries, grant firms from these areas certain tariff preferences over U.S. competitors. Some U.S. companies have criticized Polish customs' performance, citing long delays, indifference, corruption, incompetent officials, and inconsistent application of customs rules. A new customs law took effect January 1998, but some problems remain, including the amount of paperwork required and the lack of electronic clearance procedures.

7. Export Subsidies Policies

With its 1995 accession to the WTO, Poland ratified the Uruguay Round Subsidies Code and eliminated earlier practices of tax incentives for exporters, but it still offers drawback levies on raw materials from EU and CEFTA countries which are processed and re-exported as finished products within 30 days. Some politically powerful state-owned enterprises continue to receive direct or indirect production subsidies to lower export prices. Poland's past policy of rolling over unused WTO sugar subsidy allowances to be used in combination with a given year's allowances appears to be no longer relevant. Polish industry and exporters criticize the government for too little export promotion support. The one existing export insurance scheme has very limited resources, and rarely guarantees contracts to high-risk countries such as Russia, placing Polish firms at a disadvantage to most western counterparts.

8. Protection of U.S. Intellectual Property

Poland has made major strides in improving protection of intellectual property rights. The U.S.-Polish Bilateral Business and Economic Treaty contains provisions for the protection of U.S. intellectual property. It came into force in 1994, once Poland passed a new Copyright Law that offers strong criminal and civil enforcement provisions and covers literary, musical, graphical, software, audio-visual works, and industrial patterns. Amendments to the Copyright Law, designed to bring it fully into compliance with Poland's obligations under TRIPS, were pending in Parliament in late 1999. The amendments would provide full protection of all pre-existing works and sound recordings. Likewise, Parliament was set to consider new legislation on patents and trademarks which would bring Poland's industrial property protection up to TRIPS standards. Poland needs to provide for civil ex parte searches as required by its TRIPS obligations.

Despite this legal foundation, Poland continues to suffer from high rates of piracy. Most of the pirated material available—particularly CDs and CD-ROMs—is imported from factories in the former Soviet Union. Industry associations estimate 1998 levels of piracy in Poland to be: 40 percent in sound recordings, 25 percent in motion pictures, and 60 percent in software. While enforcement has improved in recent years, the cumbersome judicial system remains an impediment. Criminal penalties will increase and procedures for prosecution will be somewhat simplified when the pending legislation takes effect in 2000. Poland is currently on the "Special 301 Watch List" due to inadequacies in laws currently on the books and ineffective enforcement.

9. Worker Rights

Poland's 1996 Labor Code sets out the rights and duties of employers and employees in modern, free-market terms.

a. *The Right of Association:* Polish law guarantees all civilian workers, including military employees, police and border guards, the right to establish and join trade unions of their own choosing, and the right to join labor organizations and to affiliate with international labor confederations. The number of unions has remained steady over the past several years, although membership appears to be declining.

b. *The Right to Organize and Bargain Collectively:* The laws on trade unions and resolution of collective disputes generally create a favorable environment to conduct trade union activity, although numerous cases have been reported of employer discrimination against workers seeking to organize or join unions in the growing private sector.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor does not exist, except for prisoners convicted of criminal offenses.

d. *Child Labor Practices:* Polish law strictly prescribes conditions in which children may work and sets the minimum age at 15. Forced and bonded child labor is effectively prohibited. The State Labor Inspectorate reported increasing numbers of working children and violations by employers who underpay or pay late.

e. *Acceptable Conditions of Work:* Unions agree that the problem is not in the law, which provides minimum wage and minimum health and safety standards, but in insufficient enforcement by too few labor inspectors.

f. *Rights in Sectors With U.S. Investment:* Firms with U.S. investment generally meet and can exceed the five worker rights conditions compared to Polish firms. In the last several years, there have been only a few cases where Polish unions have charged such companies with violating Polish labor law, and cases have been largely resolved. Existing unions usually continue to operate in Polish enterprises that are bought by American companies, but there tend to be no unions where U.S. firms build new facilities.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		797
Food & Kindred Products	150	
Chemicals & Allied Products	106	
Primary & Fabricated Metals	35	
Industrial Machinery and Equipment	4	
Electric & Electronic Equipment	1	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Transportation Equipment	–15	
Other Manufacturing	517	
Wholesale Trade		247
Banking		423
Finance/Insurance/Real Estate		(1)
Services		85
Other Industries		104
TOTAL ALL INDUSTRIES		1,698

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

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

PORTUGAL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	101.9	106.8	108.6
Real GDP Growth (pct) [3]	3.4	3.9	3.0
GDP by Sector:			
Agriculture	3.8	3.5	3.6
Industry	33.4	34.7	35.3
Services	59.8	64.8	65.9
Per Capita GDP (US$)	10,864	10,718	10,879
Labor Force (000's) [4]	4635	4992	5057
Unemployment Rate (pct)	6.5	4.6	4.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	6.6	6.8	5.9
Consumer Price Inflation	2.2	2.8	2.4
Exchange Rate (PTE/US$ annual average)	175	180	188
Balance of Payments and Trade:			
Total Exports FOB [5]	24.8	26.0	23.6
Exports to U.S. [5]	1.1	1.2	1.2
Total Imports CIF [5]	34.9	38.3	36.2
Imports from U.S. [5]	1.1	1.05	1.0
Trade Balance	–10.0	–12.3	–12.7
Balance with U.S.	0.0	0.15	0.2
External Public Debt	14.4	13.6	N/A
Fiscal Deficit/GDP (pct)	2.7	1.9	1.7
Current Account Deficit/GDP (pct)	3.6	5.3	6.6
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	20.3	21.6	13.1
Aid from the U.S.	0	0	0
Aid from All Other Sources	N/A	N/A	N/A

[1] 1998 figures are estimates based on available monthly data in October.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Reflects a change in the series beginning in 1998.
[5] Portuguese National Institute of Statistics.

1. General Policy Framework

Prior to the 1974 Portuguese revolution, Portugal was one of the poorest and most isolated countries in Western Europe. In the twenty-five years since, however, the country has undergone fundamental economic and social changes that have resulted in substantial convergence with its wealthier European neighbors. Joining the European Union in 1986 was a primary factor in this progress. The country has not only enjoyed growing trade ties with the rest of Europe, but has been one of the continent's primary beneficiaries of EU structural adjustment funds. The last twenty-five years have witnessed not only economic growth, but also significant structural changes. An economy that was once rooted in agriculture and fishing has developed into one driven by manufacturing and, increasingly, by the service sector.

Over the more recent past, the country has experienced a broad-based economic expansion since 1993 and is forecast to grow at rates higher than the EU average for the next several years. Much of the growth since 1993 can be linked with the country's successful efforts to join European monetary union (EMU), which was formally established at the beginning of 1999. To qualify for EMU, Portugal took steps to reduce its fiscal deficit and implement structural reforms. As a result, the country has benefited from currency stability, a falling inflation rate and falling interest rates. The falling interest rates, in turn, have reduced the government's interest expenditures and made it easier to meet its fiscal targets. The broader economy has been stimulated by a boom in consumer spending brought on by lower interest rates and greater availability of credit.

Although the economy is generally healthy, there is some concern among economists that the current expansion shows signs of overheating. One manifestation of the growth in consumption has been a rise in household debt—from less than 20 percent of disposable income in 1990, to almost 65 percent of disposable income by the end of 1998. Other manifestations include an inflation rate that is persistently higher than the Euro-zone average, a growing current account deficit, and a sharp rise in real estate prices. With monetary union, Portugal no longer has the ability to craft a monetary response to the situation. However, the government has not yet employed fiscal restraint. When the effects of falling interest payments are taken into account, the government's current expenditures are still growing at a higher rate than are government revenues. These concerns will be one of the issues facing the newly re-elected government.

2. Exchange Rate Policy

On January 1, 1999, Portugal and 10 other European countries entered monetary union; the escudo exchange rate is fixed at 200.482 Portuguese escudos being equal to one Euro. Future exchange rate policy for the Euro-zone countries will be governed by the European Central Bank.

3. Structural Policies

Portugal has generally been successful in liberalizing its economy. The country has used a large proportion of the 20 billion-dollar EU-backed regional development financing for new infrastructure projects. These projects have included new highways, urban renewal for the site of Lisbon-based EXPO 98, rail modernization, subways, dams and water treatment facilities.

Portugal has also pursued an aggressive privatization plan for state-owned companies. In 1988, state-owned enterprises accounted for 19.4 percent of GDP and 6.4 percent of total employment. By 1997, these had fallen to 5.8 percent and 2.2 percent, respectively, and the country has continued with an aggressive schedule of privatization. By the end of 1998, total privatization receipts had reached $21.5 billion. Former state-controlled companies now account for the bulk of the market capitalization of the Lisbon stock exchange and several of them have taken steps to expand their investments overseas. Notably, EDP (electricity) and Portugal Telecom (telecommunications) have made major investments in their respective sectors in Brazil.

4. Debt Management Policies

Following the removal of capital controls in 1992, lower interest rates abroad led to a shift towards a greater reliance on the use of foreign public debt, which rose to 15.0 percent of GDP by 1998. That debt, however, has yielded benefits in the form of longer debt maturities and lower costs for domestic debt. As a result, interest expenditure on public debt fell from 6.2 percent of GDP in 1994 to an estimated 2.8 percent of GDP in 1999.

5. Significant Barriers to U.S. Exports

The EU Customs Code was fully adopted in Portugal as of January 1, 1993. Special tariffs exist for tobacco, alcoholic beverages, petroleum and automotive vehicles. Portugal is a member of the World Trade Organization.

Because Portugal is a member of the EU, the majority of imported products enjoy liberal import procedures. However, import licenses are required for agricultural products, military/civilian dual use items, some textile products and industrial products from certain countries (not including the United States). Imported products must be marked according to EU directives and Portuguese labels and instructions must be used for products sold to the public.

Portugal welcomes foreign investment and foreign investors need only to register their investments, post facto, with the Foreign Trade, Tourism, and Investment Promotion Agency. However, Portugal limits the percentage of non-EU ownership in civil aviation, television operations, and telecommunications. In addition, the creation of new credit institutions or finance companies, acquisition of a controlling interest in such financial firms, and establishment of subsidiaries require authorization by the Bank of Portugal (for EU firms) or by the Ministry of Finance (for non-EU firms).

With respect to the privatization of state-owned firms, Portuguese law currently allows the Council of Ministers to specify restrictions on foreign participation on a case-by-case basis. Portuguese authorities tend, as a matter of policy, to favor national groups over foreign investors in order to "enhance the critical mass of Portuguese companies in the economy."

Portuguese law does not discriminate against foreign firms in bidding on EU-funded projects. Nevertheless, as a practical matter, foreign firms bidding on EU-funded projects have found that having an EU or Portuguese partner enhances their prospects. For certain high-profile direct imports; i.e., aircraft, the Portuguese Government has shown a political preference for EU products (Airbus).

Companies employing more than five workers must limit foreign workers to 10 percent of the workforce, but exceptions can be granted for workers with special expertise. EU and Brazilian workers are not covered by this restriction.

Portugal maintains no current controls on capital flows. The Bank of Portugal, however, retains the right to impose temporary restrictions in exceptional circumstances and the import or export of gold or large amounts of currency must be declared to customs.

6. Export Subsidies Program

Portugal's export subsidies programs appear to be limited to political risk coverage for exports to high-risk markets and credit subsidies for Portuguese firms expanding their international operations.

7. Protection of U.S. Intellectual Property

Portugal is a member of the International Union for the Protection of Industrial Property (WIPO) and a party to the Madrid Agreement on International Registration of Trademarks and Prevention of the Use of False Origins. Portugal's current Trademark Law entered into force on June 1, 1995. However, existing Portuguese legislation fails to comply with a number of specific provisions of the WTO TRIPS Agreement. The Portuguese government is aware of these deficiencies and has been engaged in a lengthy review and revision process, but no revisions have been approved to date. Portugal adopted national legislation in 1996 to extend patent protection to be consistent with the 20-year term specified in TRIPS and is considering legislation to protect test data.

Some problems related to intellectual property protection remain. Software piracy has decreased over the last two years but rates in Portugal remain among the highest in Europe. Furthermore, Portugal's perceived weak protection for test data has restricted the introduction of new drugs into the country. Outside these sectors, however, Portuguese intellectual property practices do not have a significant impact on trade with the U.S.

8. Worker Rights

a. *The Right of Association:* Workers in both the private and public sectors have the right to associate freely and to establish committees in the workplace to defend their interests. The Constitution provides for the right to establish unions by profession or industry. Trade union associations have the right to participate in the preparation of labor legislation. Strikes are constitutionally permitted for any reason; including political causes; they are common and are generally resolved through direct negotiations. The authorities respect all provisions of the law on labor rights.

Two principal labor federations exist. There are no restrictions on the formation of additional labor federations. Unions function without hindrance by the government and are affiliated closely with the political parties.

b. *The Right to Organize and Bargain Collectively:* Unions are free to organize without interference by the government or by employers. Collective bargaining is provided for in the Constitution and is practiced extensively in the public and private sectors.

Collective bargaining disputes are usually resolved through negotiation. However, should a long strike occur in an essential sector such as health, energy or transportation, the government may order the workers back to work for a specific period.

The government has rarely invoked this power, in part because most strikes are limited to 1 to 3 days. The law requires a "minimum level of service" to be provided during strikes in essential sectors, but this requirement has been applied infrequently. When it has, minimum levels of service have been established by agreement between the government and the striking unions, although unions have complained, including to the International Labor Organization, that the minimum levels have been set too high. When collective bargaining fails, the government may appoint a mediator at the request of either management or labor.

The law prohibits antiunion discrimination, and the authorities enforce this prohibition in practice. The General Directorate of Labor promptly examines complaints.

There are no export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor, including by children, is prohibited and does not occur.

d. *Minimum Age for Employment of Children:* The minimum working age is 16 years. There are instances of child labor, but the overall incidence is low and is concentrated geographically and sectorally.

The Government has worked actively to eliminate child labor and created a multiagency body, the National Commission to Combat Child Labor (CNCTI) in 1996, to coordinate those efforts. The Commission is joined in its efforts by two non-governmental organizations, the National Confederation of Action on Child Labor (CNASTI) and the Institute of Support for Children (IAC). With the assistance of regional commissions, CNCTI works through local intervention teams on public awareness measures to prevent child labor and, on a case-by-case basis with school dropouts and with minors found to be working.

The key enforcement mechanisms of labor laws in Portugal fall to labor inspectors and the number of cases has fallen significantly over the past several years. Inspectors have been hampered, however, in investigating case of children working at home or on their parents' farm, by legal restrictions on inspections of private homes. These areas may comprise the largest remaining incidence of child labor in Portugal.

In a first of its kind study, conducted in conjunction with the ILO in October 1998, the Portuguese Government polled 26,500 families, with separate questionnaires for parents and children, to try to measure the incidence of child labor in Portugal. According to this survey, as many as 20-40,000 Portuguese children, under the age of 16, may be engaged in some form of labor. The majority of these cases, however, consist of daily chores on family farms that do not prevent school attendance. The study estimates, however, that as many as 11,000 children may be working for non-family employers, a figure which represents 0.2 percent of the labor force. Additional such studies are planned.

e. *Acceptable Conditions of Work:* Minimum wage legislation covers full-time workers as well as rural workers and domestic employees ages 18 years and over. For 1999, the monthly minimum wage was raised to 61,300 escudos/month (approximately $331 at current exchange rates) and generally is enforced. Along with widespread rent controls, basic food and utility subsidies, and phased implementation of an assured minimum income, the minimum wage affords a basic standard of living for a worker and family.

Employees generally receive 14 months pay for 11 months work: the extra 3 months pay are for a Christmas bonus, a vacation subsidy, and 22 days of annual leave. The maximum legal workday is 8 hours and the maximum workweek 40 hours. There is a maximum of 2 hours of paid overtime per day and 200 hours of overtime per year. The Ministry of Employment and Social Security monitors compliance through its regional inspectors.

Employers are legally responsible for accidents at work and are required to carry accident insurance. An existing body of legislation regulates health and safety, but labor unions continue to argue for stiffer laws. The General Directorate of Hygiene and Labor Security develops safety standards in harmony with European Union standards, and the General Labor Inspectorate is responsible for their enforcement, but the Inspectorate lacks sufficient funds and inspectors to combat the problem of work accidents effectively. A relatively large proportion of accidents occurs in the construction industry. Poor environmental controls in textile production also cause considerable concern.

While the ability of workers to remove themselves from situations where these hazards exist is limited, it is difficult to fire workers for any reason. Workers injured on the job rarely initiate lawsuits.

f. *Worker Rights in Sectors With U.S. Investment:* Legally, worker rights apply equally to all sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		335
Food & Kindred Products	113	
Chemicals & Allied Products	114	
Primary & Fabricated Metals	-5	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	(1)	
Transportation Equipment	37	
Other Manufacturing	9	
Wholesale Trade		397
Banking		239
Finance/Insurance/Real Estate		261
Services		98
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,474

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

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

ROMANIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP (Billion Current Lei) [2]	250,480.2	338,670.0	487,370.0
Real Lei GDP Growth (pct) [3]	-6.6	-7.3	-4.5
GDP by Sector (Million US$):	34,944.7	38,157.4	29,900.0
Agriculture	6,324.9	6,067.0	5,900.0
Manufacturing	12,405.3	12,057.7	11,515.7
Services	16,214.5	20,032.7	12,484.3
Per Capita GDP (US$)	1,549.9	1,695.6	1,328.8
Labor Force (Millions)	9.0	8.9	8.7
Unemployment Rate (pct)	8.9	10.3	11.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	104.8	48.9	29.7
Consumer Price Inflation	151.4	40.6	47.0
Exchange Rate (Lei/US$ annual average)			
Official	7,167.9	8,872.6	16,300.0
Parallel	7,200	9,020	16,315
Balance of Payments and Trade:			
Total Exports FOB [4]	8,431	8,302	7,654
Exports to U.S. [4]	192.5	319.7	272.7
Total Imports CIF [4]	11,279.7	11,821.0	9.813.3
Imports from U.S. [4]	461.0	499.0	433.1
Trade Balance FOB/CIF [4]	-2,848.6	-3,519.0	-2,159.3
Balance with U.S.	-268.5	-179.3	-140.4
External Public Debt	6,853.7	6,954.7	5,833.8
Fiscal Deficit/GDP (pct)	3.6	3.1	3.7
Current Account Deficit/GDP (pct)	6.1	7.9	4.9
Debt Service Payments/GDP (pct)	5.3	5.9	7.4
Gold and Foreign Exchange Reserves	3,397.5	2,586.8	2,330.4
Aid from U.S.	25.0	38.0	56.0
Aid from All Other Sources	198.7	204.0	172.8

[1] 1999 figures are all estimates based on available monthly data in October.

[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.

1. General Policy Framework

In 1999, Romania continued to implement market based economic reforms at a slow pace and to privatize state-owned enterprises. A lower current account deficit, moderately tight fiscal policy, modest progress in bank restructuring and privatization and, albeit with considerable difficulty, full servicing of the country's foreign debt represented the most significant macro-economic achievements in 1999.

The official economy continued to contract, however, with GDP expected to fall around five percent in 1999. At the same time, the informal economy represents about 40 to 50 percent of the formal economy. The current account deficit narrowed and external public debt decreased. Improved tax collection and tight public spending caused the consolidated budget deficit to drop to 4.2 percent of GDP, in line with the target set by the IMF. Public direct and guaranteed external debt service is projected to be $1.5 billion in 2000, down from $2.2 billion in 1999, while gross external financing requirements will be $1.9 billion. Despite higher foreign exchange reserves and new agreements in progress with the IMF and IBRD, there is still concern that Romania will be unable to finance these debts, as signaled by the continued low ratings by Moody's, Standard and Poor's and Fitch-IBCA.

Romania is committed to becoming a member of the European Union (EU), which is by far its largest trading partner and which invited Romania to open accession negotiations. Trade with the EU accounts for 64 percent of Romania's merchandise imports and exports. Trade with the United States accounts for only 3.8 percent of Romania's exports and 4.4 percent of its imports, a proportion which has been consistent for the past few years. In 1999, U.S. exports to Romania are projected to drop by 13.0 percent, yet market share may remain constant.

2. Exchange Rate Policy

The foreign exchange market was liberalized in February 1997. The leu is fully convertible for current account transactions and foreign investment. The leu depreciated substantially in the first quarter of 1999, but then stabilized in real terms for the remainder of the year. The central bank is committed to full convertibility in the capital account, but the necessary conditions for this are not yet in place and may take a few years.

3. Structural Policies

Economic reform has resulted in the passage of a wide variety of legislation affecting virtually every sector: commerce, privatization, intellectual property, banking, labor, foreign investment, environment, and taxation. While new legislation is necessary to create a basis for a market economy, rapid regulatory change has slowed the pace of trade and investment. Implementation has also been a problem.

Romania continues to make significant progress in its agricultural reform program. (Note: Agriculture accounts for about one-fifth of GDP, and about 35 percent of formal and informal employment is dependent on it.) Prices are determined by market forces, and there are no export quotas. Over the past two years tariffs have been reduced by 66 percent. Modest progress has been made in the agricultural sector privatization, and further privatization is on track within ASAL program agreed with the World Bank.

However, deep-seated problems remain in the agricultural sector. Among them:

—the continued pervasive state presence, including price controls, state management of a large proportion of arable land, state ownership of input supply, storage, marketing, and agro-processing enterprises;

—incomplete land reform which has left many fragmented holdings, for which property rights are still not well-defined;

—under-developed rural cooperatives and financial services, few private input suppliers, and no extension services;

—agricultural coupons for Diesel oil that arrive too late to be helpful for agricultural production and also jeopardize annual budget discipline.

The pace of reform in heavy industry has been very slow. The state has retained ownership of 67 percent of the industrial sector. While the government remains committed to privatizing or liquidating most of these firms, implementation has proved difficult. Meanwhile, industrial subsidies are still largely concentrated in loss-making industries such as mining, instead of in potential growth sectors, such as food processing.

4. Debt Management Policies

At the end of July 1999, Romania's medium and long-term external debt dropped to $7.8 billion, from $9.1 billion at the end of 1998. The National Bank's foreign exchange reserves amounted to $1.47 billion, in addition to $989.8 million in gold, and the commercial banks' reserves reached $2.0 billion in July 1999. However, the National Bank's reserves are down 10 percent since end-1998, due to the high foreign debt servicing required in 1999: one third of Romania's total public external debt, which was $3.06 billion. Romania has claims against foreign countries amounting to $3 billion.

Debt service payments were a major challenge for Romania during the first half of 1999. However, the GOR succeeded in avoiding default, and increased foreign exchange reserves beginning in July, though reserve levels remained below end-1998 levels, while cutting the current account deficit by more than 50 percent. After long negotiations and months of delay, the government concluded with the IMF a new standby loan, the first tranche ($73 million) of which was released in August. However, at year's end the Romanian government had not yet satisfied the IMF condition in the FY 2000 budget to allow a second tranche to be released.

The World Bank concluded at the same time a $300 million PSAL agreement with Romania. The government received half of the loan in August, and the World Bank is considering releasing the second tranche as soon as the IMF board takes a decision. Under the PSAL agreement with the World Bank, the GOR has pledged to reform the banking sector, close loss-making firms and improve the business environment. The IMF has sent a technical team in early December 1999 to review progress in implementing the two accords and tie them up with the appropriate budget policies needed for the fiscal year 2000, an election year when foreign debt servicing (including private sector) will amount to $2.4 billion.

5. Significant Barriers to U.S. Exports

Traditionally defined trade and investment barriers are not a significant problem in Romania, as there are no laws which directly prejudice foreign trade or business operations. Tariff preferences resulting from Romania's Association Agreement with the EU have disadvantaged US exports in several sectors, including agriculture, telephonic equipment, computers, and beverages. For example, the duty on tires is 30.5 percent from the US, and 18.4 percent from the EU and falling.

Bureaucratic red tape and uncertainties in the legal framework make doing business in Romania difficult. There is little experience with Western methods of negotiating contracts and, once concluded, enforcement is not uniform. In addition, delays in reconciling conflicting property claims, arising from seizures during the World War II and Communist eras, have resulted in a situation in which purchasers are potentially subject to legal challenge by former owners and title insurance is not available. The absence of clear legal recourse to recover claims against debtors is a further complication for foreign investors. Romania's customs regime imposes minimum reference prices, which is inconsistent with its WTO obligations. This has hindered U.S. poultry exports to Romania.

The cost of doing business in Romania is high, particularly for office rentals, transportation and telecommunication services. Lack of an efficient, modern payment system further delays transactions in Romania. Capital requirements for foreign investors are not onerous, but local capital remains very expensive. Also, taxes on both profits and operations are steep. Investors complain of inconsistency in Romania's policy on tax incentives for foreign companies. Previously foreign companies qualified for some tax exemptions, based on the size of their investment. Given significant fiscal constraints and under IMF pressure, the GOR rescinded this in 1999, except for the case of the French car maker, Renault, which purchased the national Romanian car manufacturing company, Dacia Pitesti.

There are few formal barriers to investment in Romania. The Foreign Investment Law allows for full foreign ownership of investment projects (including land, for as long as the investment is in place.) There are no legal restrictions on the repatriation of profits and equity capital. The continually changing legal regime for investment and privatization, however, forms a significant barrier to investment. Government approval of joint ventures requires extensive documentation. U.S. investment in Romania totaled $314.1 million by July 1999, putting the U.S. in fourth place among foreign investors.

Romania is a member of the World Trade Organization, but not a signatory to the agreement on government procurement.

6. Export Subsidies Policies

The Romanian Government does not provide export subsidies but does attempt to make exporting attractive to Romanian companies. For example, the government provides refunds of import duties for goods that are then processed for export. The Romanian Export-Import Bank engages in trade promotion activities on behalf of Romanian exporters, and has lately become more of an analysis bank.

There are no general licensing requirements for exports from Romania, but the government does prohibit or control the export of certain strategic goods and technologies. There are also export controls on imported or domestically produced goods of proliferation concern.

7. Protection of U.S. Intellectual Property Rights

Romania has enacted significant legislation in intellectual property protection. Patent, copyright and trademark laws are in place. In the past year, Romania has adopted pipeline protection for pharmaceuticals. Enforcement is limited and ineffective.

Pirated copies of audio and video cassettes, CDs, and software are readily available. In a few cases, pirated films were broadcast on local cable television channels. There are no known exports of pirated products from Romania.

Romania is a member of the Bern Convention, the World Intellectual Property Organization, the Paris Intellectual Property Convention, the Patents Cooperation Treaty, the Madrid Convention, and the Hague Convention on Industrial Design, Drawings and Models. As a country in transition, Romania will implement the WTO agreement on intellectual property on January 1, 2000. Industrial property law amendments needed for full compliance with TRIPS have already been drafted, but not enacted, yet. The TRIPS-consistent Copyright and Neighboring Rights Law is very inefficiently implemented, mainly due to the lack of coordination among the government enforcement agencies, police, prosecutors and judges, as well as due to each of these organizations' lack of focus. The Business Software Association estimates that currently, pirated products account for about 80 percent of the Romanian market, down from 95 percent prior to the law's coming into force. In order to help solve this problem, the government drafted a bill regulating the customs right to check on imports from the intellectual property point of view, a draft that is still in the Parliament for action.

8. Worker Rights

a. *The Right of Association:* All workers (except public employees) have the right to associate freely and to form and join labor unions without prior authorization. Labor unions are free from government or political party control but may engage in political activity. Labor unions may join federations and affiliate with international bodies, and representatives of foreign and international organizations may freely visit and advise Romanian trade unions.

b. *The Right to Organize and Bargain Collectively:* Workers have the right to bargain collectively. Basic wage scales for employees of state-owned enterprises are established through collective bargaining with the state. There are no legal limitations on the right to strike, except in sectors the government considers critical to the public interest (e.g. defense, health care, transportation).

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor. The Ministry of Labor and Social Protection effectively enforces this prohibition.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 16. Children over 14 may work with the consent of their parents, but only "according to their physical development, aptitude, and knowledge." Working children under 16 have the right to continue their education, and employers are required to assist in this regard.

e. *Acceptable Conditions of Work:* Minimum wage rates are generally observed and enforced. The Labor Code provides for a standard work week of 40 hours with overtime for work in excess of 40 hours, and paid vacation of 18 to 24 days annually. Employers are required to pay additional benefits and allowances to workers engaged in dangerous occupations. The Ministry of Labor and Social Protection has established safety standards for most industries, but enforcement is inadequate and employers generally ignore the Ministry's recommendations. Labor organizations continue to press for healthier, safer working conditions. On average, women experience a higher rate of unemployment than men and earn lower wages despite educational equality.

f. *Rights in Sectors with U.S. Investment:* Conditions do not appear to differ in goods producing sectors in which U.S. capital is invested.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		–12
Total Manufacturing		43
Food & Kindred Products	(1)	
Chemicals & Allied Products	14	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	1	
Other Manufacturing	(1)	
Wholesale Trade		11
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		128

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

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

RUSSIA

Key Economic Indicators

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

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	2,522	2,685	4,600
Real GDP Growth (pct)	0.6	–4.6	1.5
Per Capita Personal Income (US$)	922	610	[4] 466
Labor Force (000's)	72,000	72,000	73,700
Unemployment Rate (pct)	11.2	13.3	12.4
Money and Prices (annual percent growth):			
Money Supply Growth (M2)	30.6	3.2	[4] 48.8
Consumer Price Index (percent increase)	11	84.3	45.0
Exchange Rate (Ruble/US$ annual average)	5.785	9.705	24.429
Balance of Payments and Trade:			
Total Exports (FOB)	85.0	71.3	[5] 31.1
Exports to U.S.	4.5	5.7	[6] 3.8
Total Imports (CIF)	52.9	43.5	[5] 14.5
Imports from U.S.	4.1	3.6	[6] 0.9
Trade Balance	32.1	27.8	[5] 16.6
Balance with U.S.	0.4	2.1	[6] 2.9
Current Account	3.5	2.4	12.6
External Public Debt	123.5	147	159.7
Debt Service Payments/GDP (pct)	1.4	3.7	[4] 5.9
Fiscal Deficit/GDP (pct)	6.7	3.2	[5] 3.8
Gold and Foreign Exchange	17.8	12.1	[3] 11.8
Aid from U.S. (US$ millions) [7]	492	639.4	1,937.1
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 data has been provided for the last available period (9/99) unless otherwise noted. The Russian Ruble was re-denominated on January 1, 1998 by dropping three zeros off the value of the currency. All data in ruble terms have been adjusted to "new rubles" for comparability.

[2] Billions of Russian Rubles.

[3] Data for January-October 1999.

[4] Data for January-August 1999.

[5] Data for the period January-June 1999.

[6] U.S. Commerce Department data for the period January-August 1999.

[7] USG Assistance (by fiscal year) including food assistance, not including donated humanitarian commodities shipped by USG. Military assistance included $389.4 million in Department of Defense funds, largely for strategic weapons destruction programs, plus IMET and FMF programs, from which only $228,000 was spent in FY99.

Sources: Russian Statistics Committee (Goskomstat), Russian State Customs Committee, International Monetary Fund, Department of State S/NIS/C and embassy estimates.

1. General Policy Framework

The Russian economy rebounded somewhat in 1999 from the economic and financial crisis of 1998, based on higher oil prices and import substitution resulting from the devaluation of the ruble. However, in the absence of substantial progress toward the reforms necessary to underpin a vigorous market economy and attract domestic and foreign investment, the Russian economy remains fragile and vulnerable to external and internal shocks. Industrial production in October was up 10.3 percent from the depressed levels of October 1998. The IMF is forecasting year on year inflation at end-December of 45 percent, compared to more than 80 percent in 1998. Unemployment has eased and the demand for cash transactions continued to rise as barter deals declined.

Despite estimates for real GDP growth in 1999 ranging from 0 to 3 percent, the economic boost from devaluation of the ruble and increased revenues from oil exports is unlikely to be repeated in the coming year. In the near term, sustainable growth in Russia will depend importantly on domestic demand, consumption and investment, all of which are running well below last year's levels. The lack of significant progress on structural reforms and the difficult investment climate contribute to continued net capital outflow. Surveys suggest that a main constraint to production is the absence of working capital, but the banking sector has not stabilized from its collapse in 1998 and is not in a position to effectively intermediate savings to productive investments on a large scale.

Fiscal policy for the first half of the year was moderately disciplined, with an overall deficit of 3.8 percent compared with a budget target of 2.5 percent for the year. Following low cash collections in the beginning of the year, revenue collections increased substantially, topping 13.2 percent of GDP during the first half of the year, compared with 10.5 percent over the same period in 1998. The GOR expects revenues of R551 billion for the year, about 16 percent over budget. Monetary policy was moderately tight. Base money increased 22 percent during the first half of the year, in part due to indirect central bank financing of the federal deficit, specifically assisting in servicing the GOR's external debt. The ruble remained relatively stable between March and August in a more tightly controlled foreign exchange environment than before. In these conditions, the Central Bank has sought to avoid exchange rate volatility through selective interventions to smooth the trend. The Central Bank's reserves have not significantly increased, partially due to external debt payments, changes in accounting and unauthorized capital exports.

The cost of Russia's 1998 financial collapse was significant. GDP measured in USD terms declined from around USD 422 billion in 1997 to USD 132 billion at the end of 1998, about the level of GDP in 1993. While nominal ruble revenues have increased this year to date, they are still about half those of last year, as measured in USD terms. Similarly in the banking sector, assets in USD fell by 50 percent to around USD 50 billion. As with other emerging markets that have suffered sharp setbacks, rebuilding will take time.

Government economic policy has been largely static this year. While the three successive post-August-1998 governments have not adopted policies that would have exacerbated an already-fragile situation, none have adopted aggressive policies to address fundamental challenges faced by the country. With upcoming parliamentary elections in December and presidential elections in June, the consensus of observers is that major movement on reforms or major policy changes are unlikely until the new Duma and new President are in place.

2. Exchange Rate Policy

The objective of the Central Bank of Russia's (CBR) exchange rate policy is to ensure the stability and predictability of the ruble exchange rate and prevent abrupt fluctuations, in the context of a floating exchange rate regime. After slipping at the beginning of the year, the nominal ruble/dollar rate held steady at around 24.5 from May through August, then drifted down to about 26.8 in December. High ruble liquidity, as reflected by the approximately R70 billion in banks' correspondent accounts at the CBR, supported the decline late in the year. From September through mid-November, the ruble has depreciated approximately 4.5 percent in nominal terms.

The ruble's tentative stability can be explained in part by new market conditions. The CBR has tightened foreign exchange controls by imposing restrictions on foreign exchange for import contracts, requiring 75 percent of repatriated export proceeds to be sold on authorized exchanges, not allowing banks to trade on their own accounts, limiting the conversion of funds in S-accounts from the GKO restructuring, and banning the conversion of ruble funds from nonresident banks' correspondent accounts. The latter was repealed, but replaced by requiring banks to deposit amounts equivalent to those it holds in S-accounts of non-residents. These exchange controls are only marginally effective at controlling capital flight, which reportedly increased to nearly $3.0 billion per month in late 1999, but they presumably have helped CBR to manage exchange rate volatility.

3. Structural Policies

The economic crisis of 1998 overshadowed structural issues for the most part throughout 1999. The share of GDP produced by private companies reached 74 percent by the end of 1999 according to official figures. The share of barter in the economy appears to be declining, although it still accounts for roughly half of all transactions according to most estimates. External barter trade sharply declined in 1999 as well. Government arrears dropped dramatically as payment of pensions and salaries in nominal terms became cheaper in light of the drastic ruble devaluation after August 1998. Even though personal incomes dropped precipitously over the last year, industrial production has increased as a result oil import substitution. Without investment, however, the up-tick in production is not expected to be sustainable, and little has been done to improve the investment climate. Indeed, several cases involving foreign investment suggest that many issues remain to be addressed.

Repeated changes in government have exacerbated the problems of inadequate structural policies by obscuring economic policy overall. With three Prime Ministers in the first 8 months of 1999, articulation, much less implementation of a coherent structural policy has proven elusive. In addition, the end of the current legislative period carried forward the effective policy stalemate in the economic sphere that has plagued the reform process. The election of a new State Duma in December 1999 will produce a new opportunity for legislative initiatives. However, economic policy is effectively on hold for now, and may well remain so until after the presidential election in July 2000.

Meanwhile, privatization continues, with sales of shares of the government's stakes in oil and gas companies. At the same time, a debate about the benefits of past privatizations has become an element in the Duma election campaign with a number of leading politicians suggesting that de-privatization of some enterprises could be considered. The privatization of the Lomonosov porcelain factory, partly owned by U.S. investors, was reversed by a St. Petersburg court. Court appeals continue. Prime Minister Putin has opposed wholesale reversal of privatization but has suggested that mistakes made in the privatization process should be identified and corrected within the framework of existing legislation.

The government has worked to prevent passage of legislative initiatives that would inhibit foreign investment, for example in the insurance sector, but with mixed results. One potentially important achievement has been the adoption of an ambitious action plan for reducing the regulatory burden on small business, along with tax reduction. Overall however, there has been little progress in the structural policy area over the last year, a development that can only delay Russia's recovery from its financial crisis.

4. Debt Management Policies

Following the August 1998 financial crisis, the Government of Russia has sought to restructure much of its internal debt and the Soviet-era poition of its external debt. The Russian government has reached a Framework Agreement with its Paris Club official creditors in July 1999, but final bilateral agreements are not expected until early in 2000. The Government of Russia is actively negotiating with its London Club commercial creditors on an agreement to restructure and/or reduce its commercial debt inherited from the Soviet government.

In March, the Russian government announced its GKO (Russian T-bill) restructuring proposal, which offered foreign GKO holders a choice between receiving a basket of securities or having their investments placed in a frozen account. Funds received in the restructuring, including from the securities, must be held in investors' S-accounts. The Central Bank of Russia prohibits conversion of S-account rubles into foreign currency, although it held six foreign exchange auctions for S-account holders, of USD 50 million each, all of which were heavily oversubscribed. Investors also may invest restricted S-account rubles in certain securities. In November, the Government of Russia announced it would permit S-account holders to make direct investments in projects approved by the government, and is reopening its offer to restructure GKO's to those investors who did not take advantage of the first offer. On December 15, the Government of Russia allowed a one-time change in S-account ownership. As of November 15, there were approximately USD 350-400 million, and another USD 2 billion in OFZ bonds, in restricted S-accounts.

The Government of Russia is continuing with its IMF program, although a second tranche release in 1999 has been delayed. The World Bank's Structural Adjustment Loan (SAL) is on hold due to lack of progress on structural reform legislation.

5. Significant Barriers to U.S. Exports

At the end of 1999, the most significant impediments to U.S. exports were not statutory but were instead results of the difficult economic situation in Russia. The devaluation in August 1998 and the reduced purchasing power of Russians played the greatest role, as Russia's overall imports slumped by over 50 percent. U.S. exports to Russia have decreased by an even larger margin in 1999, although one-time sales of aircraft in 1998 exaggerated the overall decline somewhat. Many exporters remain cautious about entering the Russian market due to reduced availability of trade finance, and bad experience with payment/clearance problems in the past. These problems have become less common in 1999, perhaps partially due to the lower volume of trade.

Since 1995, Russian tariffs have generally ranged from five to thirty percent, with a trade-weighted average in the 13-15 percent range. In addition, excise and Value-Added Tax (VAT) is applied to selected imports. The VAT, which is applied on the import price plus tariff, is currently 20 percent with the exception of some food products. Throughout 1999, some revision of tariffs occurred, with in some cases tariffs dropping for inputs needed by Russian producers in the electronics and furniture businesses. On the other hand, there have been sharp hikes in tariffs for sugar and for pharmaceuticals, including high seasonal tariffs on raw and processed sugar. In particular, compound duties with minimum levels of tariffs enacted in 1998 on poultry had the effect of increasing percentage duties after the fall in poultry prices in 1998-99. The Ministry of Trade, supported by the State Customs Committee, has proposed reducing some of Russia's higher tariffs, recognizing that very high tariffs only lead to evasion. However, the government has been reluctant to approve an across-the-board reduction in tariffs given acute revenue concerns, as customs duties account for a larger percentage of state revenues than in most other countries.

Other Russian tariffs that have stood out as particular hindrances to U.S. exports to Russia include those on autos (where combined tariffs and engine displacement-weighted excise duties can raise prices of larger U.S.-made passenger cars and sport utility vehicles by over 70 percent); some semiconductor products; and aircraft and certain aircraft components (for which tariffs are set at 30 percent). The Russian government continues to make waivers on aircraft import tariffs for purchases by Russian airlines contingent on those airlines' purchases of Russian-made aircraft.

Throughout 1999, Russia introduced a number of export duties (for exports to non-CIS countries) as a revenue measure. Initially, these duties were imposed on oil and gas, but have since been expanded to include many export commodities, including fertilizers, paper and cardboard, some ferrous and non-ferrous metals, and agricultural products, including oilseeds raw hides, and hardwoods, all ranging from 5 to 30 percent.

Import licenses are required for importation of various goods, including ethyl alcohol and vodka, color TVs, sugar, combat and sporting weapons, self-defense articles, explosives, military and ciphering equipment, encryption software and related equipment, radioactive materials and waste including uranium, strong poisons and narcotics, and precious metals, alloys and stones. In 1999, new import license requirements were added for raw and processed sugar. Most import licenses are issued by the Russian Ministry of Trade or its regional branches, and controlled by the State Customs Committee. Import licenses for sporting weapons and self-defense articles are issued by the Ministry of Internal Affairs.

Throughout 1999, the government has continued tight controls on alcohol production, including import restrictions, export duties, and increased excise taxes. Many of these controls are in order to increase budget revenues.

In spring 1998, Russia passed the Law on Protective Trade Measures, which provides the government authority to undertake antidumping, countervailing duty and safeguard investigations, under certain conditions. Although Russian companies have filed several petitions for protection in 1999 under this new law, no petition has yet been approved, due to substantive or procedural insufficiencies of the petitions.

The June 1993 Customs Code standardized Russian customs procedures generally in accordance with international norms. However, customs regulations change frequently, (often without sufficient notice), are subject to arbitrary application, and can be quite burdensome. In addition, Russia's use of minimum customs values is not consistent with international norms. In November 1999, the State Customs

Committee imposed a restriction that forced U.S. poultry importers to ship directly through Russian ports, rather than through warehouses in the Baltic States, as had been their practice. On the positive side, Russian customs is implementing the "ClearPac" program in the Russian Far East that facilitates customs clearance from the U.S., and is considering extending this program to other regions.

U.S. companies continue to report that Russian procedures for certifying imported products and equipment are non-transparent, expensive and beset by redundancies. Russian regulatory bodies also generally refuse to accept foreign testing centers' data or certificates. U.S. firms active in Russia have complained of limited opportunity to comment on proposed changes in standards or certification requirements before the changes are implemented, although the Russian standards and certifications bodies have begun to work closely with the American Chamber of Commerce in Russia to provide additional information. Occasional jurisdictional overlap and disputes between different government regulatory bodies compound certification problems.

A January 1998 revision to State Tax Service Instruction #34, now being enforced, makes it more difficult for expatriate employees of U.S. entities to benefit from the U.S.-Russia bilateral treaty on avoidance of double-taxation. A wide range of U.S. companies selling goods and services in Russia, who formerly could receive advance exemptions from withholding taxes for salaries, are now required to apply for a refund of tax withheld.

Although little of Russia's legislation in the services sector is overtly protectionist, the domestic banking, securities and insurance industries have secured concessions in the form of Presidential Decrees, and a draft law before the parliament will soon codify restrictions and bans on foreign investment in many services sectors. Foreign participation in banking, for example, is limited to 12 percent of total paid-in banking capital. As of mid 1998 foreign banks' capitalization only accounted for around 4 percent of the total. However, as foreign banks recapitalized following the financial crisis and Russian banks' capital shrank, the share of foreign banks' grew to 12.8 percent as of September 1. The Central Bank of Russia has indicated it will seek a higher quota so as not to impede foreign bank entry. Foreign investment is also limited in other sectors, such as electricity generation. In October 1999, a new law took effect, which implicitly allows majority-foreign-owned insurance companies to operate in Russia for the first time, but restricts their share of total market capitalization and prohibits them from selling life insurance or obligatory types of insurance. The law contains a "grandfather clause" exempting the four foreign companies currently licensed in Russia from these restrictions. In practice, foreign companies are often disadvantaged vis-à-vis their Russian counterparts in obtaining contracts, approvals, licenses, registration, and certification, and in paying taxes and fees.

Despite the passage of a new law regulating foreign investment in June 1999, Russian foreign investment regulations and notification requirements can be confusing and contradictory. The Law on Foreign Investments provides that a single agency (still undesignated) will register foreign investments, and that all branches of foreign firms must be registered. The law does codify the principle of national treatment for foreign investors, including the right to purchase securities, transfer property rights, protect rights in Russian courts, repatriate funds abroad after payment of duties, and to receive compensation for nationalizations or illegal acts of Russian government bodies. However, the law goes on to state that Federal law may provide for a number of exceptions, including those necessary for "the protection of the constitution, public morals and health, and the rights and lawful interest of other persons and the defense of the state." The potentially large number of exceptions thus gives considerable discretion to the Russian government. The law also provides a "grandfather clause" that protects existing "priority" foreign investment projects with a foreign participation over 25 percent be protected from unfavorable changes in the tax regime or new limitations On the foreign investment. The definition of "priority" projects is not fully clear, but it appears that projects with a foreign charter capital of over $4.1 million and with a total investment of over $41 million will qualify. In addition, foreigners encounter significant restrictions on ownership of real estate in some cities and regions in Russia, although the situation has improved over the past few years.

The government maintains a monopoly on the sale of precious and several rare-earth metals, conducts centralized sales of diamonds, and conducts centralized purchases for export of military technology. Throughout 1999, the government has sharply restricted exports of platinum group metals, based on new legislation. An August 1997 series of Presidential Decrees on military exports remain in effect. These decrees established tighter control over military exports by the state enterprise Rosvooruzheniye, enabled two additional state firms to sell military goods and technology, and opened the door to future direct sales by arms manufacturers, if licensed and approved by the Ministry of Foreign Economic Relations.

Most of these issues are the subject of discussion, as Russia continues to negotiate its accession to the World Trade Organization (WTO). By the end of 1999, the government had completed ten working party meetings. It tabled its initial market access offer for services in October 1999 and has conducted negotiations on its goods market access offer throughout the year. The Russian Ministry of Trade has stated it plans to revise its goods market access offer early in 2000. Russia is not yet a signatory of the WTO Government Procurement or Civil Aircraft codes.

6. Export Subsidies Policies

The government has not instituted export subsidies, although a 1996 executive decree allows for provision of soft credits for exporters and government guarantees for foreign loans. The government does provide some subsidies for the production of coal, but coal exports are minimal. Soft credits are at times provided to small enterprises for specific projects.

7. Protection of U.S. Intellectual Property

Russia is in the process of accession to the World Trade Organization (WTO), and as a new member, it will be required to meet obligations under the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) immediately upon accession. Russia belongs to the World Intellectual Property Organization (WIPO), and has acceded to the obligations of the former Soviet Union under the Paris Convention for the Protection of Industrial Property (patent, trademark and related industrial property), and the Madrid Agreement Concerning the International Registration of Marks, and the Patent Cooperation Treaty. Russia has also become a signatory to the Berne Convention for the Protection of Literary and Artistic Works (copyright) as well as the Geneva Phonograms Convention. In 1999, the U.S. Trade Representative retained Russia on the "Special 301" Priority Watch List for a third year due to a number of concerns over weak enforcement of intellectual property laws and regulations and lack of retroactive copyright protection for U.S. works in Russia.

In 1992-93 Russia enacted laws strengthening the protection of patents, trademarks and appellations of origins, and copyright of semiconductors, computer programs, literary, artistic and scientific works, and audio/visual recordings. Legal enforcement of intellectual property rights (IPR) improved somewhat with a series of raids on manufacturing facilities, and on wholesale and retail outlets of pirated goods. A new Criminal Code took effect January 1, 1997, which contains considerably stronger penalties for IPR infringements. However, there are still disappointingly few cases in which these penalties have been applied. Widespread sales of pirated U.S. video cassettes, recordings, books, computer software, clothes, toys, foods and beverages continue. The formal abolition of the Russian Patent and Trademark Agency this year and the assumption of its responsibilities by the Justice Ministry have raised some concerns, but the practical effect of this change remains to be seen.

Russia's Patent Law includes a grace period, procedures for deferred examination, protection for chemical and pharmaceutical products, and national treatment for foreign patent holders. Inventions are protected for 20 years, industrial designs for ten years, and utility models for five years. The Law on Trademarks and Appellation of Origins introduces for the first time in Russia protection of appellation of origins. The Law on Copyright and Associated Rights, enacted in August 1993, protects all forms of artistic creation, including audio/visual recordings and computer programs as literary works for the lifetime of the author plus 50 years. The September 1992 Law on Topography of Integrated Microcircuits, which also protects computer programs, protects semiconductor topographies for 10 years from the date of registration.

Under the U.S.-Russian Bilateral Investment Treaty (signed in 1992 but waiting ratification by the Russian Parliament), Russia undertook to protect investors' intellectual property rights. The 1990 U.S. Russia bilateral trade agreement stipulates protection of the normal range of literary, scientific and artistic works through legislation and enforcement. Bilateral consultations on IPR were held in March 1999.

8. Worker Rights

a. *The Right of Association:* The law provides workers with the right to form and join trade unions, but practical limitations on the exercise of this right arise from governmental policy and the dominant position of the formerly governmental Federation of Independent Trade Unions of Russia (FNPR). As the successor organization to the governmental trade unions of the Soviet period and claiming to represent 80 per cent of all workers, the FNPR occupies a privileged position that inhibits the formation of new unions. In some cases, FNPR local unions have worked with management to destroy new unions. Recent court decisions have limited the right of association by mandating that unions include management as members. Justice Ministry officials have used new re-registration requirements to deny legal status to independent unions.

b. *The Right to Organize and Bargain Collectively:* Although the law recognizes collective bargaining, and requires employers to negotiate with unions, in practice employers often refuse to negotiate and agreements are not implemented. Court rulings have established the principle that non-payment of wages—by far the predominant grievance—is an individual dispute and cannot be addressed collectively by unions. As a result, a collective action based on non-payment of wages would not be recognized as a strike, and individuals would not be protected by the Labor Law's guarantees against being fired for participation. The right to strike is difficult to exercise. Most strikes are technically illegal, and courts have the right to order the confiscation of union property to settle damages and losses to an employer, resulting from an illegal strike. Reprisals for strikes are common, although strictly prohibited by law.

c. *Prohibition of Forced or Compulsory Labor.* The Labor Code prohibits forced or compulsory labor by adults and children. There are documented cases of soldiers being sent by their superior officers to perform work for private citizens or organizations. Such labor may violate military regulations and, if performed by conscripts, would be an apparent violation of ILO convention 29 on forced labor.

d. *Minimum Age for Employment of Children.* The Labor Code prohibits regular employment for children under the age of 16 and also regulates the working conditions of children under the age of 18, including banning dangerous, nighttime and overtime work.

Children may, under certain specific conditions, work in apprenticeship or internship programs' at the ages of 14 and 15. Accepted social prohibitions against the employment of children and the availability of adult workers at low wage rates combine to prevent widespread abuse of child labor legislation. The government prohibits forced and bonded labor by children, and there have been no reports that it occurred.

e. *Acceptable Conditions of Work:* The Labor Code provides for a standard workweek of 40 hours, with at least one 24-hour rest period. The law requires premium pay for overtime work or work on holidays. Workers have complained of being required to work well beyond the normal week, that is, 10 to 12-hour days, and of forced transfers. As of June 30, workers were owed roughly 2.5 billion US dollars, for periods generally between 3 to 9 months. Although this is less than the $12.5 billion arrears owed in August 1998, workers have lost significant purchasing power since the devaluation. Workers' freedom to move in search of new employment is virtually eliminated by the system of residency permits. The law establishes minimal conditions of workplace safety and worker health, but these standards are not effectively enforced.

f. *Rights in Sectors with U.S. Investment:* Observance of worker rights in sectors with significant U.S. investment (petroleum, telecommunications, food, aerospace, construction machinery, and pharmaceuticals) did not significantly differ from observance in other sectors. There are no export processing zones. Worker rights in the special economic zones/free trade zones are fully covered by the Labor Code.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		513
Total Manufacturing		269
Food & Kindred Products	243	
Chemicals & Allied Products	11	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	2	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	1	
Wholesale Trade		—76
Banking		–346
Finance/Insurance/Real Estate		653

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
Services	–102
Other Industries	190
TOTAL ALL INDUSTRIES	1,101

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

SPAIN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Real GDP (1995 Prices) [2]	528.6	538.6	[3] 531.6
Real GDP Growth (pct) [4]	3.8	4.0	3.6
GDP (At Current Prices)	558.5	582.1	589.0
GDP by Sector:			
Agriculture	23.7	23.2	23.3
Industry	118.1	122.2	121.7
Construction	38.1	40.5	41.1
Services	331.3	344.3	347.5
Government	47.5	51.9	55.4
Per Capita GDP (US$)	14,068	14,626	14,762
Labor Force (000's)	16,121	16,265	16,500
Unemployment Rate (pct)	20.8	18.8	16.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.1	6.0	7.0
Consumer Price Inflation	2.0	1.8	2.5
Exchange Rate (PTA/US$ annual average)	146.4	149.4	155.0
Balance of Payments and Trade:			
Total Exports FOB [5]	105.2	109.4	120.0
Exports to U.S.[5]	4.6	4.6	4.6
Total Imports CIF [5]	123.5	133.1	150.0
Imports from U.S.[5]	7.8	7.8	8.0
Trade Balance [5]	–18.3	–23.7	–3.0
Balance With U.S.[5]	–3.2	–3.2	–3.4
Fiscal Deficit/GDP (pct)	3.0	1.8	1.6
Public Debt	67.5	65.6	66.4
Debt Service Payments (Paid)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	72.5	60.7	34.0

[1] 1999 figures are all estimates based on available monthly data in July.
[2] GDP at factor cost.
[3] Devaluation.
[4] Percentage changes calculated in local currency.
[5] Merchandise trade. Spanish National Institute of Statistics.

NOTE: Estimates for 1999 show lower figures in U.S. Dollars than previous years due to a rise in the U.S. Dollar/Spanish Peseta exchange rate.

1. General Policy Framework

Spain's economy is expected to grow by 3.7 percent in 1999. This growth is expected to continue in 2000. Growth continues to be broadly based and is supported by the services sector, agriculture, construction, consumer demand, and capital goods investment.

Throughout the 90s much of Spain's economic policy had focused on meeting Maastricht targets so that Spain could become one of the founding members of the EURO. These policies have continued in the guise of the Stability Pact, which, if anything, has a bias toward even stricter fiscal policy than the preceding agreement.

Together these policies have provided continuing benefits in the form of lower interest rates, which in turn have promoted investment, construction, and consumer demand. This increased economic activity has provided increased income and higher tax receipts, which have allowed Spain to handily meet government deficit/GDP targets. Government fiscal restraint, higher tax receipts, and lower interest on government debt (courtesy of lower EURO interest rates) should allow the government's deficit/GDP ratio to fall below 2 percent in 1999. The government's overall debt/GDP ratio should fall to 68 percent in 1999, moving toward the 60 percent goal.

Economic growth has decreased unemployment to the lowest levels in a over a decade. Although high compared to EU averages, Spain's current unemployment rate of 15.6 percent and increasing evidence of sectoral labor shortages points to a strongly growing economy. Employment growth has been underwritten by changes in 1996 and 1997 that provided flexibility in hiring practices that lessen somewhat the high costs of permanent new hires. Despite the labor market's rigidities, Spain creates more jobs than any other EU country.

2. Exchange Rate Policy

The Spanish peseta/EURO rate was fixed on January 1, 1999 at 166.386 pesetas to the EURO. Average dollar/EURO rate to date in 1999 has been 1.076 or 154.808 pesetas to the dollar. The rate at the time this is being drafted is 1 EURO equals USD 1.0177.

3. Structural Policies

Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly Spain is also bound to the mutual recognition agreements in its application of certain non-tariff regulations applied to certain goods from the United States.

In 1989, as part of the investment sector reforms necessary to comply with EU membership, Spain made stock market rules and operations more transparent and provided for the licensing of investment banking services. The reform also eased conditions for obtaining a broker's license. A 1992 Investment Law removed many administrative requirements for foreign investments. EU resident companies (i.e. companies deemed European under article 58 of the Treaty of Rome) are free from almost all restrictions. Non-EU resident investors must obtain Spanish Government authorization to invest in broadcasting, gaming air transport, or defense. Restrictions on broadcasting and in transport are facing increasing pressure as the government looks to privatizing its national airline (perhaps in 1999), and completes the privatization of its telephone company.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an enlargement agreement with the EU in 1987 which established a 2.3 million ton annual quota for Spanish imports of corn, specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement having the effect of extending this agreement indefinitely. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue.

As an EU member state, Spain must also abide by EU procedures for approving the commercialization of products generated with the aid of biotechnology. The EU's lengthy and non-transparent process for approving agricultural products produced through modern genetic engineering methods has negatively impacted U.S. corn exports to Spain. Due to the EU's failure to approve some U.S. corn varieties, U.S. corn exports to Spain have virtually been eliminated, costing U.S. exporters about $150 million per year. Unless the EU takes steps to streamline its biotechnology product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain.

Under its EU accession agreement, Spain was forced to transform its structure of formal and informal import restrictions for industrial products into a formal system of import licenses and quotas. While Spain does not enforce any quotas on U.S.-origin manufactured products, it still requires import documents for some goods, which are described below. Neither of the following documents constitutes a trade barrier for U.S.-origin goods:

—Import Authorization (*autorizacion administrativa de importacion*) is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-origin goods, the document is used for statistical purposes only or for national security reasons;

—Prior Notice of Imports (*notificacion previa de importacion*) is used for merchandise that circulates in the EU customs union area, but is documented for statistical purposes only. The importer must obtain the document and present it to the general register.

Importers apply for import licenses at the Spanish general register of Spain's secretariat of commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoices number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Goods that are shipped to a Spanish customs area without proper import licenses or declarations are usually subject to considerable delay and may run up substantial demurrage charges. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

The government has signed and ratified the Marrakech Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policy

Thirty percent of Spanish medium and long-term debt is held by non-residents. Approximately twenty one percent of Spanish Government debt is short-term (less than one year) and seventy nine percent is long-term (i.e. maturities greater than five years).

At the end of September 1999, international reserves at the Bank of Spain totaled 35.9 billion euros or 38.6 billion dollars.

5. Significant Barriers to U.S. Exports

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic market to compete with domestic production. However, the Uruguay Round agreement has required that all import duties on agricultural products be reduced by an average of 20 percent during the five year period from 1995 to 2000.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. These regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone treated beef, imposed in 1989 with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in Spanish beef production, the EU continues to ban U.S. beef originating from feedlots where growth promoters have been used safely and under strict regulation for many years. Despite a WTO ruling requiring the EU to remove the ban, the EU ban on imports of hormone treated beef remains in effect.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation was fully implemented in Spain. Agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Telecommunications: Spain liberalized its telecommunications market beginning December 1, 1998. Prior to this date, the government phased in competition in basic telephony through licenses granted to privatized second operator Retevision and to third operator Lince/Uni2 (France Telecom), in addition to incumbent operator Telefonica. Cable operators were allowed to provide basic telephony beginning January 1, 1998, but only by using their own networks; that is, they could provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, such as bureaucratic obstacles at the municipal level, the arrival of digital satellite television, and problems with new entrants forging interconnection agreements that are unbundled, transparent, timely and cost-oriented, has resulted in a slow start for the establishment of the cable sector in Spain.

Digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are two digital television platforms, Via Digital and Canal Satellite Digital, which currently offer digital television programming. Onda Digital (Retevision) has announced plans next year to offer a competing digital TV package provided over a terrestrial network. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. The government will offer six licenses for third generation wireless telephony in early 2000. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government has established the Telecommunications Market Commission (CMT) as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took effect on January 1, 1997. Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements: On May 13, 1999, the Spanish parliament adopted new legislation that incorporates the revised EU Television without Frontiers Directive and revises the 1994 Spanish law on television broadcasting. The new law explicitly requires television operators to reserve 51 percent of their annual broadcast time to European audiovisual works. It also obliges television channels to devote 5 percent of their annual earnings to finance European feature length films and films for European television.

Motion Picture Dubbing Licenses and Screen Quotas: In January 1997, the government adopted implementing regulations for the 1994 Cinema Law, which reserved a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations eased the impact of the 1994 law on non-EU producers and distributors in regard to screen quotas and dubbing licenses. The screen quotas finally adopted required exhibitors to show one day of EU-produced film for every three days of non-EU-produced film instead of the original ratio of one to two. The three-tiered system established for dubbing licenses under the 1994 law ended in June 1999. New draft film legislation is slated to be sent to the Parliament in early 2000. It is expected to provide for increased freedom to export and import films and the gradual liberalization of screen quotas.

Despite remaining protectionist elements, Spain's theatrical film system has been modified sufficiently in recent years so that it is no longer a major source of trade friction as it had been earlier. However, in 1998, the Catalan regional government adopted a decree under its new law on language policy, which calls for both dubbing and screen quotas in order to increase the number of films being shown in the Catalan language. Due to strong industry opposition and the start of negotiations with film distributors and exhibitors to resolve their differences, the Catalan government decided to suspend implementation of this law until July 2000.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU. After several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations in this area to conform to EU directives. For example, now all telecom equipment must carry the CE mark, which certifies that it complies with all applicable EU directives. This process may take three to four months after all tests have been performed and necessary documents are submitted. However, recognition from other EU countries and an early presentation of all documentation can speed up the process considerably. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

In general there has been improved transparency of process. For example, the CE registration for medical equipment from any of the EU member states is considered valid here. Thus, the product registration procedure is shortened (to about six months) and no longer must be initiated by a Spanish distributor. Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU pharmaceutical agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The United States has been negotiating with the EU for mutual recognition of product standards and acceptance of testing laboratory results.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports, especially in Latin America, the Maghreb, and more recently, China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to about $197 million in 1998. Spanish exports of grains, olive oil, other oils, tobacco, wine, sugar, dairy products, beef, and fruits and vegetables benefited most from these subsidies in 1998.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws, as agreed at the time of its EU accession in 1986. It enacted a new Patent Law in March of 1986, a new Copyright Law in November 1987, and a new Trademark Law in November of 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Berne, and Universal Copyright Conventions and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In October 1992, Spain enacted a modernized Patent Law which increases the protection afforded patent holders. At that time, Spain's pharmaceutical process patent protection regime expired and product protection took effect. However, given the long (10 to 12 year) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until after the turn of the century. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered significant losses as a result. While the pharmaceutical sector would like the government to intervene, it looks to the EU commission and the advent of the euro to resolve this single market problem.

The Copyright Law is designed to redress historically weak protection accorded movies, videocassettes, sound recordings and software. It includes computer software as intellectual property, unlike the prior law. In December 1993, legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits and searches to take place under these provisions.

According to industry sources, Spain has a relatively high level of computer software piracy despite estimated decline in the last years. Industry estimates for 1998 show a drop to 59 percent from 67 percent in 1996, but no measurable improvement over 1997. Despite the Spanish government increased enforcement activities, the slow pace of civil and criminal court proceedings continued to dilute their impact. As a result, concerned groups have focused increasingly on enforcement, with industry and government cooperating on a series of problems aimed at educating the judiciary, police, and customs officials to be more rigorous in their pursuit of the problem.

Motion picture (i.e. video) and audiocassette piracy also remains a problem. However, thanks to the government, prohibition on running cable across public thoroughfares and strict enforcement of the Copyright Law that stipulates that no motion picture can be shown without authorization of the copyright holder, the incidence of community video piracy has declined.

Spain's Trademark Law incorporates by reference the enforcement procedures of the Patent Law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. The government has drafted a new Trademark Law which will incorporate TRIPs, the EU Community Trademark Directive, and the Trademark Law Treaty, and which will most likely be adopted in 2000. But first, the Spanish Supreme Court rendered a verdict on July 8, 1999, on case presented by Catalan and Basque governments against the existing trademark law, Ley 32/1998. The text of the law and its verdict is available at the Internet address:

www.oepm.es under AVISOS Y NOTICIAS and LEGISLACION sections; Copy of sentence by fax). National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the government began to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to cope more effectively. Despite these efforts, industry estimates rank Spain as the country with the second highest incidence of trademark fraud in the clothing sector in Europe.

In September 1999, in a trademark case in which a well-known U.S. apparel manufacturer complained about infringement of its brand name, the Spanish Supreme Court handed down a decision denying it the right to continue marketing its products under its trademark name in Spain.

8. Worker Rights

a. *The Right of Association:* All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was established by the workers statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. *Minimum Age for Employment of Children:* The legal minimum age for employment as established by the workers statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The workers statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work:* Workers in general have substantial, well defined rights. A 40 hour workweek is established by law. Spanish workers enjoy 14 paid holidays a year (12 assigned by central government +2 by autonomous authorities) and a month's paid vacation. The employee receives his annual salary in 14 payments—one paycheck each month and an "extra" check in June and in December. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome.

f. *Rights in Sectors with U.S. Investment:* Conditions in sectors with U.S. investment do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		199
Total Manufacturing		7,435
Food & Kindred Products	1,756	
Chemicals & Allied Products	1,211	
Primary & Fabricated Metals	933	
Industrial Machinery and Equipment	90	
Electric & Electronic Equipment	863	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Transportation Equipment	1,453	
Other Manufacturing	1,128	
Wholesale Trade		1,470
Banking		2,124
Finance/Insurance/Real Estate		694
Services		475
Other Industries		411
TOTAL ALL INDUSTRIES		12,807

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

SWEDEN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	236.2	235.6	232.4
Real GDP Growth (pct) [3]	1.8	2.9	3.6
GDP by Sector:			
Agriculture	1.5	1.5	1.5
Manufacturing	47.5	47.0	47.0
Services	98.4	97.5	98.0
Government	45.0	44.5	44.0
Per Capita GDP (US$) [2]	26,701	26,606	26,229
Labor Force (000's)	4,264	4,255	4,391
Unemployment Rate (pct)	8.0	6.6	5.6
Money and Prices (annual percentage growth):			
Money Supply (M3) [4]	1.3	2.1	7.5
Consumer Price Inflation	0.9	–0.6	0.5
Exchange Rate (SEK/US$)	7.63	7.95	8.30
Balance of Payments and Trade:			
Total Exports FOB [5]	82.6	84.6	84.0
Exports to U.S. [6]	6.8	7.3	7.2
Total Imports CIF [5]	65.4	68.2	67.2
Imports from U.S. [6]	3.9	4.0	3.9
Trade Balance [5]	17.2	16.4	16.8
Balance with U.S. [6]	2.9	3.3	3.3
External Public Debt [7]	50.5	46.7	35.9
Fiscal Balance/GDP (pct)	–1.8	2.3	1.7
Current Account Surplus/GDP (pct)	2.8	2.3	1.4
Foreign Debt Service Payments/GDP (pct)	1.89	3.00	5.70
Gold and Foreign Exchange Reserves	11.8	14.3	18.4
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1999 figures are all estimates based on available monthly data in October 1999.
[2] Decrease due to exchange rate fluctuations.
[3] Percentage changes calculated in local currency.
[4] Source: The Central Bank. M3 is the measurement used in Sweden, very close to a potential Swedish M2 figure.
[5] Merchandise trade.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through October.
[7] Source: Swedish National Debt Office.

1. General Policy Framework

Sweden is an advanced, industrialized country with a high standard of living, extensive social services, a modern distribution system, excellent transport and communications links with the world, and a skilled and educated work force. Sweden exports a third of its Gross Domestic Product (GDP) and is a strong supporter of liberal trading practices. Sweden became a member of the European Union (EU) on January 1, 1995, by which point it had already harmonized much of its legislation and regulation with the EU's as a member of the European Economic Area.

Sweden uses both monetary and fiscal policy to achieve economic goals. Active labor market practices also are particularly important. The Central Bank is by law independent in pursuit of its avowed goal of price stability. Fiscal policy decisions in the late 1980's to lower tax rates while maintaining extensive social welfare programs swelled the government budget deficit and public debt, most of which is financed domestically. Since the beginning of 1995, however, Sweden has made impressive strides with its economic convergence program, having restored macroeconomic stability and created the conditions for moderate, low-inflation economic growth. The government intends to run budget surpluses for the foreseeable future in order to assure that the public pension system and other aspects of the welfare state are adequately funded in the face of expected demographic changes.

During 1995 and 1996, Sweden pulled out of its worst and longest recession since the 1930s. (GDP declined by six percent from 1991 to 1993). Unemployment started to come down in 1998, from average figures as high as 12 to 14 percent in the mid-1990s, now down to around 8 to 9 percent. (Swedes quote two unemployment figures, open and "hidden." "Hidden" unemployment, those in government training and work programs, accounts for 3-3.5 percentage points of total unemployment.) In 1992 the Swedish Krona came under pressure and was floated late that year; Swedish interest rates soared but have come down rapidly starting in 1996, and are now around half a percentage point above German rates.

Sweden's export sector is strong, resulting in large trade balance surpluses and solid current account surpluses since 1994. Domestic demand started to pick up in 1997 and has contributed to the growth since that year. It is now driving Sweden's strong growth (the growth figure for 1999 will be at least 3.6 percent), even though the export sector has recovered better than expected from the effects of the Asia crisis. Structural changes in recent years have prepared the way for future economic growth. The social democratic government at the end of the 1980's and the conservative coalition government at the beginning of the 1990's deregulated the credit market; removed foreign exchange controls; reformed taxes; lifted foreign investment barriers; and began to privatize government-owned corporations.

2. Exchange Rate Policies

From 1977 to 1991, the krona was pegged to a trade weighted basket of foreign currencies in which the dollar was double weighted. From mid-1991, the krona was pegged to the ECU. Sweden floated the currency in November 1992 after briefly defending the krona during the turbulence in European financial markets. Although Sweden is an EU member, it has chosen not to join the European Monetary Union and does not currently participate in the European Exchange Rate Mechanism.

Sweden dismantled a battery of foreign exchange controls in the latter half of the 1980's. No capital or exchange controls remain. (The central bank does track transfers for statistical purposes.)

3. Structural Policies

Sweden's tax burden was 53 percent of GDP for 1999. Central government expenditure during the recent severe recession was nearly 75 percent of GDP, and in 1999 it will come down to 57.5 percent. The maximum marginal income tax rate on individuals is 59 percent. Effective corporate taxes are comparatively low at 28 percent, though social security contributions add about 40 percent to employers' gross wage bills. The value-added tax is two-tiered, with a general rate of 25 percent and a lower rate of 12 percent for food, domestic transportation, and many tourist-related services.

Trade in industrial products between Sweden, other EU countries, and EFTA countries is not subject to customs duty, nor are a significant proportion of Sweden's imports from developing countries. When Sweden joined the EU, its import duties were among the lowest in the world, averaging less than five percent ad valorem on finished goods and around three percent on semi-manufactures. Duties were raised slightly on average to meet the common EU tariff structure. Most raw materials are imported duty free. There is very little regulation of exports other than military exports and some dual use products that have potential military or non-proliferation application.

Sweden began abolishing a complicated system of agricultural price regulation in 1991. Sweden's EU membership and consequent adherence to the EU's common agricultural policy has brought some re-regulation of agriculture.

4. Debt Management Policies

Central government borrowing guidelines require that most of the national debt be in Swedish crowns; that the borrowing be predictable in the short term and flexible in the medium term; that the government (that is, the Cabinet) direct the extent of the borrowing; and that the government report yearly to the parliament.

Sweden's Central Bank and National Debt Office have borrowed heavily in foreign currencies since the fall of 1992, increasing the central government's foreign debt five-fold to about a third of the public debt. Management of the increased debt level so far poses no problems to the country, but interest payments on the large national debt grew rapidly in the early 1990's. Total debt is declining rapidly from early decade highs as a result of budgetary surpluses and strong economic growth. Gross government debt is projected to drop below 60 percent of GDP next year.

5. Significant Barriers to U.S. Exports

Sweden is open to imports and foreign investment and campaigns vigorously for free trade in the World Trade Organization (WTO) and other fora. Import licenses are not required except for items such as military material, hazardous substances, certain agricultural commodities, fiberboard, ferro alloys, some semi-manufactures of iron and steel. Sweden enjoys licensing benefits under section 5(k) of the U.S. Export Administration Act. Sweden makes wide use of EU and international standards, labeling, and customs documents in order to facilitate exports.

Sweden has harmonized laws and regulations consistent with the EU. Sweden is now open to virtually all foreign investment and allows 100 percent foreign ownership of businesses and commercial real estate, except in air and maritime transportation and the manufacture of military materiel. Foreigners may buy and sell any corporate share listed on the Stockholm Stock Exchange. Corporate shares may have different voting strengths.

Sweden does not offer special tax or other inducements to attract foreign capital. Foreign-owned companies enjoy the same access as Swedish-owned enterprises to the country's credit market and government incentives to business such as regional development or worker training grants.

Public procurement regulations have been harmonized with EU directives and apply to central and local government purchases. Sweden is required to publish all government procurement opportunities in the European Community Official Journal. Sweden participates in all relevant WTO codes concerned with government procurement, standards, etc. There are no official counter-trade requirements.

6. Export Subsidies Policies

The government provides basic export promotion support through the Swedish Trade Council, which it and industry fund jointly. The government and industry also fund jointly the Swedish Export Credit Corporation, which grants medium and long-term credits to finance exports of capital goods and large-scale service projects.

Sweden's agricultural support policies have been adjusted to the EU's common agricultural policy, including intervention buying, production quotas, and increased export subsidies.

There are no tax or duty exemptions on imported inputs, no resource discounts to producers, and no preferential exchange rate schemes. Sweden is a signatory to the GATT subsidies code.

7. Protection of U.S. Intellectual Property

In most cases, Swedish law strongly protects intellectual property rights having to do with patents, trademarks, copyrights, and new technologies. The laws are generally adequate and clear. However, enforcement is not as strong as it should be, especially in the area of copyright protection for software. The police and prosecutors need additional resources, some specialized training to help with acquiring and preserving evidence, and clear signals from the top of the government that copyright protection is a real priority, especially within Swedish public sector organizations. In addition, Swedish law poses a problem for copyright owners by permitting government ministries and parliament to provide to the public copies of works that may be unpublished and protected by copyright law.

The courts are efficient and honest. Sweden supports efforts to strengthen international protection of intellectual property rights, often sharing U.S. positions on these questions. Sweden is a member of the World Intellectual Property Organization and is a party to the Berne Copyright and Universal Copyright Conventions and to the Paris Convention for the Protection of Industrial Property, as well as to the Patent Cooperation Treaty. As an EU member, Sweden has undertaken to adhere to a series of other multilateral conventions dealing with intellectual property rights.

8. Worker Rights

a. *The Right of Association:* Laws protect the freedom of workers to associate and to strike, as well as the freedom of employers to organize and to conduct lock-outs. These laws are fully respected. Some 83 percent of Sweden's work force belongs to trade unions. Unions operate independently of the government and political parties, though the largest federation of unions has always been linked with the largest political party, the Social Democrats.

b. *The Right to Organize and Bargain Collectively:* Labor and management, each represented by a national organization by sector, negotiate framework agreements every two to three years. More detailed company agreements are reached locally. The law provides both workers and employers effective mechanisms, both informal and judicial, for resolving complaints.

c. Prohibition of Forced or Compulsory Labor: The law prohibits forced or compulsory labor, and the authorities effectively enforce this ban.

d. *Minimum Age for Employment of Children:* Compulsory nine-year education ends at age 16, and the law permits full-time employment at that age under supervision of local authorities. Employees under age 18 may work only during daytime and under supervision. Union representatives, police, and public prosecutors effectively enforce this restriction.

e. *Acceptable Conditions of Work:* Sweden has no national minimum wage law. Wages are set by collective bargaining contracts, which non-union establishments usually observe. The standard legal work week is 40 hours or less. Both overtime and rest periods are regulated. All employees are guaranteed by law a minimum of five weeks a year of paid vacation; many labor contracts provide more. Government occupational health and safety rules are very high and are monitored by trained union stewards, safety ombudsmen, and, occasionally, government inspectors.

f. *Rights in Sectors with U.S. Investment:* The five worker-right conditions addressed above pertain in all firms, Swedish or foreign, throughout all sectors of the Swedish economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		79
Total Manufacturing		3,359
Food & Kindred Products	18	
Chemicals & Allied Products	1,496	
Primary & Fabricated Metals	6	
Industrial Machinery and Equipment	316	
Electric & Electronic Equipment	52	
Transportation Equipment	(1)	
Other Manufacturing	(1)	
Wholesale Trade		224
Banking		(1)
Finance/Insurance/Real Estate		782
Services		1,009
Other Industries		(1)
TOTAL ALL INDUSTRIES		6,053

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

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

SWITZERLAND

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	256.3	262.1	261.4
Real GDP Growth (pct)	1.7	2.1	1.9
GDP by Sector:			
Agriculture	N/A	N/A	N/A
Manufacturing	N/A	N/A	N/A
Services	N/A	N/A	N/A
Government [2]	38.7	39	39.1
Per Capita GDP (US$)	37,415	37,059	39,244
Labor Force (000's) [3]	2,601	2,621	2,610
Unemployment Rate (pct)	5.2	3.9	2.7
Money and Prices (annual percentage growth):			
Money Supply (M3)	5.1	1.2	1.3
Consumer Price Inflation (pct)	0.5	0.0	0.6
Exchange Rate (SFr/US$)	1.45	1.45	1.48
Balance of Payments and Trade:			
Total Exports [4]	72.5	75.2	82.0
Exports to U.S.	7.1	7.6	8.6
Total Imports [4]	71.1	73.7	79.3
Imports from U.S.	5	4.8	5.5
Trade Balance [4]	1.4	1.5	N/A
Balance with U.S.	2	3	3.6
External Public Debt [5]	66.9	75.6	N/A
Fiscal Deficit/GDP (pct)	2.4	0.3	N/A
Current Account Surplus/GDP (pct)	6.5	5.9	7.8
Debt Service Payments/GDP (pct)	1.3	1.3	1.3
Gold and Foreign Exchange Reserves [6]	44.9	44.6	43.3
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] All 1999 figures are estimates.
[2] Including Social Welfare Expenditures.
[3] Full-time equivalent employment.
[4] Merchandise trade excluding gold and other precious metals, jewels, artworks, antiques; Source: Swiss Customs Administration; 1999 figures are estimates based on figures available through August.
[5] Federal government only (i.e. excluding cantons and communities).
[6] s of August 1999.

1. General Policy Framework

Switzerland has a highly developed, internationally oriented, and open market. The economy is characterized by a sophisticated manufacturing sector, a highly skilled workforce, a large services sector and a high savings rate. Per capita GDP is virtually the highest in Europe while unemployment is practically the lowest.

When Swiss voters decided in December, 1992, to reject the European Economic Area (EEA) Treaty, Switzerland found itself in the awkward position of being located in the heart of Europe, without being part of the EEA or a member of the EU. With some two-thirds of its exports going to Europe, the government is promoting efforts to maintain Switzerland's competitiveness in Europe while seeking to diversify its export markets. The Swiss parliament recently approved the bilateral agreements concluded with the EU Commission in December of 1998, which cover seven different sectors. However, before the agreements can take effect they will have to pass a public referendum in Switzerland and be ratified by all 15 EU member states.

After strong economic growth during the eighties, the Swiss economy was Western Europe's weakest between 1990-1996, with growth averaging around 0.0 percent per year (unemployment, however, did not rise above 5.5 percent). As a result of the economic stagnation, the country ran up large, unprecedented (for Switzerland) deficits causing a corresponding accumulation of public debt. A public initiative which passed in 1998, essentially requires the federal budget to be balanced and the government will thus have to reduce the deficit to less than one billion Swiss Francs by 2001 through strictly controlling expenditures. Modest economic recovery began in 1997 and annual GDP growth is expected to be 1.9 percent in 1999 and around 2.0 percent in 2000.

While no systematic use is made of fiscal policy to stimulate the economy, parliament voted in 1997 to spend $379 million over the next few years on an investment program to help the Swiss economy pull out recession. Most of the funds are being spent in the construction sector to renovate public infrastructure.

The Swiss National Bank (SNB) is independent from the Finance Ministry. The primary objective of the SNB's policy is price stability. Monetary policy is conducted through open market operations. The discount rate is used by the SNB only as a signal to the public.

2. Exchange Rate Policies

The Swiss Franc is not pegged to any foreign currency. The SNB carefully watches for signs of upward pressure on the Franc (the overvalued Franc was partly to blame for the economic stagnation of the early/mid 1990's). The SNB has shown its willingness to follow an accommodating money supply policy, even to exceed money supply growth targets when necessary, to hold the value of the franc down.

3. Structural Policies

Few structural policies have a significant effect on U. S. exports. Two exceptions are telecommunications and agriculture. In 1998, a new law took effect that is bringing liberalization and privatization to the Swiss telecommunications sector, opening the market to investment and competition from U.S. and other firms. Since then, one U.S. firm (and its Swiss partner) has won one of the three licenses to provide cellular phone service. The same firm will also be building a large land network with fiber optic cabling.

Agriculture is heavily regulated and supported by the federal government. Legislation which took effect January 1, 1999, is reducing direct government intervention in the market to set prices, but the high level of direct support for Swiss agricultural production will continue. The goal of the new legislation is to reduce government regulation of the market while maintaining agricultural production at current levels through import protection and direct payments linked to environmental protection.

In early 1996, a new Cartel Law came into effect, introducing the presumption that horizontal agreements setting prices, production volume, or territorial distribution diminish effective competition and are therefore unlawful. For years, Switzerland has had a heavily cartelized domestic economy. Over time, the effect of this law should be to improve competition in the domestic economy.

As part of its Uruguay Round commitments, Switzerland enacted legislation in 1996 providing for nondiscrimination and national treatment in public procurement at the federal level. A separate law makes less extensive guarantees at the cantonal and community levels.

4. Debt Management Policies

As a net international creditor, debt management policies are not relevant to Switzerland.

5. Aid

Switzerland receives no aid.

6. Significant Barriers to U.S. Exports

Import Licenses: Import licenses for many agricultural products are subject to tariff-rate quotas and tied to an obligation for importers to take a certain percentage of domestic production. Tariffs remain quite high for most agricultural products that are also produced in Switzerland.

Services Barriers: The Swiss services sector features no significant barriers to U.S. exports. Foreign insurers wishing to do business in Switzerland are required to establish a subsidiary or a branch here. Foreign insurers may offer only those types of insurance for which they are licensed in their home countries. Until recently, the most serious barriers to U.S. exports existed in the area of telecommunications. However, with the privatization and liberalization which became effective in this sector in 1998, this market has been greatly opened to foreign competitors.

Standards, Testing, Labeling, and Certification: Swiss approval and labeling requirements for genetically modified food products and ingredients are among the strictest in the world. Swiss authorities are currently reviewing their requirement that all food and feed products containing genetically modified ingredients be labeled. They have proposed modifying the requirements to require labeling only if the content is above a set percentage. Separately, a new law will take effect in January, 2000, which stipulates that fresh meat and eggs from abroad that are produced in a manner not permitted in Switzerland must be clearly labeled as such. Methods not allowed in Switzerland include the use of hormones, antibiotics and other anti-microbial substances in the raising of beef and pork as well as the production of eggs from chickens kept in certain types of battery cages. Embassy Bern will be monitoring developments in this matter for indications of any adverse influence on U.S. agriculture sales in Switzerland.

Government Procurement Practices: On the federal level, Switzerland is a signatory of the WTO Government Procurement Agreement and fully complies with WTO rules concerning public procurement. On the cantonal and local levels, a law passed by the parliament in 1995 provides for nondiscriminatory access to public procurement. The United States and Switzerland reached agreement in 1996 to expand the scope of public procurement access on a bilateral basis.

With the exception of certain restrictions on agricultural items, the Swiss market is essentially open for the import of U.S. goods.

7. Export Subsidies Policies

Switzerland's only subsidized exports are in the agricultural sector, where exports of dairy products (primarily cheese) and processed food products (chocolate products, grain-based bakery products, etc.) benefit from state subsidies. Switzerland is gradually reducing the export subsidies as required under World Trade Organization (WTO) rules. The government has negotiated, but not yet ratified, an agreement with the European Union that neither country will subsidize dairy product exports to the other.

8. Protection of U.S. Intellectual Property

Switzerland has one of the best regimes in the world for the protection of intellectual property and protection is afforded equally to foreign and domestic rights holders. Switzerland is a member of all major international intellectual property rights conventions and was an active supporter of a strong IPR text on the GATT Uruguay Round negotiations. Enforcement is generally very good. Switzerland is a member of both the European Patent Convention and the Patent Cooperation Treaty (PCT). A new Copyright Law in 1993 improved a regime that was already quite good. The law explicitly recognizes computer software as a literary work and establishes a remuneration scheme for private copying of audio and video works which distributes proceeds on the basis of national treatment.

Since May of 1998, Switzerland has been in compliance with its obligation under TRIPS to protect company test data required by national authorities in order to obtain approval to market pharmaceuticals. The new regulation enacted by the Swiss Intercantonal Office for the Control of Medicines mandates a 10-year protection period for such data. Prior to this regulation taking effect, the lack of protection in this area negatively impacted one U.S. company. However, it is now very unlikely that any further problems will arise for U.S. firms.

According to industry sources, software piracy continues to be a problem. This appears to be largely due to illegal copying by individuals and some small and medium-sized establishments. It is highly unlikely that there are any exports. Industry sources estimate lost sales due to software piracy at $80 million in 1998. Trade losses and denied opportunities for sales and investment in all other IPR sectors are minor in comparison.

Switzerland is not on the U.S. "Special 301 Watch List" or "Priority Watch List." Neither is it identified as a "Priority Foreign Country."

9. Worker Rights

a. *The Right of Association:* All workers, including foreign workers, have freedom to associate freely, to join unions of their choice, and to select their own representatives.

b. *The Right to Organize and Bargain Collectively:* Swiss law gives workers the right to organize and bargain collectively and protects them from acts of antiunion discrimination. The right to strike is legally recognized, but a unique informal agreement between unions and employers has meant fewer than 10 strikes per year since 1975. There were no significant strikes thus far during 1999.

c. *Prohibition of Forced or Compulsory Labor:* There is no forced or compulsory labor, although there is no legal prohibition of it.

d. *Minimum Age for Employment of Children:* The minimum age for employment of children is 15 years. Children over 13 may be employed in light duties for not more than 9 hours a week during the school year and 15 hours otherwise. Employment between ages 15 and 20 is strictly regulated.

e. *Acceptable Conditions of Work:* There is no national minimum wage. Industrial wages are negotiated during the collective bargaining process. Such wage agreements are also widely observed by non-union establishments. The Labor Act establishes a maximum 45-hour workweek for blue and white collar workers in industry, services, and retail trades, and a 50-hour workweek for all other workers. The law prescribes a rest period during the workweek. Overtime is limited by law to 260 hours annually for these working 45 hours per week and to 220 hours annually for those working 50 hours per week.

The Labor Act and the Federal Code of Obligations contain extensive regulations to protect worker health and safety. The regulations are rigorously enforced by the Federal Office of Industry, Trades, and Labor. There were no allegations of worker rights abuses from domestic or foreign sources.

f. *Rights in Sectors with U.S. Investments:* Except for special situations (e.g. employment in dangerous activities regulated for occupational, health and safety or environmental reasons), legislation concerning workers rights does not distinguish among workers by sector, by nationality, by employer, or in any other manner which would result in different treatment of workers employed by U.S. firms from those employed by Swiss or other foreign firms.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		15
Total Manufacturing		5,508
Food & Kindred Products	47	
Chemicals & Allied Products	2,859	
Primary & Fabricated Metals	217	
Industrial Machinery & Equipment	576	
Electric and Electronic Equipment	609	
Transportation Equipment	403	
Other Manufacturing	797	
Wholesale Trade		7,831
Banking		3,695
Finance/Insurance/Real Estate		18,446
Services		1,651
Other Industries		469
TOTAL ALL INDUSTRIES		37,616

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

TURKEY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production and Employment:			
Real GDP	190.4	198.7	[1] 78.0
Real GDP Growth (pct)	7.5	2.8	–5.0
GDP by Sector:			
Agriculture	27.6	34.4	6.6
Manufacturing	41.1	39.0	16.6
Services	91.0	93.5	52.1
Government	17.1	18.4	10.6
Per Capita GDP (US$)	3,105	3,224	
Labor Force (000's)	22,359	23,415	[2] 23,779
Unemployment Rate (pct)	6.9	6.2	[2] 7.3
Money and Prices (annual percent growth):			
Money Supply Growth (nominal M2)	96	106.2	[3] 105.3
Consumer Price Inflation	99.1	69.7	[4] 64.6
Exchange Rate (TL/US$ annual average)	151,239	259,815	[4] 517,750

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Balance of Payments and Trade (Suitcase Trade Included):			
Total Exports FOB	32.6	31.2	[5] 14.6
Exports to U.S.	2.1	2.5	[6] 1.6
Total Imports CIF	48.0	45.6	21.8
Imports from U.S.	3.5	3.5	[6] 2.2
Trade Balance	–15.4	–14.4	–7.2
Balance with U.S.	–2.33	–1.84	–0.5
External Public Debt	91.1	102.0	[1] 105
Fiscal Deficit/GDP (pct)	–7.8	–7.4	12
Current Account Balance/GDP (pct)	–1.37	0.94	–0.5
Debt Service Payments/GDP (pct)	6.5	8.1	8.5
Gold and Foreign Exchange Reserves [8]	27.2	31.6	[3] 35
Aid from U.S.	0.31	.006	.02
Aid from Other Sources	N/A	N/A	N/A

[1] Estimate as of November 1999—all GDP figures for previous years are as of June.
[2] 96, 97 and 98 figures are as of October; 99 figure is as of April.
[3] As of October 1999.
[4] As of November 8, 1999.
[5] As of July 1999—all 99 trade figures are as of July.
[6] As of August 99.
[7] Includes reserves held by central bank and commercial banks.
Source: Turkish State Institute of Statistics, Turkish Treasury Undersecretariat, Central Bank of Turkey.

1. General Policy Framework

From the establishment of the Republic in 1923 until 1981, Turkey was an insulated, state-directed economy. In 1981 the country embarked on a new course. The government abandoned protectionist policies and opened the economy to foreign trade and investment. The state slowly began to give up much of its role in directing the economy and to abolish many outdated restrictions on private business. These reforms unleashed the country's private sector and have brought impressive benefits. Since 1981, Turkey's average 5.2 percent real GNP growth rate has been the highest of any OECD country. Turkey's efforts reached a new stage in January 1996 in terms of market opening, with the inauguration of a customs union with the European Union. Turkey has harmonized nearly all of its trade and industrial policies with those of the EU and has begun to reap benefits from the customs union, particularly in terms of improved economic efficiency, which, in turn, has had a positive impact on overall U.S. exports to and investments in Turkey. The long-term consequences of the customs union should be very favorable, particularly in terms of trade creation and investment.

Despite the impressive reforms introduced since 1981, Turkey continues to suffer from an inefficient public sector and weak political leadership. These factors, combined with a high domestic debt interest burden and the private sector's ingrained high inflation expectations, constrain higher growth rates. Consumer price index inflation has averaged about 78 percent since 1988, but dropped to 65 percent in 1999. In 1994, government attempts to manipulate interest rates triggered a financial crisis and forced the government to introduce a tough austerity program. The sharp 1994 recession was Turkey's worst since World War II. The economy bounced back strongly, however, growing by over 8 percent from 1995 through 1997. Strong export growth sparked a surge in imports of raw materials and intermediate and capital goods through mid-1998, as did the elimination of import duties and surcharges for most EU goods, which accompanied the introduction of the customs union on January 1, 1996.

After declining in 1994 and 1995, the budget deficit and public sector borrowing requirement both rose significantly from 1996 through 1999, reflecting continued populist economic measures introduced by successive Turkish governments. The Yilmaz government, in power from July 1997 to November 1998, undertook significant (if gradualist) disinflationary reforms and permitted the central bank to continue its disciplined monetary and exchange rate policies, thus increasing market confidence. The Ecevit government in place since June 1999, has passed important structural reforms in banking and social security and passed constitutional amendments granting foreign concession holders access to international arbitration and providing the legal underpinning for privatization of state-owned companies.

Turkey and the IMF concluded a Staff Monitored Program (SMP) in mid-1998. The government met or exceeded its year-end SMP targets, including achieving a 54.7 percent year-end WPI inflation rate, its lowest since 1991. Further progress in implementing structural reforms will lead to an IMF stand-by at the end of 1999. The government has set an ambitious year-end 2000 WPI inflation target of 20 percent as well as a $5 billion target for privatization revenues. The Asian and Russian financial crises did not seriously affect Turkey's economy. Any slowdown in the EU or U.S. economies (which take a 65 percent share of Turkey's exports) will restrict Turkey's ability to attract foreign capital or to expand its exports at the desired rate.

Building on significant liberalization of the economy in the mid-1980s, Turkey's private sector has become less dependent on the government. As a result, it has grown at an even faster pace than the overall economy, while it also expanded its share of Turkey's GDP. Turkey's most successful companies are foreign oriented and very competitive. Since 1992, total bilateral trade volumes have expanded by 45 percent, totaling $6.2 billion at the end of 1998. U.S. exports have grown by over 36 percent, while Turkish exports have more than doubled in value. The U.S. retains a substantial trade surplus with Turkey. Investment levels remain flat, though significant opportunities remain in the energy and telecommunications sectors for further investments, should the government pass implementing legislation for access to international arbitration and for energy and telecom sector regulation.

2. Exchange Rate Policy

The Turkish Lira (TL) is fully convertible and the central bank follows a crawling peg exchange rate policy aimed at the WPI target of 20 percent by the end of 2000. The system was adopted on January 1, 2000, with a pre-announced rate of crawl over the course of the year. The central bank has also committed to various monetary targets to support this new exchange rate mechanism.

Overvaluation of the TL from 1989-93 was a significant factor in the 1994 financial crisis. As a result, the TL depreciated against the dollar in real terms in 1994. Since then, the central bank has maintained a stable real exchange rate measured against a trade-weighted dollar/Euro basket.

3. Structural Policies

Turkey has made substantial progress in implementing certain structural reforms and liberalizing its trade, investment, and foreign exchange regimes. The resulting rapid economic growth and high rate of private business creation during the 1980s and 1990s has generated tremendous demand for imported goods, particularly capital and intermediate goods and raw materials, which together account for over 85 percent of total imports.

Successive governments' failure to complete the structural reform measures needed to transform Turkey's economy into a liberal, market-directed economy has limited private sector growth and prevented the economy from functioning at full efficiency. State-owned enterprises still account for some 35 percent of manufacturing value added. Although some of these firms are profitable, transfers to state firms constitute a substantial drain on the budget. Government control of key retail prices (especially in the energy and utilities sectors) also contributes to market distortion, as prices are sometimes manipulated to meet political objectives (held in check before elections, accelerating after). The government actively supports the agricultural sector through both subsidized inputs and crop support payments of up to twice world price levels.

Turkey and the European Union entered into a customs union on January 1, 1996. Nearly all industrial goods from EU and EFTA countries now enter Turkey duty-free. Turkey has adopted the EU's common external tariff for third countries, which has resulted in significantly lower tariffs for U.S. products. The government also has abolished various import surcharges. As part of the customs union agreement, Turkey has revised its trade, competition, and incentive policies to meet EU standards. While these EU-related reforms in general help U.S. exporters, agricultural goods continue to face prohibitive tariffs.

4. Debt Management Policies

As of June 1999, Turkey's gross outstanding external debt was $100 billion, 76.5 percent of which is government debt. Debt service payments in 1999 will amount to an estimated 8.5 percent of GNP (and 36 percent of current account receipts). Turkey has had no difficulty servicing its foreign debt in recent years.

In 1999 Turkey has issued almost $4 billion in sovereign debt, above its $3 billion official target. At the same time, Turkey's domestic debt stock has increased significantly owing to continuing high real interest rates.

5. Aid

In 1998, the United States ended its Economic Support Fund and Foreign Military Financing (market-rate loans) support for Turkey. In 1999, the United States provided Turkey $2 million in assistance under a USAID-funded family planning program, $1.4 million in International Military Education and Training funding, and $500,000 in counter-narcotics assistance. Turkey receives significant grant and loan aid from the European Union, but much of this is on hold as the result of political disputes with Greece.

6. Significant Barriers to U.S. Exports

The introduction of Turkey's customs union with the EU in 1996 resulted in reduced import duties for U.S. industrial exports. The weighted rate of protection for non-EU/EFTA industrial products dropped from 11 percent to 6 percent. By comparison, the rate of protection for industrial exports from EU and EFTA countries in 1995 had been 6 percent; nearly all these goods now enter Turkey duty-free. There have been few complaints from U.S. exporters that the realignment of duty rates under the customs union has disrupted their trade with Turkey. A significant number of U.S. companies have reported that the customs union has benefited them by reducing tariffs on goods they already exported to Turkey from European subsidiaries. The customs union does not cover agricultural trade or services e.g. 200,000 tons of wheat and 19,000 tons of rice are allowed duty free entry from the EU. U.S. exporters have voiced increasing frustration over barriers to agricultural trade, most notably a ban on the import of livestock. However, the import ban on livestock and meat was partially lifted for breeder cattle in 1999, although none had been imported by late 1999.

Import Licenses: While import licenses generally are not required for industrial products, products which need after-sales service (e.g. photocopiers, ADP equipment, diesel generators) and agricultural commodities require licenses. In addition, the government requires laboratory tests and certification that quality standards are met for importation of human and veterinary drugs and foodstuffs. While licenses are generally issued in one to two weeks, occasional delays can cause problems for U.S. exporters.

Government Procurement Practices: Turkey is not a signatory of the WTO Government Procurement Agreement. It nominally follows competitive bidding procedures for tenders. U.S. companies sometimes become frustrated over lengthy and often complicated bidding and negotiating processes. Some tenders, especially large projects involving co-production, are frequently opened, closed, revised, and opened again. There are often numerous requests for "best offers;" in some cases, years have passed without the selection of a contractor.

The entry into force of a Bilateral Tax Treaty between the U.S. and Turkey in 1998 eliminated the application of a 15 percent withholding tax on U.S. bidders for Turkish government contracts.

Investment Barriers: The U.S.-Turkish Bilateral Investment Treaty (BIT) entered into force in May 1990. Turkey has an open investment regime. There is a screening process for foreign investments, which the government applies on an MFN basis; once approved, firms with foreign capital are treated as local companies. Although Turkey has a BIT with the United States, and despite its membership in international dispute settlement bodies, Turkish courts have not recognized investors' rights to third party arbitration under any contract defined as a concession. This has been particularly problematic in the energy, telecommunications and transportation sectors. Passage of constitutional amendments granting access to international arbitration to foreign investors should correct this problem; however, the implementing legislation needed to enforce these new amendments must still be enacted.

7. Export Subsidies Policies

Turkey employs a number of incentives to promote exports, although programs have been scaled back in recent years to comply with EU directives and GATT/WTO standards. Barley, wheat, tobacco and sugar exports are subsidized heavily. The Turkish Eximbank provides exporters with credits, guarantees, and insurance programs. Certain tax credits also are available to exporters.

8. Protection of U.S. Intellectual Property

In 1995, as part of Turkey's harmonization with the EU in advance of a customs union, the Turkish Parliament approved new patent, trademark and copyright laws. Turkey also acceded to a number of multilateral intellectual property rights (IPR) conventions. Although the new laws provide an improved legal framework for protecting IPR, they require further amendments to be consistent with the standards contained in the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The government has declared that intends to have a TRIPS-compatible IPR regime in place by the end of the year and has volunteered for a WTO TRIPS review in the second half of 2000. Draft amendments to the Copyright Law awaited parliamentary approval at the end of 1999.

Turkey has been on the "Special 301" Priority Watch List since 1992. In the 1997 "Special 301" review, USTR provided Turkey with a set of benchmarks necessary in order to improve its status in the 301 process. In April 1998, the U.S. announced that it would not consider requests to augment Turkey's benefits under the U.S. generalized system of preferences until further progress is made on the benchmarks. Out of the six benchmarks, Turkey has made significant progress on four and is in the process of addressing the problems identified in the fifth and sixth benchmarks.

Taxes on the showing of foreign and domestic films were equalized in 1998. The Prime Minister issued a circular in 1998 directing all government agencies to legalize the software used in their offices. A public anti-piracy campaign was begun in 1998 and the government has made efforts to educate businesses, consumers, judges and prosecutors regarding the implications of its laws. Turkey extended patent protection to pharmaceutical products in January 1999 in accordance with Turkey's Customs Union commitments to the EU. Turkey currently is in the process of amending its copyright legislation. In August 1999, fines were increased by 800 percent and indexed to inflation. Turkish police and prosecutors are working closely with trademark, patent and copyright holders to conduct raids against pirates within Turkey. Although many seizures have been made (including by Turkish Customs officials at ports of entry), and several cases have been brought to conclusion successfully, U.S. industry remains concerned that fines and penalties levied by the courts are insufficient to serve as a significant deterrent.

9. Worker Rights

a. *The Right of Association:* All workers except police and military personnel have the right to associate freely and to form representative unions. Most workers also have the right to strike, but the constitution does not permit strikes among workers employed in the public utilities, petroleum, sanitation, education and national defense sectors, or by workers responsible for protection of life and property. Turkish law requires collective bargaining before a strike. Solidarity, wildcat, and general strikes are illegal. The law on free trade zones forbids strikes for 10 years following the establishment of a free trade zone, although union organizing and collective bargaining are permitted. The high arbitration board settles disputes in all areas where strikes are forbidden.

b. *The Right to Organize and Bargain Collectively:* Apart from the categories of public employees noted above, Turkish workers have the right to organize and bargain collectively. The law requires that in order to become a bargaining agent, a union must represent not only "50 percent plus one" of the employees at a given work site, but also 10 percent of all workers in that particular branch of industry nationwide. After the Ministry of Labor certifies the union as the bargaining agent, the employer must enter good faith negotiations with it.

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

d. *Minimum Age for Employment of Children:* The constitution and labor laws forbid employment of children younger than age 15, with the exception that those 13 and 14 years of age may engage in light, part-time work if enrolled in school or vocational training. The constitution also prohibits children from engaging in physically demanding jobs such as underground mining and from working at night. The Ministry of Labor enforces these laws effectively only in the organized industrial sector.

In practice, many children work because families need the supplementary income. An informal system provides work for young boys at low wages, for example, in auto repair shops. Girls are rarely seen working in public, but many are kept out of school to work in handicrafts, especially in rural areas. The bulk of child labor occurs in rural areas and is often associated with traditional family economic activity, such as farming or animal husbandry. It is common for entire families to work together to bring in the crop during the harvest. The government has recognized the growing problem of child labor and has been working with the ILO to discover its dimension and to determine solutions. With the passage in 1997 of the eight-year compulsory education program the number of child workers was reduced significantly. Children enter school at age 6 or 7 and are required to attend until age 14 or 15.

e. *Acceptable Conditions of Work:* The Ministry of Labor is legally obliged, through a tripartite government-union-industry board, to adjust the minimum wage at least every two years and does so regularly. Labor law provides for a nominal 45 hour work week and limits the overtime that an employer may request. Most workers in Turkey receive nonwage benefits such as transportation and meal allowances, and some also receive housing or subsidized vacations. In recent years, fringe benefits have accounted for as much as two-thirds of total remuneration in the industrial sector. Occupational safety and health regulations and procedures are mandated by law, but limited resources and lack of safety awareness often result in inadequate enforcement.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ in sectors with U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		97
Total Manufacturing		604
Food & Kindred Products	208	
Chemicals & Allied Products	53	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	–9	
Transportation Equipment	99	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		224
Finance/Insurance/Real Estate		15
Services		46
Other Industries		(1)
TOTAL ALL INDUSTRIES		1,069

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

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

UKRAINE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	44.00	40.76	31.37
Real GDP Growth (pct) [2]	–3.2	–1.7	–0.7
GDP by Sector:			
Agriculture	5.21	4.48	5.51
Manufacturing	14.46	11.80	12.15
Services	20.1	16.7	16.9
Government	N/A	N/A	N/A
Per Capita GDP (US$)	863	850	629
Labor Force (millions)	22.6	22.3	N/A
Unemployment Rate (pct)	3.1	3.2	5.95
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	39.3	33.2	27.8
Consumer Price Inflation	10.3	29.0	16
Exchange Rate (Hryvnia/US$ annual average)	1.9	2.7	N/A
Official	1.85	2.50	4.1
Balance of Payments and Trade:			
Total Exports, FOB [3]	15.4	16.4	14.8
Exports to U.S. (US$ millions) [4]	414	634	N/A
Total Imports, CIF [3]	19.6	17	13.9
Imports from U.S. (US$ millions) [4]	404	887	N/A

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Trade Balance [3]	-4.2	-0.6	0.9
Balance with U.S. (US$ millions) [4]	10	253	N/A
External Public Debt/GDP (pct)	23.8	29.0	40
Fiscal Deficit/GDP (pct)	5.6	2.5	1.5
Current Account Deficit/GDP (pct)	-2.6	-2.8	-3.03
Debt Service Payments/GDP (pct)	3.3	N/A	5.4
Gold and Foreign Exchange Reserves	2.4	1.2	1.2
Aid from U.S. (US$ millions) [5]	369	225	195
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data through September 1999, or are 1999 forecast. Source: Government of Ukraine. Depreciation of local currency in relation to dollar accounts for significant portion of annual drop in nominal dollar amounts.

[2] Percentage changes calculated in local currency, adjusted for inflation.

[3] Merchandise trade.

[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis.

[5] Figures are actual FY expenditures. Cumulative budgeted assistance (credits and grants) for FY 92-97 totals approximately $2.46 billion.

1. General Policy Framework

Since achieving independence in August 1991, Ukraine has followed a course of democratic development and gradual economic reform. After a period of hyperinflation, it curbed inflation and successfully introduced a new currency, the "hryvnia," in 1996. A tremendous amount of work still lies ahead in the area of economic development and the creation of an economic environment conducive to foreign investment and governed by market forces. Ukraine's economic inheritance from the Soviet Union of a large defense sector and energy-intensive heavy industry has made the transition to a market economy particularly difficult. Ukraine's principal resources and economic strengths include rich agricultural land, significant coal and more modest gas and oil reserves, a strong scientific establishment, and an educated, skilled workforce. Ukraine is an important emerging market at the crossroads of Eastern Europe, Russia, Central Asia, and the Middle East, and holds great potential for becoming an important new market for U.S. trade and investment. A significant number of both large multinationals and smaller foreign investors are present, although private investment (including U.S. investment) is greatly hampered by overregulation, lack of transparency, high business taxes, and inconsistent application of local law.

Ukraine still has much progress to make in the areas of large-scale privatization, tax reform, and contract enforcement. The government has generally been successful in efforts to achieve macroeconomic stability. After initially being hard hit by the August 1998 Russian financial crisis, Ukraine weathered the effects of this crisis relatively well during 1999. Economic growth in the formal sector showed signs of a modest recovery after nearly a decade of decline. Inflation remained relatively low, at slightly more than 10 percent during the first nine months of 1999. September 1998 saw the first disbursements to Ukraine from the International Monetary Fund (IMF) Extended Fund Facility (EFF). The three-year, $2.2 billion EFF program stipulated that the Ukrainian government take steps towards tax reform, a lower budget deficit, and further progress in privatization, deregulation, and other measures to encourage private investment. Several times during 1999 Ukraine fell out of compliance with IMF conditionalities, causing the IMF temporarily to hold up EFF disbursements. In most instances, Ukraine took steps to bring itself back in line with EFF requirements, and disbursements were resumed. However, Ukraine fell off track again with the IMF in September, 1999 due to a failure to follow through on communal tariff increases, and as of late 1999, they had not yet secured IMF funding. Ukrainian foreign currency reserves increased during the period January-November 1999, reaching approximately $1.2 billion.

Nevertheless, the Ukrainian government's financial problems continued. Following the Asian and Russian financial crises, Ukraine's previously easy access to private foreign financing diminished. Deterioration of the important Russian market for Ukrainian goods caused a significant drop in exports. The situation of the private banking sector, rife with non-performing loans and lacking good lending opportunities, remained precarious. Despite some progress in deregulation in 1999, Ukraine still awaited a much-needed surge in new investment. Domestic and foreign investors remained discouraged by a confusing and burdensome array of tax, customs and certification requirements, corruption, and the absence of an effective system of commercial law.

The exchange rate relative to the U.S. dollar had remained steady within a narrow band in 1996 and 1997, but between August 1 and September 30, 1998, the hryvnia depreciated approximately 40 percent against the dollar before stabilizing. The hryvnia depreciated by approximately 35 percent during the first ten months of 1999.

Ukraine's budget deficit has largely been the result of excessive spending on social programs and subsidies to both noncompetitive industries and private consumers, coupled with inadequate revenue collection. Financing was achieved through a combination of issuance of T-Bills to domestic and foreign borrowers, borrowing from the National Bank of Ukraine (NBU), assistance from international financial institutions (IFIs), and accumulation of wage and pension arrears. With the onset of the Russian financial crisis in August 1998, however, the market for government debt has largely dried up, and the government has had to rely increasingly upon credits from international financial institutions (IFIs), especially the IMF and World Bank. Ukraine has followed a relatively strict monetary policy for the past several years as part of its effort to control inflation and maintain the value of the hryvnia. During 1999, it continued efforts to reduce liquidity through raising bank reserve requirements, although it at the same time it relaxed somewhat its control of foreign exchange operations. Domestic arrears for wages and pensions has also been an important source of funds to finance the deficit.

2. Exchange Rate Policy

In February 1999, the NBU established a new official currency exchange band range of 3.4 to 4.6 hryvnia per dollar. Although the NBU lifted most currency transaction restrictions during March through June (including a ban on advance payment on import contracts) and opened an interbank market for foreign exchange, some restrictions remain. Enterprises are still obliged to sell 50 percent of their hard currency earnings. The NBU also limited deviation of the cash market exchange rates from the official rate to 10 percent.

Such restrictions have produced hardships for U.S. firms doing business with Ukraine. U.S. exporters were reluctant to ship goods without prior payment, while U.S. businesses operating in Ukraine (many of which are highly dependent on imports) have had difficulties in obtaining materials necessary for their operations. The NBU has stated it may give up the currency band in 2000.

3. Structural Policies

There are no pricing requirements for consumer goods in Ukraine. Stiff import tariffs and VAT taxes, along with the small number of suppliers of Western products in Ukraine, tend to keep prices of imported goods high.

Ukraine's burdensome and nontransparent tax structure remains a major hindrance to foreign investment and business development. Personal income and social security taxes remain high. Combined payroll taxes were reduced by Presidential Decree from 48.5 percent to 37.5 percent effective January 1, 1999. Tax filing and collection procedures do not correspond to practices in Western countries. Import duties and excise taxes are often changed with little advance notice, giving foreign investors little time to adjust to new requirements.

The regulatory environment is chaotic and Ukraine's product certification system is one of the most serious obstacles to trade, investment, and ongoing business. Although new licensing legislation is being drafted, procedures for obtaining various licenses remain complex and unpredictable, significantly raising the cost of doing business in Ukraine, and encouraging corruption and the development of the shadow economy.

4. Debt Management Policies

Ukraine's foreign debt stood at $12.4 billion in July 1999, around 40 percent of GDP. The largest amount is owed to Russia and Turkmenistan, primarily for past trade credits for deliveries of gas, which have been rescheduled into long-term state credits. Ukraine owed about $5.07 billion to international financial institutions and bilateral export credit agencies. External debt service as a percent of GDP was expected to be 5.4 percent in 1999. This figure for 2000 is expected to reach ten percent because of large foreign debts that will become due during that year.

In September 1998 the IMF approved a three-year, $2.2 billion Extended Fund Facility (EFF) intended to overcome balance of payments difficulties stemming from macroeconomic imbalances and structural problems. Monthly disbursements under the EFF are conditioned on Ukraine pursuing more aggressive economic reform, and maintaining foreign reserve levels and a low budget deficit. As noted above, in 1999 Ukraine has periodically fallen out of compliance with IMF conditionalities but then taken steps to bring itself back in accord, allowing the resumption of EFF disbursements. In August, the government rescheduled part of an approximately $160 million dollar sovereign debt due to foreign investors.

5. Aid

Ukraine is one of the leading recipients of U.S. assistance. The FY 99 Foreign Assistance Act set aside $195 million for Ukraine, focused on economic reform and privatization, business development, energy and environment (including nuclear safety/Chernobyl), democracy and local government, legal reform, and health and social development. In addition, around $100 million in other U.S. funding went for exchange programs, Peace Corps, transport of humanitarian supplies, and the Nunn-Lugar Cooperative Threat Reduction Program.

U.S. assistance also reaches Ukraine indirectly through international financial institutions. As stated above, in September 1998, the International Monetary Fund approved a three year, $2.2 billion Extended Fund Facility designed to promote fiscal reform, financial stabilization, and the accelerated development of a market economy. Disbursements under the EFF amounted to $630 million during January-November 1999. Major World Bank loans have promoted agricultural reform, privatization, modernization of the financial sector, and reform in the energy sector. The only major World Bank disbursement expected in the near term is for financial sector reform, although there is the possibility of large new programs in 2000 for administrative reform and restructuring of privatized enterprises. The European Bank for Reconstruction and Development is expanding its role in financing small business development (in conjunction with USAID), and is considering a major role in the nuclear sector, including in improvement of safety at Chernobyl and the possible completion of new nuclear reactors.

6. Significant Barriers to U.S. Exports

The daunting menu of a VAT (20 percent), import duties (ranging from 5 to 200 percent) and excise taxes (10 to 300 percent) present a major obstacle to trade with Ukraine. A limited number of goods, including raw materials, component parts, equipment, machinery, and energy supplies imported by commercial enterprises for "production purposes and their own needs" are exempted from VAT. Many agricultural enterprises are also exempt from the VAT. While investors' statutory funds are exempt from VAT, fixed capital investments, including plant equipment are often subject to VAT tax. This, coupled with inconsistent application of the law by customs and tax authorities, leads to investor uncertainty.

Import duties differ and largely depend upon whether a similar item to that being imported is produced in Ukraine; if so, the rate may be higher. Goods subject to excise taxes include alcohol, tobacco, cars, tires, jewelry, certain electronics, and other luxury items. Excise duty rates are expressed as a percentage of the declared customs value, plus customs duties and customs fees paid for importing products. This often results in duties and fees amounting to over 100 percent of the declared value of the item.

The significant progress made in the last few years on economic stabilization and the reduction in inflation have improved conditions for U.S. companies in Ukraine. However, foreign firms need to develop cautious and long-term strategies that take into full account the problematic commercial environment. The weak banking system, poor communications network, difficult tax and regulatory climate, prevalence of economic crime and corruption, non-transparent tender procedures, limited opportunities to participate in privatization, and lack of a well-functioning legal system, impede U.S. exports to and investment in Ukraine.

Ukraine's domestic production standards and certification requirements apply equally to domestically produced and imported products. Product testing and certification generally relate to technical, safety and environmental standards, as well as efficacy standards with regard to pharmaceutical and veterinary products. Such testing often requires official inspection of the company's production facility at the company's expense. Testing is often done in sub-standard facilities and on a unit-by-unit basis rather than "type" testing. In cases where Ukrainian standards are not established, country of origin standards may prevail.

Duties on goods imported for resale are subject to varying ad valorem rates. Imported goods are not considered legal imports until they have been processed though the port of entry and cleared by Ukrainian customs officials. Import licenses are required for very few goods, primarily medicines, pesticides, and some industrial chemical products.

7. Export Subsidies Policies

As part of its effort to cut the budget deficit, the government has significantly reduced the amount of subsidies it provides to state owned industry over the last several years. Nonetheless, subsidies remain an important part of Ukraine's economy, particularly in the coal and agriculture sectors. These subsidies, however, appear not to be specifically designed to provide direct or indirect support for exports, but rather to maintain full employment and production during the transition to a market-based economy. The government does not target export subsidies specifically to small business. (Ukrainian exporters, however, now enjoy a number of tax benefits, such as the VAT applied at a zero rate.) Ukraine's subsidy policy may change in the context of its negotiations to join the World Trade Organization (WTO). The country's sixth WTO Working Party meeting was held in the summer of 1998. Ukraine has tabled WTO market access offers for both goods and services, though its accession process is proceeding slowly.

8. Protection of U.S. Intellectual Property

Since gaining its independence, Ukraine has made significant progress in enacting legislation and adopting international conventions to protect intellectual property rights, though much still needs to be done to reach the level required by TRIPs. Ukraine is a member of the Universal Copyright Convention, the Convention establishing the World Intellectual Property Organization—WIPO, the Paris Convention, the Madrid Agreement, the Patent Cooperation Treaty, the International Convention for the Protection of New Varieties of Plants, the Berne Convention, the Trademark Law Treaty, and the Budapest Treaty. Nonetheless, in 1998 Ukraine was placed on the "Special 301" Watch List because copyright piracy is extensive and enforcement is minimal, causing substantial losses to U.S. industry. On May 1, 1999 Ukraine was moved to the Priority Watch List. Ukraine has taken some steps to improve its Intellectual Property Rights (IPR) regime, in accordance with its two-year plan to make its IPR legislation TRIPS-compliant, including ratification by Parliament in June 1999 of the Geneva Phonogram Convention. The President now must deposit the ratification with the World Intellectual Property Organization (WIPO) for it to take effect. Numerous pieces of additional legislation are pending.

Ukrainian legislation has inadequate criminal penalties for copyright piracy and none for infringement. Enforcement is negligible or non-existent. Courts do not provide a reliable means to address copyright infringement. Piracy has become an even more serious problem as pirate factories displaced from Bulgaria have found a home in Ukraine. This was one of the contributing factors in the decision to move Ukraine to the Priority Watch List. To address this problem, Ukraine announced that it was creating an anti-piracy committee with authority to conduct unannounced searches and to confiscate pirated goods, but thus far it has made little progress. The government openly acknowledges its problems with piracy and actively seeks help from the U.S. in combating it.

Ukraine is in the process of acceding to the WTO. The U.S. Government has taken the strong position that Ukraine's IPR regime must be TRIPs-compliant at the time of accession, with no transition period. Ukraine has established a working group with the U.S., which has met twice, the last time in April 1998.

9. Worker Rights

a. *The Right of Association:* The constitution provides for the right to join trade unions to defend "professional, social and economic interests." Under the constitution, all trade unions have equal status, and no government permission is required to establish a trade union. The 1992 Law on Citizens' Organizations (which includes trade unions) stipulates noninterference by public authorities in the activities of these organizations, which have the right to establish and join federations on a voluntary basis. In principle, all workers and civil servants (including members of the armed forces) are free to form unions. In practice, the government discourages certain categories of workers, for example, nuclear power plant employees, from doing so. A new trade union law designed to replace Soviet-era legislation was signed by the President in September 1999. The successor to the Soviet trade unions, known as the Federation of Trade Unions (FPU), has begun to work independently of the government and has been vocal in advocating workers' right to strike. Independent unions now provide an alternative to the official unions in many sectors of the economy. The constitution provides for the right to strike "to defend one's economic and social interests." The constitution also states that strikes must not jeopardize national security, public health, or the rights and liberties of others.

b. *The Right to Organize and Bargain Collectively:* The Law on Enterprises states that joint worker-management commissions should resolve issues concerning wages, working conditions, and the rights and duties of management at the enterprise level. Overlapping spheres of responsibility frequently impede the collective bargaining process. The government, in agreement with trade unions, establishes wages in each industrial sector and invites all unions to participate in the negotiations. The Law on Labor Disputes Resolution that came into force in March 1998 provides for establishment of an arbitration service and a National Mediation and Reconciliation Service to mediate in labor disputes. These services, however, have not yet been established. The manner in which the collective bargaining law is applied prejudices the bargaining process against the independent unions and favors the official unions. The collective bargaining law prohibits antiunion discrimination, but there have been cases in which such disputes have not been settled in a fair and equitable manner. Independent unions claim that the new trade union law is more restrictive than the old Soviet legislation because of difficulty in obtaining national status and registration, which confer the right to acquire space, property, maintain bank accounts and enter legally binding agreements. To acquire national status, a union must have representation in more than half of the regions of Kiev, or at one third of the enterprises in a regionally-based sector, or to have a majority of union members in the sector. These new requirements will make it difficult for miners and sailors to organize. Another contentious requirement is mandatory registration by the Justice Ministry. Independent unions are concerned that the Ministry could deny registration to unions seen as undesirable.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits compulsory labor, and it is not known to occur. The government does not specifically prohibit forced and bonded labor by children, although the constitution and the Labor Code prohibit forced labor generally, and such practices are not known to occur. Human rights groups described as compulsory labor the common use of army conscripts and youths in the alternative service for refurbishing and building private houses for army and government officials. Student groups have protested against a Presidential Decree obliging college and university graduates, whose studies have been paid for by the government, to work in the public sector at government-designated jobs for three years or to repay fully the cost of their education.

d. *Minimum Age for Employment of Children:* The government does not specifically prohibit forced and bonded labor by children. The minimum employment age is 17 years. In certain non-hazardous industries, however, enterprises may negotiate with the government to hire employees between 14 and 17 years of age, with the consent of one parent.

e. *Acceptable Conditions of Work:* The Labor Code provides for a maximum 40-hour workweek, a 24-hour day of rest per week, and at least 24 days of paid vacation per year. The law contains occupational safety and health standards, but these are frequently ignored in practice. During the first half of 1999, 913 people were killed and over 18,000 injured in accidents at work. In theory, workers have a legal right to remove themselves from dangerous work situations without jeopardizing continued employment. Independent trade unionists have reported, however, that asserting this right would result in retaliation or perhaps dismissal by management.

f. *Rights in Sectors with U.S. Investment:* Enterprises with U.S. investment frequently offer higher salaries and are more observant of regulations than their domestic counterparts. Otherwise, conditions do not differ significantly in sectors with U.S. investment from those in the economy in general.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment in Ukraine—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		0
Total Manufacturing		(1)
Food & Kindred Products	5	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		–26
Banking		0
Finance/Insurance/Real Estate		(1)
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		92

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

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

UNITED KINGDOM

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated][1]

	1997	1998	[2] 1999
Income, Production and Employment			
Nominal GDP	1,318.4	1,400.6	1,422.0
Real GDP Growth (Pct)	3.3	2.5	1.5
GDP by Sector:[3]			
Agriculture	19.8	18.2	N/A
Mining	33.0	23.8	N/A
Manufacturing	274.2	275.9	N/A
Services	821.4	902.2	N/A
Government	72.5	75.4	N/A
Per Capita GDP (U.S. Dollars)	22,289	23,483	23,950
Labor Force (Millions)	28.8	28.9	29.0
Unemployment Rate (Pct)	7.0	6.3	6.0
Money and Prices (Annual Percentage Growth)			
Money Supply Growth[4]	6.5	5.7	6.9
Consumer Price Inflation	2.4	3.4	1.5
Exchange Rate (USD/BPS—Annual Average)	1.64	1.66	1.63
Balance of Payments and Trade[5]			
Total Exports FOB	281.7	272.5	[6] 149.9
Exports to U.S.	34.4	36.4	[7] 25.4
Total Imports CIF	301.3	306.9	[6] 176.6
Imports from U.S.	41.0	42.6	[7] 27.5
Trade Balance	−19.6	−34.4	[6] −26.7
Balance with U.S.	−6.6	−6.2	[7] −2.1
Total Public Debt/GDP (Pct)	42.5	40.6	38.3
External Public Debt/GDP (Pct)	21.4	22.0	[7] 17.4
Fiscal Deficit/GDP (Pct)	−1.8	0.2	0.8
Current Account Deficit/GDP (Pct)[8]	0.8	0.0	−1.3
Gold and Foreign Exchange Reserves	38.4	35.3	[9] 34.2
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] Converted from British Pound Sterling (BPS) at the average exchange rate for each year.
[2] All 1999 figures are forecasts, unless otherwise indicated.
[3] "Agriculture" includes hunting, forestry and fishing. "Services" includes hotels, catering, distribution, repairs, transport, storage, communication, business, finance, education, health and social work. "Government" reflects only public administration and defense.
[4] Notes and coins in circulation in the United Kingdom plus banks' official deposits with the Banking Department.
[5] Merchandise trade, converted at average exchange rate for the applicable year.
[6] Through July 1999.
[7] Through August 1999.
[8] Current prices.
[9] Through June 1999.

Sources: The Oxford Economic Forecasting and London Business School 1999 Economic Outlook, the UK Office for National Statistics, and the Bank of England.

1. General Policy Framework

The United Kingdom (UK) has the sixth largest economy in the industrialized world, with a nominal GDP of about $1.4 trillion in 1999. The UK's 59.2 million inhabitants live in an area the size of New York and Pennsylvania. Per capita income was about $23,950 in 1999.

In May 1997, the Labour Party won an overwhelming parliamentary majority, ending 17 years of Conservative Government. Prime Minister Tony Blair inherited an economy showing signs of overheating, after recovering from the 1990-92 recession. Real GDP grew 2.6 percent in 1996 and 3.5 percent in 1997 (well above the UK's historical trend of around 2.5 percent). In 1998, tighter monetary and fiscal policy combined with a stronger pound and faltering global economy to put the brake on manufacturing exports, slowing GDP growth to 2.2 percent, and raising concerns that the economy could tip into recession in 1999. In October 1998, the Monetary Policy Committee (MPC) reacted strongly to the deteriorating domestic and international conditions by cutting interest rates. Between October 1998 and June 1999, the MPC cut the base rate seven times (from 7.5 percent to 5.0 percent).

The MPC's aggressive action averted a serious slowdown in 1999, sparking a dramatic growth in both business and consumer confidence. Indeed, the downturn was far briefer and milder than had been anticipated. With growth bottoming out ahead of predictions in the last quarter of 1998 at an annual rate of 0.7 percent, the lowest rate since 1992, the economy improved steadily throughout 1999. Real GDP was forecast to grow by at least 1.7 percent in 1999 and as much as 3.0 percent in 2000.

During 1999 there were signs of recovery even in the depressed manufacturing and export sectors, with strong advances in sales and orders. The assumption is that both have now adapted to a highly valued sterling by reducing their workforces, increasing productivity, and shaving profit margins to remain competitive. Robust household consumption and retail sales have particularly buoyed output. Rising consumer confidence has been sustained by overall job growth, which continued to advance throughout the slowdown. By August 1999, the unemployment rate had dropped to a 20-year low of 5.9 percent from a high of 10.5 percent in 1993.

A deteriorating current account remains a concern. The trade imbalance has been a result of sluggish demand in Asia and Europe, exacerbated by the high pound. With the terms of trade moving against the UK, import growth for 1999 has been strong, more than counteracting growth in exports. The services balance is still positive but has shown little change since June 1999. The current account has moved from a small surplus in 1997 to break even in 1998 to an estimated deficit equal to about 1.3 percent of GDP in 1999. With more positive prospects for demand in Asia and Europe next year, the trade and current account balances should improve somewhat.

Inflation remains under control. Underlying inflation, which had remained slightly above the MPC's 2.5 percent target rate until the third quarter of 1998, had fallen below target, to 2.1 percent, by September 1999. Fearing renewed wage and housing price inflation over the next two years with a return to robust growth, the MPC raised the base rate to 5.5 percent in November 1999. Underlying inflation averaged 2.8 percent in 1997, 2.7 percent in 1998, and was forecast at 2.3 percent in 1999.

Fiscal Policy: The Labour Government has pledged to adhere to a "Code for Fiscal Stability," balancing current government receipts and expenditures. The government's financial balance has moved from a deficit of eight percent of GDP in 1993 to a small surplus of 0.2 percent of GDP in 1998. The surplus continues to grow, forecast at 0.8 percent of GDP in 1999 and expected to reach one percent by 2002. The Blair Government has also committed to continuing to decrease the public debt, from 41 percent of GDP in 1998, to 37 percent by fiscal year 2001-02.

Tax Policy: The Labour Government promised before the 1997 election not to raise the personal income tax rate, now between 20 and 40 percent; the Value Added Tax, now 17.5 percent; or personal contributions to the UK's social security system. The basic income tax rate of 23 percent will be reduced to 22 percent in April 2000. The Labour Government also introduced a new 10 percent starting tax rate for the first 1,500 pounds of taxable income in April 1999. Labour also undertook a controversial measure to tax the windfall gains of privatized utilities. Expected to yield 5.2 billion pounds over three years, the government plans to use this tax to help finance its new Welfare-to-Work program. Corporate tax rates were cut as of April 1999 to 30 percent, 20 percent, and 10 percent respectively for corporations, small companies, and new businesses with incomes under 50,000 pounds per year. To promote enterprise, small and medium businesses may now write off 40 percent of their research and development costs for the first two years of operation. Other domestic tax revenue sources include excise taxes on alcohol, tobacco, retail motor fuels, and North Sea oil production. Some of these taxes were raised in 1999, and additional energy taxes are being discussed for environmental reasons.

Monetary Policy: The government has emphasized its commitment to a low inflation policy. In one of its first official acts, the Blair Government established an inflation target of 2.5 percent and granted the Bank of England independence to set interest rates to achieve this target. The Bank must explain to the government if inflation varies from the target by more than one percentage point, in either direction.

While the MPC's sole policy instrument is its ability to change the base rate at its monthly meetings, the Bank of England manages general monetary conditions through open market operations by buying and selling overnight funds and commercial paper. There are no explicit reserve requirements in the banking system.

2. Exchange Rate Policy

Since the UK's withdrawal from the European Union's (EU) Exchange Rate Mechanism in January 1993, the pound has floated freely. The sterling appreciated significantly between the beginning of 1996 and early-to-mid-1998, with the trade-weighted exchange rate (1990=100) rising from a low of 83.5 to a high of 107.1 in April 1998. The Asian financial crisis and relatively high real UK interest rates contributed to the flight to sterling. Given worsening domestic economic projections, the pound began to soften once the MPC began to cut the UK's relatively high short-term interest rates in October 1998. The sterling index fell to 99.6 in January 1999, but had strengthened to 104.7 by September 1999 as the UK economy began to recover. The pound is expected to continue to gain ground, against both the U.S. dollar and the Euro, well into 2000.

The Labour government favors joining the new European common currency in principle but determined that doing so when the Euro was launched on January 1, 1999 would not be in the UK's interests. It is undertaking an active program to prepare the economy for the Euro, but has muted its commitment to making a decision on joining early in the next parliament, which must be elected no later than 2002. At present, the government is concentrating on convincing voters that the UK's economic future and global leadership role depend on its membership and strong participation in the EU. The decision to adopt the Euro will be based on five economic tests, the most important of which is cyclical convergence, and will be subject to a popular referendum. In addition, the willingness of continental governments to accept fundamental structural reform of their economies is also seen as essential to the success of the new currency and the UK's willingness to participate fully in Economic and Monetary Union.

3. Structural Policies

The UK economy is characterized by free markets and open competition, which the government actively promotes within the EU and international fora. The UK's relatively low labor costs and labor market flexibility are often credited as major factors influencing the UK's success in attracting foreign investment. However, relatively low manufacturing labor productivity remains a concern.

Market forces establish prices for virtually all goods and services. The government still sets prices for prescription drugs and services in those few sectors where it is still a direct provider, such as urban transportation. In addition, government regulatory bodies monitor prices charged by telecommunications firms and set price ceilings for electric, natural gas, and water utilities. The UK's participation in the EU's Common Agricultural Policy significantly affects the prices for raw and processed food items, but prices in wholesale and retail markets are not fixed for any of these items.

The Labour Government inherited an economy that underwent significant structural reforms under the previous administration, which deregulated the financial services and transportation industries and sold the government's interests in the automotive, steel, coal mining, aircraft, and aviation sectors. Electric power, rail transport, and water supply utilities were also privatized. Subsidies were cut substantially and capital controls lifted. Employment legislation significantly increased labor market flexibility, democratized unions, and increased union accountability for the industrial acts of their members. The Labour Government modified this approach, including a new national minimum wage and union recognition rules, but kept significant parts of previous legislation intact, such as outlawing union shops and secondary boycotts.

4. Debt Management Policies

The UK has no meaningful external public debt. London is one of the foremost international financial centers of the world, and British financial institutions are major intermediaries of credit flows to the developing countries. The government is an active participant in the Paris Club and other multilateral debt negotiations.

5. Significant Barriers to U.S. Exports

Structural reforms and open market policies make it relatively easy for U.S. firms to enter UK markets. The UK does not maintain any barriers to U.S. exports other than those implemented as a result of EU policies. (See the report on the European Union for details.)

The U.S.-UK Bilateral Aviation Agreement is highly restrictive, particularly in limiting the number and access of carriers serving London Heathrow Airport and the European destinations beyond UK airports to which U.S. airlines may fly. The U.S. believes the two sides should conclude an Open Skies Agreement, but the UK Government has continued to raise objections to this approach. Nonetheless, the UK government unilaterally provided open "beyond rights" to U.S. cargo carriers at Prestwick Airport, near Glasgow, Scotland in August 1999. The two sides are continuing to explore the possibility of liberalizing cargo and passenger services on a bilateral basis.

6. Export Subsidies Policies

The government opposes export subsidies as a general principle, and UK trade-financing mechanisms do not significantly distort trade. The Export Credits Guarantee Department (ECGD), an institution similar to the Export-Import Bank of the United States, was partially privatized in 1991.

The UK's development assistance program has certain "tied aid" characteristics. In 1996, the last year for which figures are available, some 14 percent of development assistance was tied. Agricultural and humanitarian assistance are not tied. In addition, various waivers of tied aid requirements are available to UK officials administering development assistance.

7. Protection of U.S. Intellectual Property

UK intellectual property laws are strict, comprehensive, and rigorously enforced. The UK is a signatory to all relevant international conventions, including the convention establishing the World Intellectual Property Organization, the Paris Convention for the Protection of Industrial Property, the Berne Convention for the Protection of Literary and Artistic Works, the Patent Cooperation Treaty, the Geneva Phonograms Convention, and the Universal Copyright Convention.

New copyright legislation simplified the British copyright process and permitted the UK to join the most recent text of the Berne Convention. The United Kingdom's positions in international fora are very similar to those of the United States.

8. Worker Rights

a. *The Right of Association:* Unionization of the work force in the UK is prohibited only in the armed forces, public sector security services, and police force.

b. *The Right to Organize and Bargain Collectively:* Nearly nine million workers, about one-third of the work force, are organized. Employers are barred from discriminating based on union membership. New legislation passed in July 1999 determines under what conditions an employer must bargain with a trade union. Employers are no longer allowed to pay workers who do not join a union higher wages than union members performing the same work.

The 1990 Employment Act made unions responsible for members' industrial actions, including unofficial strikes, unless union officials repudiate the action in writing. Unofficial strikers can be legally dismissed, and voluntary work stoppage is considered a breach of contract. Unions do not have immunity from prosecution for secondary strikes or for actions with suspected political motivations. Actions against subsidiaries of companies engaged in bargaining disputes are banned if the subsidiary is not the employer of record. Unions encouraging such actions are subject to fines and seizure of their assets.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is unknown in the UK.

d. *Minimum Age for Employment of Children:* Children under the age of 16 may work in an industrial enterprise only as part of an educational course. Local education authorities can limit employment of children under 16 if working will interfere with the child's education.

e. *Acceptable Conditions of Work:* A new national minimum wage, established in 1998, took effect in April 1999. The initial minimum was set at 3.60 pounds per hour, based on the recommendations of a tri-partite commission. Daily and weekly working hours are limited by law, according to an EU directive outlawing mandatory workweeks longer than 48 hours. Implementing regulations are still being written.

The Health and Safety at Work Act of 1974 banned hazardous working conditions. A Health and Safety Commission submits regulatory proposals, appoints investigatory committees, conducts research, and trains workers. The Health and Safety Executive enforces health and safety regulations and may initiate criminal proceedings. The system is efficient and fully involves worker representation.

f. *Rights in Sectors with U.S. Investment:* U.S. firms operating in the UK are obliged to obey all worker rights legislation.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		15,603
Total Manufacturing		46,436
Food & Kindred Products	4,371	
Chemicals & Allied Products	17,345	
Primary & Fabricated Metals	1,658	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Industrial Machinery and Equipment	8,464	
Electric & Electronic Equipment	3,509	
Transportation Equipment	3,433	
Other Manufacturing	7,655	
Wholesale Trade		7,772
Banking		10,365
Finance/Insurance/Real Estate		65,846
Services		13,144
Other Industries		19,483
TOTAL ALL INDUSTRIES		178,648

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

THE AMERICAS

ARGENTINA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production, and Employment:			
GDP (At Current Prices)[2]	293	298	285
Real GDP Growth (pct)	8.1	3.9	–3.5
GDP by Sector (pct):			
Agriculture	7.3	7.2	7.2
Manufacturing	24.7	24.8	24.8
Mining	3.0	2.9	2.9
Services	38	38.1	38.1
Government	10.3	10.8	10.8
Per Capita GDP (US$)	8,250	8,300	8,000
Labor Force (Millions)	13.8	14.0	14.2
Unemployment Rate (pct)	14.9	12.9	14.5
Money and Prices (annual percentage growth):			
Money Supply (M2)[3]	26.5	4.0	–3.0
Consumer Price Inflation[3]	0.3	0.7	–2.0
Exchange Rate (Peso/US$)	1.0	1.0	1.0
Balance of Payments and Trade:			
Total Exports FOB	26.2	26.2	22.8
Exports to U.S.[4]	2.2	2.3	2.5
Total Imports CIF	30.4	31.4	24.1
Imports from U.S.[4]	5.8	5.9	4.7
Trade Balance	–4.0	–5.0	–1.3
Balance with U.S.[4]	–3.6	–3.6	–2.2
External Public Debt	101	112	118
Fiscal Deficit/GDP (pct)	–1.4	–1.2	–2.0
Current Account Deficit/GDP (pct)	4.1	4.9	4.4
Debt Service Payments/GDP (pct)	5.7	6.6	6.9
Gold and Foreign Exchange Reserves	20.0	25.0	24.0

[1] Figures for 1999 are embassy estimates.
[2] The Argentine peso was tied to the U.S. Dollar at the rate of one to one in 1991. In 1999, the Argentine government changed its method of calculating GDP and revised its figures for 1997 and 1998 downward.
[3] End of period.
[4] Source: U.S. Department of Commerce and U.S. Census bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through October.

1. General Policy Framework

President Carlos Menem's far-reaching reform program, which began in earnest in 1991, has revitalized Argentina's economy. Despite a sharp recession in 1995 due primarily to the Mexican peso crisis, real GDP growth averaged over 6 percent a year from 1991-1997. Inflation has remained very low for the last several years, and consumer prices in 1999 are actually expected to decrease by two percent. A stable exchange rate and reductions in trade barriers resulted in a boom in imports from the United States, particularly during 1991-94. The global financial crisis in 1998 and Brazil's currency devaluation in early 1999 dealt serious blows to the Argentine economy, however. The economy contracted from the second half of 1998 through late 1999. Some signs of recovery began to appear in the final quarter of 1999, and most experts expect a return to solid economic growth by the second half of 2000. Argentina's trade deficit with the United States this year is projected to be about

$3.5 billion. Argentina is expected to incur an overall trade deficit of $1 billion in 1999, reflecting the economic downturn.

Argentina's banking sector has consolidated during the last several years. The number of financial institutions in Argentina dropped from over 200 in December 1994 to about 120 by October 1999. The country's financial sector is considered generally sound. Argentina's consolidated public sector budget is expected to run a deficit in 1999 of about $5.8 billion—equal to approximately 2 percent of GDP. Tax evasion remains a major problem for the government. Economic growth and decreases in consumption reduced tax receipts in 1999.

Buenos Aires Mayor Fernando de la Rua, running as the presidential candidate for an alliance of opposition parties, defeated the ruling Justicialist party candidate in national elections in October 1999. He has promised to maintain the main elements of the country's economic model, including the convertibility of the peso and the U.S. dollar, as well as relatively open markets for trade. Argentina remains one of the hemisphere's most promising emerging markets for U.S. trade and investment.

2. Exchange Rate Policy

The Central Bank of Argentina controls the money supply through the buying and selling of dollars. Under the Convertibility Law of 1991, the exchange rate of the Argentine Peso is fixed to the dollar at the rate of one to one, controlled by a currency board. This rate is expected to remain unchanged in the medium term. Argentina has no exchange controls. Customers may freely buy and sell currency from banks and brokers at market prices.

3. Structural Policies

The Menem administration's reform program has made significant progress in transforming Argentina from a closed, highly regulated economy to one based on market forces and international trade. The government's role in the economy has diminished markedly with the privatization of most state firms. Argentine authorities also eliminated price controls on almost all goods and services. The government abolished the import licensing system in 1989 and in 1990 cut the average tariff from nearly 29 percent to less than 10 percent. However, MERCOSUR common external tariff rates are slightly higher, so that Argentina's average tariff is now closer to 14 percent. In August 1996, Argentina raised the tariff on capital goods—which account for over 40 percent of U.S. exports to Argentina—from 10 to 14 percent to boost revenues.

Argentina, Brazil, Paraguay, and Uruguay established the Southern Cone Common Market (MERCOSUR) in 1991, and on January 1, 1995, formed a partial customs union with a Common External Tariff (CET) covering approximately 85 percent of trade. The CET ranges from zero to 20 percent. In 1998, MERCOSUR members hiked the CET by three points for most products. The increase is scheduled to expire in on December 31, 1999. Initially, the government exempted some products from the CET, such as capital goods, information technology and telecommunications, to help support the modernization of the industrial infrastructure. However, in August 1996 tariffs on these items were increased to the MERCOSUR level. As a result, many non-MERCOSUR products entering Argentina now face higher tariffs. Chile signed a free trade agreement with MERCOSUR, effective October 1, 1996, but will not participate in the CET. Bolivia also entered into a similar pact on April 30, 1997. MERCOSUR is also discussing the prospect of a free trade agreement with the Andean community.

Argentina signed the Uruguay Round agreements in April 1994, congress ratified the agreements at the end of 1994, and Argentina became a founding member of the WTO on January 1, 1995.

4. Debt Management Policies

Argentina's public debt maturities are mostly concentrated in the longer term. External debt increased in 1998, rising to almost $110 billion. Argentina is expected to make total debt service (principal and interest) payments of about $15 billion per year through 1999. Interest payments on public debt in 1999 will represent about three percent of GDP. The turmoil in international financial markets triggered by Russia's devaluation in August 1998 complicated Argentine access to foreign capital. In spite of difficult market conditions, however, the government was able to meet its term financing needs. Argentina remains vulnerable to external shocks, but agreements with the IMF and other international financial institutions have provided an added degree of confidence to financial markets.

5. Significant Barriers to U.S. Exports

One of the key reforms of the Menem Administration has been to open the Argentine economy to international trade. Nevertheless, domestic political pressure, fears the impact of Brazil's currency devaluation and continued high unemployment in Argentina have led the government to take some ad hoc protectionist measures

Barriers to U.S. Exports: On October 4, 1996, USTR self-initiated an investigation under section 301 of the Trade Act of 1974 into Argentina's application of specific duties on textiles, apparel, and footwear; three percent statistical tax on almost all imports; and burdensome labeling requirements. In February 1997, Argentina repealed the existing "specific" duties on footwear—only to immediately replace them with virtually identical safeguard duties. In September 1997, Argentina extended the application of the safeguard duties on footwear until February, 2000. The United States requested formation of a WTO panel to review Argentina's footwear and textile regimes, as well as the three-percent statistical tax in early 1997. After a WTO panel found that the textile regime and statistical tax violate Argentina's WTO commitments, Argentina cut the statistical rate tax to 0.5 percent with appropriate caps, and set a 35 percent ad valorem cap on the textile duties. The panel had not decided on footwear, stating that it was unable to afford relief on measures no longer in effect. Believing that Argentina's application of the footwear safeguard raised serious questions regarding the WTO obligations of Argentina, the United States has raised the safeguard bilaterally at high levels on many occasions and has asserted third party rights in the EU panel on this matter. The appellate body decision in this case is due in December 1999. In November 1998, the Argentine government modified the safeguard through Resolution 1506. The resolution establishes a quantitative restriction in addition to the already-high safeguard duty, while imposing a TRQ of 3.9 million pairs on imports of footwear falling under the original safeguard measure (all imports not originating in Mercosur.) This quota amount represents less that 50 percent of annual footwear imports from non-Mercosur countries over the last 3 years. Non-Mercosur footwear imports below the quota limit are subject to the original safeguard duty according to their HTS classification. Once the quota limit is filled for each HTS number, imports above the limit are assessed a duty rate that is double the current safeguard duty. In addition, the Resolution postpones any liberalization of the original safeguard duty until November 30, 1999, delaying two tariff reductions that were scheduled for December 1998 and August 1999. A scheduled May 1998 liberalization had already been delayed in April 1998. On December 1, 1999, the quota was marginally liberalized by a 10 percent increase.

In the December 1998 Third Party Submission of the United States in the EC's WTO panel on the original footwear safeguard, USTR expressed the view that the modification of the safeguard appears to be in violation of article 7.4 of the WTO Agreement on Safeguards. USTR has requested a panel on this issue.

Argentina protects its automobile assembly industry through a combination of quotas and heavy tariffs negotiated among MERCOSUR members. The government is currently negotiating with Brazil rules to govern trade in autos beginning in January 2000, when a new common MERCOSUR auto policy is scheduled to take effect.

Standards: Argentina has traditionally recognized both U.S. and European standards. However, as the government and its MERCOSUR partners gradually establish a more structured and defined standards system, the standards requirements are becoming progressively more complex, particularly for medical products and electronics. In 1999, Argentina instituted new rules under which imported electronics would have to carry a local safety certification. Under the WTO agreement on technical barriers to trade, Argentina established an "inquiry point" to address standards-related inquiries. While this inquiry point exists formally at the Direccion General de Industria, it is not fully functional at present.

Services Barriers: In January 1994, the authorities abolished the distinction between foreign and domestic banks. U.S. banks are well represented in Argentina and are some of the more dynamic players in the financial market. U.S. insurance companies are active in providing life, property and casualty, and workers compensation insurance. The privatization of pension funds has also attracted U.S. firms.

Investment Barriers: There are very few barriers to foreign investment. Firms need not obtain permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in shares on the local stock exchange requires no government approval. There are no restrictions on repatriation of funds.

An U.S.-Argentina Bilateral Investment Treaty came into force on October 20, 1994. Under the treaty, U.S. investors enjoy national treatment in all sectors except shipbuilding, fishing and nuclear power generation. An amendment to the treaty removed mining, except uranium production, from the list of exceptions. The treaty allows arbitration of disputes by the International Center for the Settlement of Investment Disputes (ICSID) or any other arbitration institution mutually agreed by the parties. Several U.S. firms have invoked the treaty's provisions in several ongoing disputes with Argentine national or provincial authorities.

Government Procurement Practices: Argentina is not a signatory to the WTO Government Procurement Agreement, although "Buy Argentine" practices have been virtually abolished. Argentine sources will normally be chosen only when all other factors (price, quality, etc.) are equal.

Customs Procedures: Customs procedures are cumbersome and time-consuming, thus raising the cost for importers. Installation of an automated system in 1994 has eased the burden somewhat. The government is resorting more frequently to certificate-of-origin requirements and reference prices to counter under-invoicing and dumping, primarily from East Asia. In 1997, the government merged the customs and tax authorities to boost revenue collection and improve efficiency. It instituted a pre-shipment inspection system in November 1997 to verify the price, quality and quantity of imports. Six private firms are implementing the system.

6. Exports Subsidies Policies

As a WTO member, Argentina adheres to WTO subsidies obligations. It also has a bilateral agreement with the United States to eliminate remaining subsidies provided to industrial exports and ports located in the Patagonia region. Nevertheless, the government retains minimal supports, such as reimbursement of indirect tax payments to exporters. The government also maintains an industrial specialization program that allows certain industries that boost their exports to report a comparable amount of imports at a reduced tariff. The program will end in the year 2000.

7. Protection of U.S. Intellectual Property

Argentina belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Argentina is a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. The U.S. Trade Representative has placed Argentina on the "Special 301" Priority Watch List. Argentina's lack of patent protection for pharmaceutical products has consistently been a contentious bilateral issue and in 1997 cost Argentina 50 percent of its benefits under the U.S. Generalized System of Preferences (GSP).

Patents: After a three-year conflict between the Argentine Executive and Congress over the issue of patent protection for pharmaceutical products, the Executive issued a March 1996 decree that improves earlier Argentine patent legislation, but provides less protection than that originally proposed. This decree authorizes the National Institute for Intellectual Property (INPI) to provide pharmaceutical patent protection starting in November 2000. Legislation pending in the Argentine Congress, however, would delay implementation until 2005. (The TRIPS Agreement allows developing country members that did not offer patent protection before WTO accession for pharmaceutical and agrochemical products until January 1, 2005 to provide patent protection). The 1996 decree does not provide patent protection for products under development, and contains ambiguous language on parallel imports and compulsory licenses. For example, the decree bans parallel imports but allows the import of products that have been legally placed in commerce in a third country. Compulsory licenses can be awarded in cases of anti-competitive practices or for failure to work a patent. INPI has also failed in most cases to provide prompt and fair treatment to applications for exclusive marketing rights (EMRs) for pharmaceutical rights during Argentina's patent transition period. The U.S. government is currently engaged in WTO consultations over the failure to provide EMR to qualifying products and backsliding in the protection of agro-chemical data.

The 1996 decree also fails to provide adequate protection for confidential data. While the government has yet to issue the 1996 law's implementing regulations, it is unlikely that they will address U.S. concerns about the law, which permits Argentine competitors to rely on data submitted for product registration in Argentina, the United States, and other countries.

Copyrights: Argentina's Copyright Law, enacted in 1933, appears to be adequate by international standards. An executive decree extended the term of protection for motion pictures from 30 to 50 years after the death of the copyright holder. As in many countries, video and CD piracy is a serious problem. Efforts are underway to combat this, including arrests, seizure of pirated material, and introduction of security stickers for cassettes. In October 1998, the Argentine Congress enacted legislation make software piracy a criminal offense. The law closes an important gap in

Argentina's protection of intellectual property rights. Enforcement efforts are improving.

Trademarks: Trademark laws and regulations in Argentina are generally good. The key problem is a slow registration process, which the government has worked to improve.

Trade Secrets: Although Argentina has no trade secret law as such, laws on contract, labor, and property have recognized and encompassed the concept. Penalties exist under these statutes for unauthorized revelation of trade secrets.

Semiconductor Chip Layout Design: Argentina has no law dealing specifically with the protection of layout designs and semiconductors. Although existing legislation on patents or copyrights could cover this technology conceivably, this has not been verified in practice. Argentina has signed the WIPO treaty on integrated circuits.

8. Worker Rights

a. *The Right of Association:* All Argentine workers except military personnel are free to form unions. Union membership is estimated at 30-40 percent of the workforce. Unions are independent of the government and political parties, although most union leaders have ties with the Justicialist (Peronist) Party. Unions have the right to strike, and strikers are protected by law. Argentine unions are members of international labor associations and secretariats and participate actively in their programs.

b. *The Right to Organize and Bargain Collectively:* Argentine law prohibits antiunion practices. There is a trend toward bargaining on a company level, rather than negotiating at the national level on a sectoral basis, but the adjustment has not been easy for either management or labor. Both the federal government and a few highly industrialized provinces are working to create mediation services to promote more effective collective bargaining and dispute resolution.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor, and there were no reports of such incidents during 1999.

d. *Minimum Age for Employment of Children:* The law prohibits employment of children under 14, except in rare cases where the Ministry of Education may authorize a child to work as part of a family unit. Minors aged 14 to 18 may work in a limited number of job categories, but not more than six hours a day or 35 hours a week. The law is generally enforced, but there were credible reports in 1999 that child labor in the informal economy is increasing.

e. *Acceptable Conditions of Work:* The national monthly minimum wage is $200, though prevailing wages for most unskilled and entry-level positions are somewhat higher. Federal labor law mandates acceptable working conditions in the areas of health, safety and hours. The maximum workday is eight hours, and the workweek is limited to 48 hours. The government is also striving to modernize the system of workers compensation. Argentina has well-developed health and safety standards, but the government often lacks sufficient resources to enforce them.

f. *Rights in Sectors with U.S. Investment:* Argentine law does not distinguish between worker rights in nationally owned enterprises and those in sectors with U.S. investment. The rights enjoyed by Argentine employees of U.S. owned firms in Argentina equal or surpass Argentine legal requirements.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,565
Total Manufacturing		3,654
Food & Kindred Products	974	
Chemicals & Allied Products	1,130	
Primary & Fabricated Metals	349	
Industrial Machinery and Equipment	50	
Electric & Electronic Equipment	(1)	
Transportation Equipment	448	
Other Manufacturing	702	
Wholesale Trade		340
Banking		1,801
Finance/Insurance/Real Estate		1,945
Services		876

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
Other Industries	1,308
TOTAL ALL INDUSTRIES	11,489

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

THE BAHAMAS

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production and Employment:			
GDP (Current Prices)	4,000	[1] 4,250	[1] 4,515
Real GDP Growth	3.0	[1] 4.0	[1] 4.8
GDP by Sector (Percent of Total):			
Tourism	60	60	60
Finance	12	15	15
Manufacturing	3	3	3
Agriculture/Fisheries	3	3	3
Government	12	12	12
Other	10	7	7
Per Capita GDP (US$)	N/A	14,267	N/A
Labor Force (000's)	N/A	156,000	N/A
Unemployment Rate (pct)	9.7	7.9	[1] 7.8
Money and Prices (annual percent change):			
Money Supply (M2) (pct increase)	10.7	15.3	[2] 8.5
Commercial Interest Rate (pct)	6.75	6.75	6.00
Personal Savings Rate	3.35	3.28	2.97
Retail Price Index	0.9	0.8	1.2
Exchange (US$:B$)	1.00	1.00	1.00
Balance of Payments and Trade:			
Total Exports FOB	N/A	N/A	N/A
Exports to U.S.[3]	153.4	143.9	128.8
Total Imports CIF	1331.6	1371.4	N/A
Imports from U.S.[3]	789.6	774.5	[3] 499.5
Trade Balance	−1227.8	−1373.1	[2] −572.8
Balance with U.S.[3]	−644.1	−461.1	−370.7
External Public Debt	90.7	89.5	[2] 100.0
Debt Repayment	68.4	84.0	72.5
Gold Reserves	N/A	N/A	N/A
Foreign Exchange Reserves	219.5	[2] 323.0	476.0
Aid from U.S.	0	0	0
Aid from Other Countries	N/A	N/A	N/A

[1] Finance Ministry projection.
[2] As of August 1999.
[3] U.S. Department of Commerce.

1. General Policy Framework

The Bahamas is a politically stable, middle-income developing country. The economy is based primarily on tourism and financial services, which account for approximately 60 percent and 15 percent of GDP respectively. The agricultural and industrial sectors, while small, continue to be the focus of government efforts to produce new jobs and diversify the economy.

Hurricane Floyd, the worst storm to hit The Bahamas this century in terms of financial costs, swept through a number of Bahamian islands on September 14 leaving a path of destruction. The government estimated that damages from Hurricane

Floyd would cost more than $700 million. The damages to government utilities alone is over $80 million, restoration of roads, sea walls, bridges and docks will cost $30 million, and repairs to government buildings will total another $3.5 million. Losses in the tourism industry are calculated at $70 million, not including the loss of salaries for hundreds of workers in the Family Islands laid off as a result of damages to tourist facilities. The farming industry suffered losses totaling $33.3 million, and the fishing sector $10.5 million. In addition, insurance claims including those for second homes and tourist-related businesses is expected to reach $400 million.

The United States remains The Bahamas' major trading partner. U.S. exports to The Bahamas went from $789.6 million in 1997 to $774.5 in 1998 and account for approximately 65 percent of all imports. Although certain areas of economic activity are reserved for Bahamian citizens, the Bahamian government actively encourages foreign investment in unreserved areas and operates a free trade zone on Grand Bahama. Capital and profits are freely repatriated, and the Bahamian government does not tax personal and corporate income. Designation under the Caribbean Basin Initiative (CBI) trade program allows qualified Bahamian goods to enter the United States duty-free.

The Bahamian government continues to follow the policy implemented in the 1995-1996 budget in which the annual amount of new borrowings would be no greater than the amount of debt redemption. The 1999-2000 budget totaled $1.02 billion. Government outlays for education, health, social benefits and services, housing and other social services accounted for the majority of the Government's total expenditure. Debt service accounted for a substantial portion, $113.5 million or 12.6 percent of the recurrent expenditure. Again, the budget emphasized the government's resolve to expand the delivery of priority services, while moving closer to eliminating the deficit on recurrent expenditure by 2001. As a result, the government's focus remains on expenditure restraint, with anticipated revenue increases from economic growth and more efficient revenue collection rather than tax increases.

Recurrent revenue for 1999-2000 is projected to increase to $914 million, comprising $814.5 million in tax receipts and $81.1 million in non-tax income. A further $4.0 million is expected in capital revenue and $1.0 million in grants. The Budget also implements revenue enhancement measures, which take timely advantage of the buoyancy of the economy to raise additional revenue of over $30 million.

Before Hurricane Floyd, the Bahamian government predicted a growth rate of 5 percent for fiscal year 1999/2000. Prime Minister Ingraham announced that although he expects revenues to decline as a result of the hurricane, he did not expect the overall growth rate to change.

The 1999-2000 budget contained some new taxes including:

A two-percent increase in the hotel occupancy tax; a large increase in all immigration fees (for example work permit fees for top corporate managers would rise from $7,500 to $10,000 per year;

A two-percent increase in the stamp duty on real estate valued at more than $250,000;

A 10 percent increase in duty on imported cars valued at more than $25,000 (raising the charge—including stamp tax—to 82 percent);

An increase in excise tax on domestic beer production from $3 to $4 per gallon.

These tax hikes will go a long way to offset increases in spending and bring down the country's nearly $2 billion debt (almost 60 percent of the GDP). But higher taxes in the new budget do not close the budget deficit. The projected $914 million in Government revenues falls short of the planned expenditures of nearly one billion dollars. The government levies no income tax relying instead on import duties and other transaction and consumption fees to finance the vast majority of government spending.

In 1998, the Bahamian government eliminated customs duties for computer software, discs and computer tapes, farming pesticides, jewelry manufacturing items and various medical items, which also benefited from a reduction in stamp levies from 7 percent to 2 percent. In addition, the customs tariff was lowered on chicken, combination TV and radio appliances, combination TV and VCR appliances, and golf carts. The 1999-2000 budget cut tariff rates on imported video and audio tapes and discs from 65 to 15 percent. This move, which comes on the heels of a government decision to begin enforcement of its new Copyright Law, will help lower the cost of legitimate videos and encourage local video retailers to evolve away from pirated products. Since Hurricane Floyd in September, the government waived import duties on building materials and household supplies for persons who suffered damages from the storm.

The government believes that the move toward hemispheric free trade by the year 2005 will involve restructuring its revenue sources. As part of its overall strategy to simplify and harmonize customs import duties, the government consolidated the current 123 separate import duty rates to 29 rates as of July 1, 1997. Rates will also be reduced or eliminated on a variety of imported goods, ranging from construction materials (nails, cement, sheet rock, plywood, etc.) to computers and computer parts, musical instruments and consumer electronic appliances. The government hopes to recover these lost revenues through increased collection enforcement, reduced administrative costs, increased business generation and enhanced local purchasing.

Commercial banks lowered the prime lending rate from 6.75 to 6.00 percent in September.

2. Exchange Rate Policy

The Bahamian dollar is pegged to the U.S. dollar at an exchange rate of 1:1, and the Bahamian government is committed to maintaining parity.

3. Structural Policy

Price controls exist on 13 breadbasket items, as well as on gasoline, utility rates, public transportation, automobiles, and automobile parts. The rate of inflation is estimated at 1.2 percent as of June 1999.

The Bahamas is recognized internationally as a tax haven. The government does not impose personal or corporate income, inheritance or sales taxes. In addition, the government lowered taxes and reduced the stamp duty on various tourism related items including: liqueurs and spirits, jewelry and watches, perfumes, toilet water, table linens, non-leather designer handbags, and cigarettes. The government hoped these measures would have increased the country's competitive edge in the tourism sector. The intended results of these incentives have not yet been realized because the downtown area was not able to consistently attract enough tourists, especially cruise ship passengers. The Ministry of Tourism has recently implemented a "Bahamian Nights" program in which stores and restaurants in the downtown area stay open late three nights a week and offer incentives to lure tourists downtown. These concessions should safeguard employment in retail trade catering to tourists and promote price competitiveness of goods in the Bahamian market.

Certain goods may be imported conditionally on a temporary basis against a security bond or deposit that is refundable upon re-exportation. These include: fine jewelry, goods for business meetings or conventions, traveling salesman samples, automobiles or motorcycles, photographic and cinematographic equipment, and equipment or tools for repair work.

In 1993 the Bahamian government repealed the Immovable Property (Acquisition by Foreign Persons) Act, which required foreigners to obtain approval from the Foreign Investment Board before purchasing real property in the country, and replaced it with the Foreign Persons (Landholding) Act. Under the new law, approval is automatically granted for non-Bahamians to purchase residential property of less than five acres on any single island in The Bahamas, except where the property constitutes over fifty percent of the land area of a cay (small island) or involves ownership of an airport or marina. The government has now decided to discontinue sales of islands to foreigners to allay concerns by locals that too much Bahamian land is sold to foreigners. Prime Minister Ingraham announced in Parliament on June 16 that during his government's seven-year term, land sales to foreigners amounted to two billion dollars. Ingraham said that the treasury's accrued revenue on residential sales alone was US$ 43 million.

Foreign persons are still eligible for a two-year real property tax exemption if they acquire undeveloped land in The Bahamas provided that substantial development occurs during the first two years of the purchase. The property tax structure for foreign property owners is as follows:

$1–$3,000—the standard tax is $30.00.
$3,001–$100,000—tax is 1 percent of the assessed value.
Over $100,000—tax is 1½ percent of the assessed value.

This has stimulated the second home/vacation home market and revived the real estate sector. In addition, the government lowered the rate of stamp duty on real estate transactions in 1995. The stamp duty reduction ranges from two percent on transactions under $20,000 to eight percent on transactions over $100,000.

The government also receives revenues from a $15 per person airport and harbor departure tax.

Although The Bahamas encourages foreign investment, the government reserves certain businesses exclusively for Bahamians, including restaurants, most construction projects, most retail outlets, and small hotels. Other categories of businesses are eligible solely as joint ventures.

The government has announced plans to privatize and deregulate The Bahamas Telecommunication Corporation (Batelco) in early 2000 and other public utilities sometime thereafter. It has published new legislation outlining the creation of a telecommunications regulatory authority for public comment and plans to formally introduce the legislation in Parliament on December 1.

On April 30, 1998 Prime Minister Hubert Ingraham officially launched the new Bahamas Financial Services (BFS) Board, a joint private and public sector board dedicated to promoting The Bahamas as a financial services center. Since its inception, BFS has conducted promotional trips to the U.S. and Europe.

A Security Industries Bill has passed the legislature and authorizes a new, privately operated stock market. The legislation envisions a two-tier exchange with one market for foreign investors and companies. The Securities Commission, the regulating body for the stock exchange, is currently in the process of locating experts to provide the technical expertise and support needed to open the stock exchange. Two consultant firms will be hired, one to create and assist the stock exchange and the other to assist the Securities Commission. Although the government planned to have the stock market running by the end of the year, Minister of Finance William Allen says that the stock market will not be operational until the necessary framework is in place.

The Bahamas Investment Authority, a "one-stop shop" for foreign investment, was established in 1992, comprising the Bahamas Agricultural and Industrial Corporation and the Financial Services Secretariat. The Authority facilitates and coordinates local and international investment and provides overall guidance to the government on all aspects of investment policy.

Other measures providing trade and investment incentives include:

The International Business Companies Act—simplifying procedures and reducing costs for incorporating companies.

The Industries Encouragement Act—providing duty exemption on machinery, equipment, and raw materials used for manufacturing.

The Hotel Encouragement Act—granting refunds of duty on materials, equipment, and furniture required in construction or furnishing of hotels.

The Agricultural Manufacturers Act—providing exemption for farmers from duties on agricultural imports and machinery necessary for food production.

The Spirit and Beer Manufacturers Act—granting duty exemptions for producers of beer or distilled spirits on imported raw materials, machinery, tools, equipment, and supplies used in production.

The Tariff Act—granting one-time relief from duties on imports of selected products deemed to be of national interest.

The Hawksbill Creek Agreement of 1954 granted certain tax and duty exemptions on business license fees, real property taxes, and duties on building materials and supplies in the town of Freeport on Grand Bahama Island. In July 1993, the government enacted legislation extending most Hawksbill Creek tax and duty exemptions through 2054, while withdrawing exemptions on real property tax for foreign individuals and corporations. The Prime Minister declared, however, that property tax exemptions might still be granted to particular investors on a case-by-case basis.

The Casino Taxation Act was amended in October 1995 to allow for the establishment of small-scale casinos through the reduction of the basic tax and winnings tax rates for casinos of less than 10,000 square feet. The basic tax was reduced from $200,000 to $50,000 for casinos with floor space of less than 5,000 square feet. The tax rises to $100,000 for casinos of 5,000-10,000 square feet. Unlike the winnings tax rate for traditional casinos (25 percent of the first $20 million), small casinos pay a progressive winnings tax rate of 10 percent on the first $10 million of gross winnings, and 15 percent thereafter.

4. Debt Management Policies

From the end of 1992 to mid-1999, the total national debt has grown from $1.3 billion to $1.7 billion. The government's deficit financing plan included a net borrowing of $69.1 million, with debt amortization significantly lower by 72.8 percent at $34.4 million. Within this context, the direct charge on government is likely to rise correspondingly to an estimated $1.5 billion by end-June 2000, and the National Debt to settle moderately above $1.8 billion.

5. Significant Barriers to U.S. Exports

The Bahamas is a $700 million plus market for U.S. companies. There are no significant non-duty barriers to the import of U.S. goods, although a substantial duty applies to most imports. Deviations from the average duty rate often reflect policies aimed at import substitution. Tariffs on items produced locally are at a rate designed to provide protection to local industries. The Ministry of Agriculture occasionally issues temporary bans on the import of certain agricultural products when it determines that a sufficient supply of locally grown items exits. The government's quality standards for imported goods are similar to those of the United States.

The Ministry of Agriculture restricted banana imports in October 1995, in trying to create a monopoly for locally grown bananas. The restrictions have been extended to include other varieties of produce for which the Ministry determines that demand can be met by local farmers (e.g. Christmas poinsettias, romaine lettuce, yellow squash, and zucchini). In June 1996, the Ministry announced a ban on the importation of fruits, vegetables, flowers, plants or other propagate materials from Caribbean countries unless the Department of Agriculture is assured that the country is free of the pink (or hibiscus) mealy bug. Shipments must be accompanied by a phytosanitary certificate issued by the Ministry of Agriculture in the country of origin. The Ministry continues to enforce its ban on imports of citrus plants and fruit from Florida, instated in 1995 because of reported outbreaks of canker disease. Imports of citrus plants are permitted from states other than Florida.

6. Export Subsidies Policies

The Bahamian government does not provide direct subsidies to export-oriented industries although state-owned companies. The Export Manufacturing Industries Encouragement Act provides exemptions from duty for raw materials, machinery, and equipment to approved export manufacturers. The approved goods are not subject to any export tax.

7. Protection of U.S. Intellectual Property

The Bahamas is a member of the World Intellectual Property Organization (WIPO) and a party to the Paris Convention on industrial property and the Berne Convention on copyright (older versions for some articles of the latter are used). It is also a member of the Universal Copyright Convention. Parliament has passed a new copyright law, which is intended to provide better protection to international holders of copyrights. However, the government has not yet brought this law into force.

Copyrights: The majority of videos available for rent are the result of unauthorized copying of videotapes from promotional tapes provided by movie distributors, U.S. hotel "pay-for-view" movies and shows, or satellite transmissions. It is doubtful that pirated videotapes are exported. Since video retailers complained that it is too expensive to import original video tapes, the government reduced the import duty for imported video and audio tapes and discs to encourage them to evolve away from pirated products. In May, 1997 the government passed a bill to amend the Copyright Act to provide for payment of equitable royalties to copyright owners (particularly Bahamian musicians) for works broadcast on radio and television. In September 1997, a local radio station was ordered to pay copyright damages to The Performing Rights Society of London for failing to enter a defense in an action accusing the station of breach of copyright laws.

8. Workers Rights

a. *Right of Association:* The constitution specifically grants labor unions the rights of free assembly and association. Unions operate without restriction or government control, and are guaranteed the right to strike and to maintain affiliations with international trade union organizations.

b. *Right to Organize and Bargain Collectively:* Workers are free to organize, and collective bargaining is extensive for the estimated 25 percent of the work force that are unionized. Collective bargaining is protected by law and the Ministry of Labor is responsible for mediating disputes. In addition, the government established the Industrial Tribunal in 1997 to handle labor disputes. The Industrial Relations Act requires employers to recognize trade unions.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited by the Constitution and does not exist in practice.

d. Minimum Age for Employment of Children: While there are no laws prohibiting the employment of children below a certain age, compulsory education for children up to the age of 16 years and high unemployment rates among adult workers effectively discourage child employment. Nevertheless, some children sell newspapers along major thoroughfares and work at grocery stores and gasoline stations, generally after school hours. Children are not employed to do industrial work in The Bahamas.

e. *Acceptable Conditions of Work:* The Fair Labor Standards Act limits the regular workweek to 48 hours and provides for at least one 24-hour rest period. The Act requires overtime payment (time and a half) for hours in excess of the standard. The Act permits the formation of a wages council to determine a minimum wage. To date no such council has been established. However, in 1996 the government instituted a minimum wage of $4.12 an hour for non-salaried public service employees. The Parliament is considering a new minimum labor standards act, which will cover employees in both the public and private sectors. This act contains new guarantees of employees rights to paid vacations, sick leave, redundancy payments and protection against unfair dismissal.

The Ministry of Labor is responsible for enforcing labor laws and has a team of several inspectors who make on-site visits to enforce occupational health and safety standards and investigate employee concerns and complaints. The Ministry normally announces these inspections ahead of time. Employers generally cooperate with the inspections in implementing safety standards. A 1988 law provides for maternity leave and the right to re-employment after childbirth. Workers rights legislation applies equally to all sectors of the economy.

f. *Rights in Sectors with U.S. Investment:* Authorities enforce labor laws and regulations uniformly for all sectors and throughout the economy, including within the export processing zones.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		58
Total Manufacturing		81
Food & Kindred Products	0	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	–3	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		150
Banking		–1,585
Finance/Insurance/Real Estate		1,401
Services		131
Other Industries		50
TOTAL ALL INDUSTRIES		287

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

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

BOLIVIA

Key Economic Indicators

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

	1997	1998	[6] 1999
Income, Production and Employment: [1]			
Nominal GDP	7,647	8,213	8,550
Real GDP Growth (pct)	4.2	4.7	2.0
GDP by Sector (pct share):			
Agriculture	14.1	14.0	13.6
Manufacturing	16.8	16.7	16.7
Services	33.2	33.0	29.8
Government	8.9	8.9	8.0
Per Capita GDP (US$)	969	989	1,036
Labor Force (million)	2.4	2.5	2.6
Unemployment Rate (pct) [2]	4.1	4.3	4.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [3]	27.5	12.7	–8.0

Key Economic Indicators—Continued

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

	1997	1998	[6] 1999
Consumer Price Inflation	7.0	4.4	3.0
Average Exchange Rate (Bs/US$)	5.26	5.51	5.89
Trade and Balance of Payments:			
Total Exports FOB	1,166	1,104	1,020
Exports to U.S. FOB [4]	264	293	N/A
Total Imports CIF	1,851	1,983	1,600
Imports from U.S. CIF [4]	443	626	N/A
Trade Balance	–685	–879	–580
Balance with U.S.[4]	–179	–333	N/A
Current Account Deficit/GDP	–9.0	–9.9	–7.0
External Public Debt	4,600	4,800	4,600
Debt Service Payments/GDP (pct)	4.1	4.2	3.6
Fiscal Deficit/GDP (pct)	3.3	4.2	4.0
Gold and Foreign Exchange Reserves	1,189	1,193	1,280
Aid from U.S.[4]	120	112	114
Aid from All Other Sources [5]	530	468	410

[1] UDAPE, National Institute of Statistics (INE), Central Bank of Bolivia and embassy projection.
[2] For urban areas; data does not consider underemployment.
[3] Include National Currency Deposits indexed to U.S Dollar and U.S Dollar Deposits
[4] Sources: U.S. Census Bureau and embassy estimates.
[5] Aid obligated.
[6] 1999 figures are yearly projections based on eight or nine-month data.

1. General Policy Framework

Seventeen years after its return to democracy, Bolivia continues to consolidate a series of structural reforms that further orient the economy to the demands of the market and encourage greater efficiency by exposing it to increasing international competition. Parallel reforms in the judicial system promise to create a more reliable rule of law in the coming years.

The foundation of this new economic system was the "capitalization"/privatization of five large state-owned corporations and the establishment of a regulatory system to monitor the functioning key sectors. The capitalization program has succeeded in promoting steady rates of growth of private investment and savings, principally from the United States and in the hydrocarbons sector. This investment portends enhanced prospects for economic growth in the coming years. The government projects that the economy will grow by 2 percent in 1999, with inflation in consumer prices dropping to about 2.5 percent.

Macroeconomic indicators have improved steadily since the government undertook stabilization and structural reforms in the mid-1980s. Commercial bank deposits have more than doubled since 1991, to over $4.4 billion (October 1999). Persistent trade deficits since 1991 have been offset by large inflows of foreign assistance and private investment, allowing official foreign exchange reserves to grow to a record $1.1 billion (December 1998), decreasing slightly to $945 million (August 1999). Net reserves are more than seven months of imports. Despite continuing improvements in tax collection, the budget deficit for the non-financial public sector increased to 3.3 percent in 1997, and to 4.1 percent in 1998, largely as a result of pension reform. This figure is expected to remain level through 1999.

The money supply (M1) has grown steadily since 1991, with M1 now averaging around 11 percent of GDP. Total liquidity represents approximately 43 percent of the GDP. M2 has decreased significantly since 1996 reaching negative levels during the first nine months of 1999. The published figures for money in circulation are misleading, however, since there are billions of U.S. dollars in circulation side-by-side with the local currency, the Boliviano. Dollars are a legal means of exchange, and contracts can be written in dollars. Banks offer dollar accounts and make loans in dollars. In fact, at the end of August 1999 nearly 94 percent of the $4.4 billion of deposits in the Bolivian financial system was denominated in dollars.

Low rates of inflation at home and abroad have helped to lower interest rates. In October 1999 the average rate paid on dollar deposits was approximately 7.1 percent, and the average rate charged on dollar loans was 18.5 percent. Increased bank competition and new foreign investment in the sector will likely cut financial spreads, making credit still cheaper in the near-term. However, larger financial spreads during 1999 result from a very restricted monetary policy and international financial crises.

2. Exchange Rate Policy

There are no restrictions on convertibility or remittances. The official exchange rate is set by a daily auction of dollars managed by the central bank. Through this mechanism the central bank has allowed the Boliviano to depreciate slowly to preserve its purchasing power parity. The rate in the parallel market closely tracks the official exchange rate. The official exchange rate fell with respect to the dollar by 4.8 percent in 1996, 3.3 percent in 1997, 4 percent in 1998, and by 5.8 percent through the end of October 1999.

3. Structural Policies

A variety of laws have liberalized the economy significantly since the sea change seen in Bolivia's economic policies in the mid-1980s. In 1990 the government simplified tariffs to 5 percent for capital goods and 10 percent for all other imports. The government charges a 13 percent value-added tax and 3 percent transaction tax, whether imported or produced domestically. There are also excise taxes charged on some consumer products. No import permits are required, except for the import of arms and pharmaceutical products.

The 1990 Investment Law guarantees inter alia the free remission of profits, the freedom to set prices and full convertibility of currency. It essentially guarantees national treatment for foreign investors and authorizes international arbitration. An Arbitration Law was enacted on March 11, 1997.

The 1996 Hydrocarbons Law authorized YPFB (the petroleum parastatal) to enter into joint ventures with private firms and to contract companies to take over YPFB fields and operations, including refining and transportation. A subsequent law deregulated hydrocarbon prices, establishing international prices as their benchmarks. A recent Mining Law taxed profits and opened up border areas to foreign investors so long as Bolivian partners hold the mining concession. Most mining taxes can be credited against U.S. taxes.

Subsequent to the enactment of a new Banking Law, the government enacted a new financial law in 1998—the Law of Property and Popular Credit—which changed the institutional set-up of the financial regulatory bodies. It also provided for improved prudential regulation for all types of financial institutions and promoted stability in the financial system while also inducing greater competition and efficiency.

4. Debt Management Policies

The Bolivian Government owes about $4.2 billion to foreign creditors (end-August 1999). Two-thirds of this amount is owed to international financial institutions (principally the Inter-American Development Bank, the World Bank and the International Development Agency of the World Bank); almost one-third is owed to foreign governments, and less than 0.8 percent is owed to private banks. Bilateral debt payments have been rescheduled six times by the Paris Club, and several foreign governments have forgiven substantial amounts of the bilateral debt unilaterally. In 1998 Bolivia entered into the Highly Indebted Poor Country (HIPC) program, which will reduce this stock by approximately $460 million in present value terms over the life of the agreement. The Consultative Group in 1999 approved an additional $960 million in debt relief for Bolivia. Also, Bolivia is eligible for further debt relief under HIPC II.

5. Significant Barriers to U.S. Exports

There are no significant barriers to U.S. exports to Bolivia. The Bolivian Export Law prohibited the import of products that might affect the preservation of wildlife, particularly nuclear waste. Bolivia became a member of the World Trade Organization (WTO) in September 1995.

The Investment Law essentially guarantees national treatment for foreign investors. The one real barrier to direct investment—a prohibition on foreigners holding mining concessions within 50 kilometers of the border—is applied uniformly to all foreign investors. Bolivians with mining concessions near the border, however, may have foreign partners as long as the partners are not from the country adjacent to that portion of the border, except if authorized by law. In 1999 the Government of Bolivia enacted a law called LEY CORAZON, that establishes 11 telecommunications, energy and transportation corridors within 50 kilometers of the border within which foreign investors are allowed to develop projects. There are no limitations on foreign equity participation.

The governments of the United States and Bolivia signed a Bilateral Investment Treaty during the Summit of the Americas in Santiago in April 1998. It will come into effect after the U.S. Senate ratifies it.

6. Export Subsidies Policies

The government does not directly subsidize exports. The 1993 Export Law replaced a former drawback program with one in which the government grants rebates of all domestic taxes paid on the production of items later exported.

7. Protection of U.S. Intellectual Property

Bolivia belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, and the Nairobi Treaty. In 1999 the U.S. Trade Representative placed Bolivia on the "Special 301" Watch List.

Weak enforcement of existing laws has done little to discourage piracy in Bolivia. However, there have been some recent positive developments: in 1997 the government created the National Intellectual Property Service that for the first time will unify the administration of patents, trademarks, copyrights, and other intellectual property. Earlier, the government enacted a Copyright Law (1992) that, with some key changes enacted this year in Bolivia's Code of Criminal Procedure (which will take effect in March 2001), should create the proper legal environment to promote IPR protection. The government has proposed a draft Intellectual Property Law that it claims will bring Bolivia's protection for IPR up to the standards specified in the WTO TRIPs Agreement. However, there is doubt whether the current draft law is fully TRIPs compliant. Creating awareness in the judiciary and among the public of the rights of IPR holders is another formidable challenge facing the National Intellectual Property Service. According to a 1998 study by the Business Software Alliance and the Software and Information Industry Association, Bolivia has the highest rate of software piracy in Latin America with an estimated 87 percent of all software sold in the country of illegal origin.

8. Worker Rights

a. *The Right of Association:* Workers may form and join organizations of their choosing. The Labor Code requires prior governmental authorization to establish a union, permits only one union per enterprise and allows the government to dissolve unions; the code, however, has not been strictly enforced in recent years. While the code denies civil servants the right to organize and bans strikes in public services, nearly all civilian government workers are unionized. Workers are not penalized for union activities.

In theory, the Bolivian Labor Federation (COB) represents virtually the entire work force; in fact, approximately one-half of the workers in the formal economy—or about 15 percent of all workers—belong to labor unions. Some members of the informal economy also participate in labor organizations. Workers in the private sector frequently exercise the right to strike. Solidarity strikes are illegal, but the government does not prosecute those responsible, nor does it impose penalties.

The COB's numerous strikes to protest the government's economic reforms are generally receiving decreased support. The COB demonstrations that habitually have disrupted public order in major cities—which decreased during 1997 and 1998—have resurfaced in the second half of 1999, probably due to the municipal elections in December. The leadership of the urban teachers' union—the most aggressive affiliate within the COB—has conducted several strikes lasting days in opposition to the government's ongoing efforts at educational reform. A teachers' strike in February 1999 shut down the public schools for almost the entire month.

Unions are not free from influence by political parties. Most parties have labor committees that try to sway union activity, causing fierce political battles within unions. Most unions also have party activists as members.

The Labor Code allows unions to join international labor organizations. The COB became an affiliate of the formerly Soviet-dominated World Federation of Trade Unions (WFTU) in 1988.

b. *The Right to Organize and Bargain Collectively:* Workers may organize and bargain collectively. Collective bargaining (voluntary direct negotiations between unions and employers without participation of the government) is limited.

The COB contends that it still is the exclusive representative of all Bolivian workers. Consultations between government representatives and COB leaders are common but have little effect on wages or working conditions. Major structural reforms have further eroded the COB's legitimacy as the sole labor representative. Private employers may use public sector settlements as guidelines for their own adjustments and in fact often exceed them. These adjustments, however, usually result from unilateral management decisions or from talks between management and employee groups at the local shop level, without regard to the COB.

The law prohibits discrimination against union members and organizers. Complaints go to the National Labor Court, which can take a year or more to rule.

Union leaders say problems are often moot by the time the court rules. Labor law and practice in the seven special free trade zones are the same as in the rest of Bolivia.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced or compulsory labor. Reported violations were the unregulated apprenticeship of children, agricultural servitude by indigenous workers and some individual cases of household workers effectively imprisoned by their employers.

d. *Minimum Age for Employment of Children:* The Code prohibits employment of persons under 18 years of age in dangerous, unhealthy or immoral work. It permits apprenticeship for those 12 to 14 years of age; it is ambiguous, however, on conditions of employment for minors aged 14 to 17, a practice which has been criticized by the International Labor Organization. Urban children hawk goods, shine shoes and assist transport operators; rural children often work with parents from an early age. Children are not generally employed in factories or formal businesses; when so employed, however, they often work the same hours as adults. Responsibility for enforcing child labor provisions resides in the Labor Ministry, but they generally are not enforced.

The past two governments attempted to revise the Labor Code but desisted in the face of COB opposition. The present government is obliged to legislate reforms to the Code—including greater labor flexibility—under the terms of the HIPC, but has yet to do so.

e. *Acceptable Conditions of Work:* The law establishes a minimum wage of Bs 330 per month (approximately $56), bonuses and fringe benefits. The minimum wage does not provide a decent standard of living, and most workers earn more. Its economic importance resides in the fact that certain benefit calculations are pegged to it. The minimum wage does not cover members of the informal sector who constitute the majority of the urban workforce, nor does it cover farmers, some 30 percent of the working population.

Only half the urban labor force enjoys an 8-hour workday and a workweek of 5 or 5½ days, because the maximum workweek of 44 hours is not enforced. The Labor Ministry's Bureau of Occupational Safety has responsibility for protection of workers' health and safety, but relevant standards are poorly enforced; work conditions in the mining sector are particularly bad.

f. *Rights in Sectors with U.S. Investment:* The majority of U.S. investment is in the sectors of hydrocarbons, power generation and mining. The rights of workers in these sectors are the same as in other sectors. Conditions and salaries for workers in the hydrocarbons sector are generally better than in other industries because of stronger labor unions in that industry.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		109
Total Manufacturing		(2)
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(2)	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		(1)
Other Industries		182
TOTAL ALL INDUSTRIES		328

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).

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

BRAZIL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	802	775	560
Real GDP Growth (pct) [3]	3.6	–0.1	0.0
GDP By Sector (pct):			
Agriculture	–0.2	0.0	N/A
Industry	3.7	5.5	0.05
Services	1.9	2.0	0.97
Per Capita GDP (US$) [4]	5,000	4,800	3,800
Labor Force (millions)	75.6	77.1	78.6
Unemployment Rate (pct)	5.7	7.6	8.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	21.4	24.4	23.0
Consumer Price Index [5]	4.3	2.5	8.0
Exchange Rate (R/US$ annual average)			
Commercial	1.08	1.15	1.85
Balance of Payments and Trade:			
Total Exports FOB [6]	53.0	51.1	48.0
Exports to U.S. [6]	9.4	9.8	10.8
Total Imports FOB [6]	61.4	57.7	49.0
Imports from U.S. [6]	14.	13.7	11.8
Trade Balance [6]	–8.4	–6.6	–1.0
Balance with U.S. [6]	–4.9	–3.9	–1.0
Fiscal Deficit/GDP (pct)			
Nominal	6.1	8.0	11.0
Primary (inflation adjusted)	0.9	0.0	3.4
Current Account Deficit/GDP (pct)	4.16	4.33	4.2
External Public Debt [7]	80.0	90.6	99.3
Debt Service/GDP (pct)	1.3	1.5	2.4
Gold and Foreign Exchange			
Reserves (int'l liquidity)	52.2	44.6	37.6
Aid from U.S. (US$ millions) [8]	12.9	10.9	13.9
Aid from Other Countries	N/A	N/A	N/A

[1] Estimates except where noted.
[2] GDP at market prices.
[3] Percentage changes calculated in local currency.
[4] At current prices.
[5] Source: INPC (National CPI).
[6] Merchandise trade; Source: Ministry of Industry, Commerce and Tourism (MICT). Trade totals are preliminary for entire year. U.S. totals are extrapolated from January-September data.
[7] Non-financial public sector (excludes Petrobras and CVRD); 1998 figure is July balance.
[8] USAID only.

1. General Policy Framework

Brazil's economic stabilization program known as the Real Plan brought down inflation, dramatically reduced the role of the state in the economy, initiated market opening, and encouraged greater private sector investment to achieve sustainable long-term growth. Since the July 1994 introduction of a new currency, the Real, national consumer price inflation has dropped from a monthly average of 50 percent in the first half of 1994 to 2.5 percent in all of 1998. With the rapid devaluation of the currency in 1999, inflationary pressures strengthened and consumer prices rose 6 percent in the 12 months to September 1999. Under the Real Plan, Brazil relied heavily on tight monetary policy to maintain an overvalued currency while attracting sufficient foreign capital to finance its growing external imbalance. The strong currency and market-opening measures increased competition for domestic firms and encouraged industrial modernization.

The Russian devaluation and default in August 1998 produced a crisis of confidence in emerging markets in general and Brazil in particular and set in motion events which culminated in Brazil's abrupt switch to a floating rate foreign exchange system in January 1999. The change was marked by initial reliance on extremely high real interest rates to stem capital outflow and help stabilize the currency. In the government's view, long term economic stabilization with improved real growth depends on fiscal stringency, use of monetary policy to fight inflation, and further progress on structural fiscal reforms. In particular, Brazil must continue to attain the fiscal and monetary targets set in consultation with the International Monetary Fund as the precondition for disbursement of a US$ 41.5 billion assistance package and to convince the markets that the country is on the right track. Brazil's privatization program has been the biggest in the world during the 90's and represented a major accomplishment for the first Cardoso administration. However, progress on other needed structural reforms remained slow and the country did not pass its first such reform measure, the constitutional amendment providing for changes in the civil service system, until February 1998. Brazil has made further progress on reform since then including approving part of a needed massive social security overhaul. However, much remains to be done.

Greater availability of credit, higher real incomes due to price stabilization, and a May 1995 hike in the minimum wage freed pent-up consumer demand and ignited a consumption boom in 1994/95 that ended in mid-1997. Lower trade barriers, pent-up import demand, and a strong currency prompted an initial surge in imports, which grew almost 150 percent from 1993 to 1997. Imports fell almost 7 percent in 1998 due to a growth slowdown and declined a further 17 percent in the first nine months of 1999 as the currency depreciated and domestic demand stagnated. In contrast, exports were up just over a third from 1994 to 1997 before falling almost 4 percent in 1998. Despite the approximately 40 percent depreciation of the Real against the dollar in 1999, a combination of factors inhibited export growth and overseas sales fell 11 percent in the first three quarters of the year.

Due to the impact of the global financial crisis and the tight monetary policy adopted in response to it, the economy shrank by 0.1 percent in 1998 and growth will be flat in 1999. Concerned about a widening current account deficit, which reached 4.2 percent of GDP in 1997 and 4.3 percent of GDP in 1998, the government began to adopt measures in 1997 aimed at discouraging imports and encouraging exports. These included imposing restrictions on short-term import finance and consumer credit, expanding the official export credit program, eliminating tariff exemptions for a long list of capital goods, adoption of a customs valuation table, increasing import documentation requirements, and tightening standards and enforcement. Even so, access to Brazilian markets in most sectors is generally good. Most sectors are characterized by competition and participation by foreign firms through imports, local production and joint ventures. The import finance restriction was effectively ended in March 1999 and completely rescinded in October.

In December 1995 Brazil implemented a complex automotive products import regime. The regime expires in 1999 and will be replaced by an as-yet-undefined MERCOSUR regime in the year 2000.

Brazil and its MERCOSUR partners, Argentina, Paraguay and Uruguay, implemented the MERCOSUR Common External Tariff (CET) on January 1, 1995. The CET currently covers approximately 85 percent of 9,000 tariff items; the CET will cover most of the remaining 15 percent by 2001, and all will be covered by 2006. CET levels range between zero and 23 percent. With the exception of tariffs on computers, some capital goods, and products included on Brazil's national list of exceptions to the CET (such as shoes, automobiles and consumer electronics), the maximum Brazilian tariff is now 23 percent; the most commonly applied tariff is 17 percent. MERCOSUR is now negotiating free trade agreements with its South American neighbors. Chile and Bolivia became associate members of Mercosur in October 1996, and negotiations with the Andean Community began in November 1996. On January 1, 1999, Argentina and Brazil took further steps towards a common market, by reducing tariffs on a list of 224 Argentine products and 32 Brazilian products to zero.

The Brazilian Congress ratified the GATT Uruguay Round Agreements in December 1994 and Brazil became a founding member of the WTO.

2. Exchange Rate Policy

Brazil effectively ended the former dual exchange rate market (commercial and tourist (or floating) with the switch to a floating rate foreign exchange regime in early 1999. There is also an informal parallel market but volumes are small. The Government has signaled its intention to move to a fully convertible currency, both for current and capital account transactions, as early as the first half of 2000.

When introduced in July 1994, the real was pegged at parity with the U.S. Dollar but quickly appreciated. The Central Bank established a new system of trading bands in March 1995 and subsequently devalued very gradually, first within the bands and then by adjusting the bands upward. The bank formerly pursued a so-called "crawling peg" policy of nominal depreciation of the real against the dollar at a rate of about 7.5 percent per year. With a steady decline in international reserves following the Russian Crisis, the country was forced to devalue in January 1999 and switched to a floating rate system with Central Bank intervention only to contain volatility.

3. Structural Policies

Although some administrative improvements have been made in recent years, the Brazilian legal and regulatory system is far from transparent. The government has historically exercised considerable control over private business through extensive and frequently changing regulations. As part of its efforts to keep inflation down, the government has in the past frozen public utility rates.

Brazil accelerated the privatization program initiated in 1990 to reduce the size of the government and improve public sector fiscal balances and revenues peaked in 1997-98. Steel companies and most petrochemical companies owned by the government, the main exception being Petrobras, have already been privatized. The majority of voting shares in mining conglomerate Companhia Vale do Rio Doce (CVRD) was sold to the private sector in May 1997 and Telebras was split into 12 firms and privatized in July 1998. Several electric utilities have been privatized and so-called "Band B" cellular telephone concessions covering the whole country were sold in 1997 and 1998. The Rio de Janeiro State bank, Banerj, was sold to the private sector and Sao Paulo state bank Banespa is scheduled to be sold in 2000. Until July 1999, Brazil realized $71 billion in direct sales revenues and a further $17 billion in retirement of public sector debt. The power and telecom sectors have each accounted for a third of total privatization proceeds to date.

Brazil's tax system is extremely complex, with a wide range of income, consumption, and payroll taxes levied at the federal, state and municipal levels. Because of difficulties in passing comprehensive tax reform through Congress, the government has focused on limited revisions by executive order. In late 1995, it passed revisions to the corporate and individual income tax regimes. In 1996, it exempted exports and capital purchases from the state-collected value added tax and announced a single tax on the gross receipts of small and medium enterprises. While the overall objective remains simplification, the government imposed an additional tax on financial transactions for a two-year period beginning in 1997 to finance the health system. The government has announced plans to transform the current system into one where a value-added tax, state and city sales taxes, and a selective excise tax would replace the current system of multiple taxation. The proposal is strongly advocated by Brazil's private sector and made progress in the Congress in 1999.

4. Debt Management Policies

Brazil's total external debt by the end of 1998 was $235 billion, of which 38.5 percent was due to the public sector (excluding Petrobras) and the remainder to the private sector. Total external debt rose 17 percent in the year. External public sector debt rose absolutely but fell as a share of the total. Debt service represented 2.0 percent of Brazil's Gross Domestic Product and 30.9 percent of merchandise exports. Brazil concluded a commercial debt rescheduling agreement (without an IMF standby program) in April 1994 after twelve years of negotiations and has fully complied with the commitments made in this agreement. Until the global financial crisis erupted in mid-1998, the terms of Brazilian debt obligations had lengthened and spreads narrowed on both public and private sector external debts. In November 1998, Brazil negotiated a $41.5 billion assistance program with the IMF and renegotiated the agreement in March 1999 following the decision to float the currency. Perceptions of Brazil risk and thus availability of foreign funding depends on progress on the fiscal stabilization program announced by the government in October 1998 as well as on compliance with fiscal and monetary performance targets set in conjunction with the IMF. In July 1999, Brazil adopted a so-called inflation targeting policy framework that relies on monetary policy to achieve target ranges of inflation. As of November 1999, Brazil was in compliance with all IMF targets and will meet its inflation objective for this year. In December 1999, Brazil and the IMF concluded an agreement on revised targets for the year 2000.

5. Significant Barriers to U.S. Exports

Import Licenses: The Secretariat of Foreign Trade implemented a computerized trade documentation system (SISCOMEX) in early 1997 to handle import licensing. Licenses for many products were to be issued automatically. However, an increasing number of products have been exempt from automatic licensing. In addition, Brazil has placed certain limitations and requirements on products subject to non-automatic licenses. Such measures have been characterized by Brazil as a "deepening" of the existing import licensing regime and as part of a larger strategy to prevent under-invoicing. However, the reported use of minimum price lists raises questions about whether Brazil's regime is consistent with its obligations under the WTO

Agreement on Customs Valuation. On Friday, December 17, 1999, the U.S. requested WTO dispute settlement consultations with Brazil over the reference price issue. Earlier, the United States acted as an interested third party in WTO dispute settlement negotiations on this issue brought by the European Union.

Agricultural Barriers: While progress has been made in the area of fruit and vegetable regulations between the United States and Brazil, sanitary and phytosanitary (SPS) measures remain significant barriers in many cases as Brazil implements more and more regulations due to regional harmonization of such regulations. In November 1998, the U.S. and Brazil agreed on a protocol which allows the U.S. to comply with Brazilian phytosanitary requirements on Hard Red Winter (HRW) wheat, resolving a large portion of the largest bilateral phytosanitary issue with Brazil. However, the U.S. government continues to press for the entry of other kinds of U.S. wheat into Brazil.

Brazil prohibits the entry of poultry and poultry products from the United States, alleging lack of reciprocity. Brazil had previously granted conditional approval for U.S. poultry exports, which was withdrawn when the United States could not grant Brazil an exception to the standard U.S. approval process. Following the lead of the European Union, Brazil prohibits the importation of beef treated with anabolics; however, beef imports from the United States have been allowed on a waiver basis since 1991. In October 1995, Brazil prohibited the importation of live sheep from the United States due to scrapie (a sheep disease).

Services Barriers: Restrictive investment laws, lack of administrative transparency, legal and administrative restrictions on remittances, and arbitrary application of regulations and laws limit U.S. service exports to Brazil. In some areas, such as construction engineering, foreign companies are prevented from providing technical services in government procurement contracts unless Brazilian firms are unable to perform them. Restrictions exist on the use of foreign produced advertising materials.

Many service trade possibilities, in particular services in the oil and mining industries, have been restricted by limitations on foreign capital under the 1988 Constitution. Unless approved under specific conditions, foreign financial institutions are restricted from entering Brazil or expanding pre-1988 operations. The Brazilian Congress approved five constitutional amendments in 1995 that eliminated the constitutional distinction between national and foreign capital; opened the state telecommunications, petroleum and natural gas distribution monopolies to private (including foreign) participation; and permitted foreign participation in coastal and inland shipping. However, the degree to which these sectors are actually opened will depend on implementing legislation. Legislation permitting the licensing of private cellular phone networks to compete with existing parastatal monopolies was passed in May 1996, but it requires majority (51 percent) Brazilian ownership of eligible companies.

Foreign legal, accounting, tax preparation, management consulting, architectural, engineering, and construction industries are hindered by various barriers. These include forced local partnerships, limits on foreign directorships and non-transparent registration procedures.

The U.S. and Brazil signed in early October, 1999, a newly-revised bilateral Maritime Agreement, effectively ending a period of tension generated over misunderstandings relating to preferences afforded to selected classes of cargo. The new agreement must still be ratified by the Brazilian Congress.

Foreign participation in the insurance industry has responded positively to market-opening measures adopted in 1996. However, problems remain with market reserves for Brazilian firms in areas such as import insurance and the requirement that state enterprises purchase insurance only from Brazilian-owned firms. In June 1996, the government legally ended the state's monopoly on reinsurance, but the monopoly has yet to end in practice and its persistence is keeping costs high for insurers, both domestic and foreign. The monopoly Brazil Reinsurance Institute is scheduled for privatization in 2000. U.S. and other foreign reinsurers have expressed concern with proposed regulations regarding the reinsurance market following the sale.

Investment Barriers: Various prohibitions restrict foreign investment in internal transportation, public utilities, media, shipping, and other "strategic industries." In other sectors, Brazil limits foreign equity participation, imposes local content requirements and links incentives to export performance. For example, there are equity limitations, local content requirements, and incentive-based export performance requirements in the computer and digital electronics sector. In the auto sector, local content and incentive-based export performance requirements were introduced in 1995, but should expire in December 1999. Brazil is currently engaged in negotiations with its MERCOSUR partners to develop a common MERCOSUR auto regime by that date.

Brazil's Congress passed constitutional amendments permitting foreign majority participation in direct mining operations, but actual changes will not occur until the 1995 constitutional amendments are implemented through follow-up legislation. In August 1995, the government introduced a measure that permits foreign financial institutions to open new branches or to increase their ownership participation in Brazilian financial institutions. However, foreign ownership of land in rural areas and adjacent to national borders remains prohibited under law number 6634. A 1997 law allows for the state-owned oil company Petrobras, to take a minority stake in oil ventures, something previously prohibited. Despite investment restrictions, U.S. and other foreign firms have major investments in Brazil, with the U.S. investment stake more than doubling from 1994 to 1998.

Government Procurement: Brazil is not a signatory to the WTO Government Procurement Agreement. Federal, state and municipal governments, as well as related agencies and companies, follow a "buy national" policy and rules unfairly permit the government to provide foreign companies with production facilities in Brazil preferential treatment in government procurement decisions. However, Brazil permits foreign companies to compete in any procurement related to multilateral development bank loans and opens selected procurements to international tenders. Given the significant influence of the state-controlled sector, discriminatory procurement policies are a relatively substantial barrier to U.S. exports in Brazil's market, though the privatization of Telebras effectively removes the telecommunications sector from being subject to the procurement laws. To the extent that the privatization program in Brazil continues and non-discriminatory policies are adopted, U.S. firms will have greater opportunities in Brazil.

Law Number 8666 of 1993, covering most government procurement (except informatics and telecommunications), requires nondiscriminatory treatment for all bidders, regardless of nationality or origin of product or service. However, the law's implementing regulations allow consideration of non-price factors, give preferences to telecommunications, computer, and digital electronics goods produced in Brazil, and condition eligibility for fiscal benefits on local content requirements. In March 1994, the government issued Decree 1070, which requires federal and parastatal entities to give preference to locally produced computer and telecommunications products and services based on a complicated and nontransparent price/technology matrix. Bidders that meet one or more of the criteria for preferential treatment are allowed a price differential of up to 12 percent over other bidders.

6. Export Subsidies Policies

In general, the government does not provide direct subsidies to exporters, but does offer a variety of tax and tariff incentives to encourage export production and encourage the use of Brazilian inputs in exported products. Incentives include tax and tariff exemptions for equipment and materials imported for the production of goods for export, excise and sales tax exemptions on exported products, and excise tax rebates on materials used in the manufacture of export products. Exporters enjoy exemption from withholding tax for remittances overseas for loan payments and marketing, and from the financial operations tax for deposit receipts on export products. Excise and sales tax exemptions have now been extended to agricultural and semi-manufactured export products as well as to manufactured products. Exporters are also eligible for a rebate on social contribution taxes paid on locally acquired production inputs.

An export credit program, known as PROEX, was established in 1991. PROEX is intended to equalize domestic and international interest rates for export financing. Revisions to the program were announced in 1998. In 1998, $1.4 billion was budgeted for PROEX with $903 million slated for equalization and $500 million for direct financing. However, only $616 million was actually spend last year on equalization, while $210 million went to financing. Historically, PROEX never used more than 30 percent of its allocated budget, but in 1998 utilized over 50 percent of its allocated resources for the first time.

7. Protection of U.S. Intellectual Property

Brazil belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Madrid Agreement, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Phonograms Convention, Nairobi Treaty, Film Register Treaty, and the Universal Copyright Convention. In 1999, the U.S. Trade Representative placed Brazil back on the "Special 301" Watch List primarily as a result of serious concerns regarding copyright enforcement. Although Brazil has made progress toward improved protection for intellectual property rights, it must take further significant steps to combat piracy.

In the past three years, Brazil has passed revised copyright, software, patent, and trademark legislation. Brazil's new Industrial Property Law took effect in May 1997, bringing most respects of Brazil's patent and trademark regime up to the standards specified in the WTO TRIPs Agreement. However, the new law also includes compulsory licensing and local working provisions that appear to be TRIPs-inconsistent.

Patents: The new Industrial Property Law provides patent protection for chemical and pharmaceutical substances, chemical compounds, and processed food products not patentable under Brazil's 1971 law, and provides patent protection for genetically altered micro-organisms. The law also extends the term for product patents from 15 to 20 years, and provides "pipeline" protection for pharmaceutical products patented in other countries but not yet placed on the market. The large backlog of pipeline patents are being processed, although slowly. In April 1997, a Plant Variety Law was passed that provides protection to producers of new varieties of seeds.

Trade Secrets: The new Industrial Property Law specifically allows criminal prosecution for revealing trade secrets of patented items, with a penalty of imprisonment for three months to a year or a fine. The regulations as written are narrower than the TRIPs Agreement. However, the government argues that since it incorporated Article 39 of the Agreement into law when the Uruguay Round agreements were ratified, in effect it provides a level of protection consistent with the TRIPs Agreement.

Trademarks: The new Industrial Property Law improves Brazil's trademark laws, providing better protection for internationally known trademarks. Trademark licensing agreements must be registered with the National Institute of Industrial Property to be enforceable. However, failure to register licensing agreements will no longer result in cancellation of trademark registration for non-use.

Copyrights: In February 1998, in an effort to raise Brazil's copyright protection to the level of the TRIPs Agreement, President Cardoso signed a new copyright law that generally conforms to international standards. Enforcement, however, remains a problem.

Semiconductor Chip Layout Design: In April 1996, a bill to protect layout designs of integrated circuits was introduced.

8. Worker Rights

a. *The Right of Association:* Unions are free to organize in Brazil. Virtually all workers (except for the military, the military police and firemen) have the right to representation. The only significant limitation is unicidade (literally one per city"), which restricts representation for any professional category to one union in a given geographical area. Both the government and the major labor confederations have argued in favor of removing this restriction, so it may be removed within the next year. Otherwise, unions remain independent of the government and the political parties.

b. *The Right to Organize and Bargain Collectively:* The Constitution provides for the right to organize, and virtually all enterprises of any size have unions. With government assistance, businesses and unions are working to expand and improve mechanisms of collective bargaining. For now, however, many issues normally resolved by collective bargaining come under the purview of Brazil's labor courts, which have the power to intervene in wage bargaining and impose settlements.

c. *Prohibition of Forced or Compulsory Labor:* Although the Constitution prohibits forced labor, credible sources continue to report cases of forced labor in Brazil. The Catholic Church's Pastoral Land Commission (CPT) has documented cases of forced labor in some states, although the CPT reported that the total number of incidents has declined per year through 1998. Forced labor continues on farms producing charcoal for use in the iron and steel industries, and on sugar plantations. The federal government has created a task force, comprising five different ministries, to combat forced labor, and the Ministry of Labor has augmented the task force with mobile inspection teams. These have efforts have improved the situation considerably, though all concerned concede that forced labor continues to be a problem.

d. *Minimum Age for Employment of Children:* The Brazilian Constitution prohibits work by children under the age of 14. Despite this prohibition, the Ministry of Labor estimates that nearly three million children in the age category 10 to 14 years work. Sectors that have child labor include charcoal production, sugar cultivation, citrus fruit plantations, hemp growing, and mining and logging, among others. A coalition of government agencies and NGOs have made effective efforts to limit child labor, notably through the implementation of "scholarships" for families who keep their children in school. The problem, however, persists.

e. *Acceptable Conditions of Work:* Brazil has a minimum wage of approximately 75 dollars (136 reais) a month. Many workers, particularly those outside the regulated economy and in the northeastern part of Brazil, reportedly earn less than the minimum wage. The 1988 Constitution limits the workweek to 44 hours and specifies a weekly rest period of 24 consecutive hours, preferably on Sundays. The Constitution expanded pay and fringe benefits and established new protections for agricultural and domestic workers, though not all provisions are enforced. All workers in the formal sector receive overtime pay for work beyond 44 hours and there are prohibitions against excessive use of overtime. Unsafe working conditions exist throughout Brazil, though Brazilian occupational health and safety standards are consistent with international norms. The Ministry of Labor, responsible for monitoring working conditions, has insufficient resources for adequate inspection and enforcement of these standards.

f. *Rights in Sectors with U.S. Investment:* U.S. multinationals have invested in virtually all the productive sectors in Brazil. Nearly all of the Fortune 500 companies are represented in Brazil. In U.S.-linked enterprises, conditions usually do not differ significantly from the best Brazilian companies; at most U.S. multinationals, conditions are considerably better than the average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,825
Total Manufacturing		22,292
Food & Kindred Products	2,472	
Chemicals & Allied Products	5,524	
Primary & Fabricated Metals	1,324	
Industrial Machinery and Equipment	1,463	
Electric & Electronic Equipment	2,097	
Transportation Equipment	3,390	
Other Manufacturing	6,022	
Wholesale Trade		508
Banking		1,667
Finance/Insurance/Real Estate		4,728
Services		1,664
Other Industries		5,118
TOTAL ALL INDUSTRIES		37,802

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

CANADA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production, and Employment:			
Nominal GDP [2]	631.3	604.0	617.6
Real Growth Rate (pct)	4.0	3.1	3.4
GDP by Sector (pct):			
Goods	33	33	33
Services	67	67	67
Agriculture	2	2	2
Government	20	20	19
Per Capita GDP (US$)	20,765	19,673	20,495
Total Labor Force (000's)	15,354	15,632	15,346
Unemployment Rate (pct)	9.2	8.3	7.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [3]	−1.4	1.5	1.3
Consumer Price Inflation	1.6	0.9	1.7

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999[1]
Exchange Rate: (C$/US$)[4]	1.3844	1.4831	1.4885
Balance of Payments and Trade:			
Global Merchandise Exports	217.7	217.3	231.1
Exports to U.S.	175.1	181.7	194.1
Global Merchandise Imports	200.6	204.6	212.7
Imports from U.S.	152.7	157.5	163.8
Global Merchandise Trade Balance	17.1	12.7	18.4
Balance with U.S.	22.4	24.2	30.3
Current Account Balance/GDP (pct)	1.7	1.8	0.6
Net Public Debt[5]	418.7	388.9	421.2
Debt Service/GDP (pct)[5]	4.9	4.6	4.5
Federal Budget Deficit/GDP (pct)	0.4	0.3	0.0
Official Int'l Reserves[3]	18.0	23.4	26.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1999 data is embassy projection unless otherwise noted.
[2] Exchange rate conversion causes nominal C$ growth to be reflected as negative US$ growth.
[3] Actual as of October 31, 1999.
[4] January to October 1999 average.
[5] Canadian Government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that resembles the United States in its per capita output, market-oriented economic system, and pattern of production. While production and services are predominantly privately owned and operated, the federal and provincial governments provide a broad regulatory framework and redistribute incomes among individuals and provinces. Federal government economic policies since the mid-1980s have emphasized the reduction of public sector intervention in the economy and the promotion of private sector initiative and competition. Nevertheless, government regulatory regimes affect foreign investment, most notably U.S. firms operating in telecommunications, broadcasting, publishing, energy, mining, and financial services.

A consensus of forecasters has projected the Canadian economy to grow by 3.6 percent in 1999, easing to 3.0 percent in 2000. These projections place Canada in line with the United States to lead the OECD in economic output in both years. In 1999, Canada's important export sector continued to benefit from the strong U.S. economy and from Canada's undervalued currency. At the same time, relatively low interest rates, employment gains and fiscal stimulus from the government sector fueled consumer spending. In 2000, Canadian economic growth is forecast to slow in line with the U.S. economy. The impact of slower U.S. growth will be most evident in Canada's external trade, since almost 85 percent of Canada's exports go the United States. Nevertheless, the Canadian economy should benefit from the "new era" of federal budget surpluses and improved provincial finances, as well as the positive turnaround in the Asian economies and rising commodity prices.

The close proximity and integrated manufacturing sectors of Canada and the United States has resulted in the largest bilateral merchandise trade relationship in the world. In 1998, total two-way trade in goods and services between the U.S. and Canada was US$368 billion, or, over US$1 billion each day. This was more than U.S. trade with the rest of the Western Hemisphere, and only US$107 billion less than U.S. goods and services trade with the entire 15-country European Union. The United States and Canada also share one of the world's largest bilateral direct investment relationships. In 1998, the stock of Canadian foreign direct investment in the U.S. was US$75 billion. At the same time, U.S. foreign direct investment in Canada was US$104 billion.

The United States and Canada share a 5,500-mile border. Both governments are committed to making this border a model of cooperation and efficiency. In 1995, President Clinton and Prime Minister Chretien announced the Shared Border Accord, a framework for better border management that seeks an appropriate balance between commercial facilitation and law enforcement. Since 1997, the U.S. Immigration and Naturalization Service has worked jointly with Citizenship and Immigration Canada on a border vision process regarding migration issues. On October 8, 1999, President Clinton and Prime Minister Chretien confirmed the following guiding principles for U.S.-Canada border cooperation: (1) to streamline, harmonize and collaborate on border policies and management; (2) to expand cooperation to increase efficiencies in customs, immigration, law enforcement and environmental protection at and beyond the border; and (3) to collaborate on common threats from outside Canada and the United States. The Canada-U.S. Partnership Forum (CUSP), established by Secretary of State Albright and Foreign Minister Axworthy, will work to facilitate implementation of these principles.

The U.S.-Canada bilateral civil aviation market is the largest in the world. As a result of the 1995 U.S.-Canada air transport agreement, U.S. and Canadian airlines are free to decide routes, ticket prices, and flight frequencies without government interference. Over a three-year period, the new agreement essentially removed all restrictions on U.S.-Canada transborder air services. By all accounts, the economic benefits of the new agreement have been enormous: total U.S.-Canada passenger traffic has increased by about 40 percent; fares have decreased significantly, and over 40 new city-pairs have service for the first time.

2. Exchange Rate Policy

The Canadian Dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada, which is the country's central bank, operates in the exchange market on almost a daily basis to maintain orderly trading conditions.

3. Structural Policies

The market establishes prices for most goods and services. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products). The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multistage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the United States, although it varies by province.

4. Debt Management Policies

The Canadian federal government (GOC) recorded its second consecutive budgetary surplus in FY1998-99 (April 1-March 31), the first back-to-back surpluses in 47 years. Currently, the GOC projects that even though it plans to begin multi-year tax cuts in FY2000-2001, it will still have a cumulative budget surplus of US$65.5 billion by the end of FY2005. In FY1998-99, Canada's net public debt was reduced to US$393.7 billion, or 64.4 percent of GDP, an improvement from a peak of 71.2 percent of GDP in FY1995-96. In the past few years, Canada can take pride in experiencing a larger decline in its debt-to-GDP ratio than any other country in the G-7. Nevertheless, Canada's debt burden is still well above the G-7 average, ranking second highest after Italy. This is why the federal government remains committed to ongoing debt reduction initiatives. Such efforts will also serve to reduce Canada's debt servicing requirements, which currently absorb 27 cents of every government revenue dollar.

5. Significant Barriers to U.S. Exports

The U.S.-Canada trade relationship is governed by the 1989 U.S.-Canada Free Trade Agreement (CFTA) and the 1994 North American Free Trade Agreement (NAFTA.) While many tariffs were eliminated by January 1, 1994, non-tariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth. Canada maintains some restrictions on foreign investment and content in the so-called "cultural industries" and related sectors, including book and magazine publishing, broadcasting, and telecommunications. The United States objects to some of these restrictions and closely monitors new laws and regulations affecting these sectors.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally. With regard to Canada's policies on milk, the United States maintains that Canada is providing export subsidies on dairy products without regard to its export subsidy reduction commitments in the agreement on agriculture (see also export subsidies policies section). The WTO appellate body upheld a February 5, 1999 ruling that Canada's dairy export pricing practices constitute a subsidy on milk used in products for export.

In 1997, a WTO panel supported U.S. complaints against various Canadian measures that limited U.S. access to the Canadian publications market. In mid-1999, Canada replaced these measures with the Foreign Publishers Advertising Services Act, which would have made it a criminal offense, punishable by fines, for foreign-based publishers to supply advertising services directed at the Canadian market. Under an agreement negotiated with the U.S. government, smaller circulation foreign-based publishers are exempted from the Act, as are foreign-controlled publications that contain 12 percent or less of advertising measured by revenue in a given issue, directed primarily at the Canadian market. Canada committed to increasing this percentage to 15 percent on December 3, 2000 and to 18 percent on June 3, 2002.

Canada is a signatory to the GATS Agreement on Basic Telecommunications Services. Recent regulatory changes have opened both long-distance and local telephone services to competition. Canada's WTO obligations require a monopoly by Teleglobe Inc. on overseas calling to end in 1999. In September 1998, Canada eliminated third country routing restrictions for international traffic routed to and from Canada through the United States. Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. Canada retains a 46.7 percent limit on foreign ownership and a requirement for Canadian control of basic telecommunications facilities.

Foreign access to the Canadian financial services sector has improved as a result of the NAFTA and the GATS. The WTO Agreement Implementation Act removed long-standing limitations on non-Canadian ownership of federally regulated financial institutions; lifted a market share limitation on foreign banks; and extended NAFTA thresholds for investment review and control to all WTO members. Banking falls exclusively under federal jurisdiction, while the regulation of securities companies falls under provincial control.

The banking industry in Canada is governed by the federal Bank Act. The Bank Act and other financial services laws are mandated for review every five years. Amendments to the Bank Act in 1992 and 1997 removed some irritants of doing business in Canada for U.S. and other foreign banks. Foreign banks can now opt out of Canada Deposit Insurance, and as of February 1999, can set up branches. Two types of foreign bank branches are currently permitted: full-service and lending. Full-service branches are authorized to take non-retail deposits of not less than C$150,000 (est. US$100,000), while lending branches are not allowed to take any deposits and can borrow only from other financial institutions. The purpose of lending branches is to provide new sources of funds to businesses and credit card users. Full-service branches and foreign bank subsidiaries are not allowed to own lending branches.

In Canada's insurance market, companies can incorporate under provincial or federal law. Foreign ownership remains subject to investment review thresholds, and several provinces continue to subject foreign investments in existing, provincially incorporated companies to authorization. Insurance companies may supply their services either directly, through agents or through brokers. Life insurance companies are not generally allowed to offer other services (except for health, accident and sickness insurance), but may be affiliated with, and distribute the products of, a property and casualty insurer. As in banking, a commercial presence is required to offer insurance, reinsurance and retrocession services in Canada. However, insurance companies may branch from abroad on condition that they maintain trustees assets equivalent to their liabilities in Canada. Insurance companies can own deposit-taking financial institutions, investment dealers, mutual fund dealers and securities firms. In addition, insurance companies may engage directly in lending activities on an equal footing with deposit-taking institutions. The car insurance industry is a publicly owned monopoly in Quebec, British Columbia, Manitoba and Saskatchewan. All other provinces have regulated premiums.

Provincial legislation and liquor board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

Canada currently prohibits foreign ownership of land border duty-free stores and imposes certain business size requirements and one-shop-per-site encumbrances that effectively limit market access. Prompted by citizen complaints, Canada initiated a review of requirements for land duty-free licenses in August 1998, and federal agencies currently are considering regulatory changes that may liberalize the industry and create investment opportunities for U.S. companies. The United States has encouraged the Government of Canada to give these proposed changes due consideration.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

The Canadian Special Import Measures Act (SIMA) governs the use of anti-dumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA The Deputy Minister of National Revenue is responsible for initiating investigations and making preliminary and final determinations respecting dumping/subsidizing and preliminary determinations of injury. The Canadian International Trade Tribunal (CITT) is responsible for making final injury determinations. When the SIMA investigation process has resulted in levies imposed on U.S. products, these duties become an impediment to U.S. trade opportunity.

Transboundary environmental issues continue to be a major border concern to U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on watersheds, flooding, air pollution and other common concerns. Efficient management of this agenda is complicated because of shared federal, state/provincial and local jurisdiction, and by the fact that it is carried out not only through bilateral agreements but by unique institutions such as the International Joint Commission (IJC) and the still-evolving NAFTA Commission on Environmental Cooperation.

6. Export Subsidies Policies

Export credit guarantees to support bulk and processed agricultural product exports are available through the Canadian Wheat Board and the Export Development Corporation, both crown corporations. Due to lack of transparency, data on the value and/or volume of commodities exported with credit guarantee support, destination countries, and terms are very limited.

Canada operates a two-tiered pricing system that enables dairies to acquire milk at a discount on the condition that the resulting products are exported or incorporated into certain further processed food products. By charging a higher price for milk and milk containing products for domestic consumption, the Canadian Dairy Commission is able to provide dairy product exporters with access to lower priced milk. The WTO appellate body upheld a February 5, 1999 ruling that these practices constitute an export subsidy.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Bern Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. On December 18, 1997, the Canadian Government committed itself to sign the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which deal with copyright and protection for performers and phonogram producers.

The most recent amendments to the Canadian Copyright Act were in 1997 and included, inter alia, "neighboring rights," which requires broadcasters to pay royalties to recording artists and record producers from countries that are signatories of the Rome Convention, (the United States is not). The 1997 legislation also establishes a levy on recordable, blank audio media, payable by manufacturers and importers of blank tapes to domestic artists and artists from countries with the same levy in place. The Government of Canada is in the process of determining how it will implement these amendments and we will continue to monitor their progress to ensure that implementation is consistent with national treatment provisions under the NAFTA. In 1998 and again in 1999, the U.S. Trade Representative maintained Canada on the "Special 301" Watch List because it perceives Canada's reciprocity application of these two provisions as a violation of Canada's national treatment obligations under NAFTA. The GOC has broad authority to grant the benefits of the regime to other countries, although it has yet to announce a determination regarding the U.S.

On April 30, 1999, USTR announced the initiation of WTO dispute settlement proceedings against Canada regarding its failure to grant a full 20-year patent term to certain patents as requirement by the TRIPs Agreement. Under the Agreement, Canada must provide a minimum patent term of 20 years from the date of filing. The TRIPs Agreement also requires that Canada extend such protection to all patents in existence on January 1, 1996. Canada provides a 20-year patent term only to those patents filed after October 1, 1989; earlier patents receive only 17 years of protection from the date that the patent was granted. At the WTO Dispute Settlement Body meeting on July 26, Canada blocked the USG request on the formation of a dispute settlement panel. Canada was not able to block the USG's second panel request, which took place on September 22.

8. Worker Rights

a. *The Right of Association:* Except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. *The Right to Organize and Bargain Collectively:* Workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights that vary from province to province. Over 37 percent of Canada's non-agricultural workforce are unionized.

c. *Prohibition of Forced or Compulsory Labor:* There is no forced or compulsory labor practiced in Canada.

d. *Minimum Age Employment of Children:* Generally, workers must be 17 years of age to work in an industry under federal jurisdiction. Provincial standards (covering more than 90 percent of the national workforce) vary, but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. The statutory school-leaving age in all provinces is 16.

e. *Acceptable Conditions of Work:* Federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards. Those standards are respected in practice.

f. *Rights in Sectors with U.S. Investment:* Worker rights are the same in all sectors, including those with U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		12,559
Total Manufacturing		46,428
Food & Kindred Products	5,143	
Chemicals & Allied Products	8,295	
Primary & Fabricated Metals	3,231	
Industrial Machinery and Equipment	3,046	
Electric & Electronic Equipment	2,174	
Transportation Equipment	11,179	
Other Manufacturing	13,359	
Wholesale Trade		7,265
Banking		1,203
Finance/Insurance/Real Estate		22,057
Services		4,598
Other Industries		9,799
TOTAL ALL INDUSTRIES		103,908

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

CHILE

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP [2]	77.1	79.6	79.5
Real GDP Growth (pct) [1]	7.1	- 3.3	−2.7
GDP Growth by Sector (pct) [1 2]			
Fishing	8.1	5.0	−1.3
Agriculture	2.1	1.4	−0.3
Mining	8.1	3.0	13.3
Manufacturing	9.5	4.0	−3.2

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Construction	8.2	3.0	–10.2
Services	35.5	18.0	–1.9
Government	5.3	6.0	1.3
Per Capita GDP (US$)[1]	5,300	5,100	5,000
Labor Force (000's)[1]	5,380	5,851	5,854
Unemployment Rate (pct)[1]	5.3	6.0	11.0
Money and Prices (annual percentage growth):			
Money Supply (M2)[2]	21.7	10.5	6.0
Consumer Price Inflation (pct)[1]	5.6	4.7	2.4
Exchange Rate (Peso/US$)[1]	419	465	543
Balance of Payments and Trade:			
Total Exports FOB[4]	16.9	14.9	8.5
Exports to U.S.[5]	2.7	2.9	1.5
Total Imports CIF[4]	18.2	17.4	7.2
Imports from U.S.[5]	4.3	4.0	1.5
Trade Balance[4]	–1.3	–2.5	1.1
Balance with U.S.[5]	–1.6	–1.1	0.0
Current Account Deficit/GDP (pct)	5.2	5.2	0.0
Total External Debt[1]			
Private Debt	21.6	26.0	28.3
Public Debt	5.1	5.7	5.9
Debt Service Payments/Exports (pct)[1]	20.1	24.9	36.0
Fiscal Deficit/GDP (pct)[1]	0.0	0.0	0.5
Gold and Foreign Exchange Reserves (US$ billions)[1]	17.8	15.3	15.0
Aid from U.S. (US$ millions)[5]	0.3	0.3	0.3
Aid from All Other Sources	N/A	N/A	N/A

[1] Central Bank of Chile, November 1999 Monthly Information Bulletin.
[2] Central Bank of Chile, August 1999 Monthly Information Bulletin.
[3] Includes electricity, gas, and water generation.
[4] DIRECON.
[5] U.S. Department of Commerce, International Trade Administration Statistics.

1. General Policy Framework

Chile's economy suffered a sharp recession from November 1998 to late 1999, following a decade of over 7 percent average growth. A fall in exports (mainly due to the Asian economic crisis) coupled with a striking spike in short-term interest rates in the fourth quarter of 1998, pushed Chile into 11 consecutive months of negative growth between November 1998 and October 1999. Unemployment rose to 11.5 percent in August 1999, marking 16 months of rising unemployment, before falling to 11 percent in November. Exports of primary products such as copper remain strong; copper exports have risen an average of 20 percent in value over 1998 figures despite lower prices that prevailed for much of 1999. Chile's credit rating remains investment grade, and direct foreign investment has increased to record levels despite the recession. Growth is projected at approximately 5 percent in 2000 as domestic demand slowly comes out of a slump and vibrant exports continue in the context of international economic recovery.

The government of Eduardo Frei (1994 to March 2000) has continued Chile's policies of macroeconomic stability and export orientation. The calendar year 1999 budget will register Chile's first deficit in 10 years, but the Finance Ministry insisted upon and won passage of a 2000 budget that features 3.3 percent nominal growth, basically flat when considered in context of 3-4 percent predicted inflation. While the GOC has expressed concern over too-rapid, uncontrolled capital inflows prior to the 1998-99 economic crisis, it has continued to loosen capital restrictions. Following legislative changes in 1997, foreign banks have invested heavily in the Chilean market (particularly in 1999). Foreign insurance and finance companies are also dominant in the health and pension industries, owning most of the market leaders. The Government of Chile has privatized some ports through concessionary contracts. Bid documents have been released for the privatization of water and waste water treatment facilities.

In September of 1999, Chile's independent Central Bank dropped the exchange-rate band system that governed its exchange rate policy. This is a major change from previous policy, which sought to keep the peso/dollar rate within pre-set parameters. The Central Bank maintains its policy of balancing growth and inflation via short-term interest rate policy and intervention in the currency markets, but has pledged to use those tools sparingly.

The 1998-1999 contraction is showing definite signs of abating at the close of the year, but has left unemployment at 11 percent, nearly twice the average level seen in the 1990s. Domestic demand is still depressed, following a contraction of 8.5 percent in the third quarter of 1999 versus the third quarter of 1998. Chilean exports to Latin America remain sharply lower. 2000 is expected to bring renewed growth to the Chilean economy. Private and government economists generally agree that growth should reach approximately 5 percent annually, with steam picking up in the 3 rd and 4 th quarters. Commodity prices are expected to rise internationally, boosting the already strong performance of the copper and mining sector. Unemployment should gradually fall from its peak of 11.5 percent to the 8-9 percent range by mid-2000. Chile's current trade surplus should continue in the mid-term, as domestic demand recovers from a sharp 13 percent decline and exports rebound. The small current account surplus will, in all likelihood, disappear, and Chile will revert to its traditional deficit; policy-makers are committed to seeing it remain at a much lower level than seen prior to the recession.

2. Exchange Rate Policies

The Central Bank moved to a freely floating exchange-rate system from an exchange-rate band in September 1999. The peso promptly devalued by 5 percent within six weeks before stabilizing and recovering somewhat. The Central Bank's short-term interest rate is currently 5 percent, and the Central Bank and Treasury Ministry are committed to holding it there at least until growth solidifies in 2000.

Over the last several years, the Central Bank has gradually reduced restrictions on foreign-exchange outflows. In 1995, it lifted the requirement that exporters remit some of their foreign currency earnings through the inter-bank market. A legal parallel market operates with rates almost identical to the inter-bank rate. The value of the peso versus the U.S. dollar has fallen almost 18 percent in 1999 in real terms (473 pesos to the dollar in December 1998 to 547 in December 1999), given roughly equivalent rates of inflation.

3. Structural Policies

Pricing policies: The government rarely sets specific prices. Exceptions are urban public transport and some public utilities and port charges. State enterprises generally purchase at the lowest possible price, regardless of the source of the material. U.S. exports enter Chile and compete freely with other imports and Chilean products. Chile's trade agreements with Mexico, Canada, Mercosur and Central America give exporters from those countries significant competitive advantages—virtually all Mexican and Canadian exports enter the Chilean market duty free. Import decisions are typically related to price competitiveness and product availability. (Certain agricultural products are an exception. See section 5.)

Tax policies: An 18-percent value-added tax (VAT) applies to all sales transactions and accounts yielding over 40 percent of total tax revenue. There is a 10 percent tariff on virtually all imports originating in countries with which Chile does not have a free trade agreement, down from 11 percent in 1998. Tariffs are programmed to drop to 9 percent in 2000, and to keep falling by one percentage point per year through 2003, at which point tariffs will stabilize at 6 percent. Computers enter Chile duty-free as a result of the Information Technology Agreement. Personal income taxes are levied only on income over about $6,000 per year. The top marginal rate is 45 percent on annual income over about $75,000. Profits are taxed at flat rates of 15 percent for retained earnings and 35 percent for distributed profits, with incentives for business donations to educational institutions. Tax evasion is not a serious problem.

Regulatory policies: Regulation of the Chilean economy is limited. The most heavily regulated areas are utilities, the banking sector, securities markets, and pension funds. No government regulations explicitly limit the market for U.S. exports to Chile (although other government programs, like the price-band system for some agricultural commodities described below, displace U.S. exports). In recent years, the government has introduced rules permitting private investment in the construction and operation of public infrastructure projects such as toll roads. The "privatization" of Chilean state-owned ports, which consists of granting long-term concessions for the operation and management of ports, is proceeding as projected. The three most important state-owned ports have already granted concessions: Puerto Valparaiso, Puerto San Antonio, and Puerto San Vicente/Talcahuano. The Ports of Arica and Iquique are undergoing the bidding process. The due date to present technical offers is January 27, 2000, and concessions will be awarded by February 2000. These five ports account for approximately 30 percent of the total cargo transferred in Chilean ports and almost 80 percent of the cargo transferred at state-owned ports; much of Chilean exports is accounted for by copper and mineral exports that leave via private loading facilities. Bid documents have been released for the privatization of water and waste-treatment facilities.

4. Debt Management Policies

Due to Chile's vigorous economic growth and careful debt management over the last decade, the magnitude of foreign debt no longer constitutes a major structural problem. As of November 1999 Chile's public and private foreign debt was $34.2 billion, or 43 percent of GDP (In 1985, the debt-to-GDP ratio was 125 percent.) Public-sector debt has remained low the past four years, reaching $5.9 billion in 1999, or 7.4 percent of GDP, reflecting 10 years without fiscal deficits. In 1995, the government and the Central Bank prepaid over $1.5 billion in debt to the International Monetary Fund (IMF).

5. Significant Barriers to U.S. Exports

Chile has a relatively open economy and is a member of the WTO. However, many agricultural commodities are subject to strict phytosanitary requirements and restrictions. Beginning in January 2000, the uniform Chilean tariff rate will decline to 9 percent and will be reduced by one percentage point per year to reach a rate of six percent in 2003. The uniform rate applies to all goods except for used goods, which are subject to a 16.5 percent tariff. Chile has free-trade agreements that will lead to duty-free trade in most products by the early 2000's with Canada, Mexico, Venezuela, Colombia, Ecuador, Peru, Bolivia, the Mercosur bloc, and the Central American nations of El Salvador, Nicaragua, Honduras, Guatemala and Belize. Chile is also an active participant in negotiations for the Free Trade Area of the Americas (FTAA). Tariffs also are lower than 10 percent for certain products from member countries of the Latin American Integration Association (ALADI).

The 18 percent VAT is applied to the CIF value of imported products plus the 10 percent import duty. Duties may be deferred for seven years for capital goods imports purchased as inputs for products to be exported. Duties may be waived on capital goods to be used solely for production of exports. (See section 6.) Automobiles are subject to an additional tax known as the luxury tax. Legislation was approved in August 1999 that increased the value of imported vehicles above which the luxury tax applies from approximately $10,000 to $15,000. Automobiles that have a CIF value over $15,000 pay an 85 percent tax on the value of the vehicle over $15,000. This tax discourages sales of larger and more expensive vehicles, including many U.S.-made automobiles. Despite these taxes, sales of U.S.-brand vehicles are rising.

Another tax with the effect of discouraging U.S. exports is a prejudicial excise tax on distilled liquors that compete with domestically produced liquors. In late 1997, the legislature passed a law to gradually modify, but not eliminate, the discriminatory taxation faced by imported liquors. The European Union won a WTO panel appeal over Chile's discriminatory liquor taxation, and the Government of Chile must bring its law regarding taxation of distilled spirits into compliance with WTO disciplines. The U.S. was a third party observer to the panels.

Import licenses: According to legislation governing the Central Bank since 1990, no legal restrictions are imposed on licensing. Import licenses are granted as a routine procedure for most products. Imports of used automobiles and most used car parts are prohibited.

Investment barriers: Chile's foreign investment statute, Decree Law 600, sets the standard of treatment of foreign investors to be the same as that of Chilean investors. Foreign investors using DL 600 sign a contract with the government's Foreign Investment Committee guaranteeing the terms and tax treatment of their investments. These terms include the rights to repatriate profits immediately and capital after one year, to exchange currency at the official inter-bank exchange rate, and to choose between either national tax treatment at 35 percent or a guaranteed rate for the first ten years of an investment at 42 percent. Approval by the Foreign Investment Committee is generally routine, but the committee has rejected some "speculative" investments. In late 1997, the government modified its DL 600 policy to restrict investment entering under the law's provisions to projects worth more than $1 million. In addition, projects of more than $15 million are now routinely vetted with the Central Bank to identify possible "speculative" flows. Associated external loan financing in excess of the value of direct foreign investment flows cannot enter under the provisions of DL 600 (i.e., to enter free of deposit provisions, foreign loan leveraging cannot exceed a ratio of 1:1).

Investment not entering Chile through DL 600 can enter under Chapter 14 of the Central Bank Regulations. Under Chapter 14, investors can be required to deposit a certain percentage of the value of capital inflows in a non-interest-bearing Central Bank account (known as the "encaje") for as long as two years; through mid-1998, the required deposit was 30 percent for one year. Responding to increasing risk premiums charged by creditors and a substantial decline in foreign financial capital flows as a result of the global financial crisis, the Central Bank reduced the requirement to zero in August 1998, but did not abolish the policy. The purpose of the policy had been to limit speculative flows and thus to help stabilize the value of the Chilean peso. When in effect, the encaje applies to inflows of foreign capital into stocks, bonds, bank deposits, as well as real estate, none of which in the view of local authorities increases the Chilean economy's productive capacity or improves technology. There is no tax treaty between Chile and the United States (although negotiations are underway), so profits of U.S. companies operating in Chile are liable to taxation by both governments. However, U.S. firms generally can claim credits on their U.S. taxes for taxes paid in Chile.

Firms may invest without using DL 600 or registering with the foreign investment committee by bringing capital in through foreign exchange dealers or private banks under Chapter 14. Few firms have used this means of investment, as it subjects funds to the encaje and lacks the guarantees provided by the contract with the foreign investment committee.

There are some deviations, both positive and negative, from the nondiscrimination standard. Foreign investors receive better than national treatment on taxation, as they have the option of fixing the tax rate they will pay at 42 percent for ten years or paying the prevailing domestic rate, which is at present lower. There are also examples of less than national treatment.

D.L. 600 allows the Central Bank to restrict the access of foreign investors to domestic borrowing in an emergency in order to prevent distortion of local financial markets. The Central Bank has never exercised this power.

Other examples of less than national treatment are certain sectoral restrictions on foreign investment. With few exceptions, fishing in the country's 200-mile Exclusive Economic Zone is reserved for Chilean-flag vessels with majority Chilean ownership. Such vessels also are the only ones allowed to transport by river or sea between two points in Chile ("cabotage") cargo shipments of less than 900 tons or passengers. The automobile and light truck industry is the subject of trade-related investment measures.

Oil and gas deposits are reserved for the state. Private investors are allowed concessions, however, and foreign and domestic nationals are accorded equal treatment.

Services barriers: Full foreign ownership of radio and television stations is allowed, but the principal officers of the firm must be Chilean. A freeze in force since the early 1980s on the issuance of new bank licenses means that investors, foreign and domestic, have to acquire existing banks. The Government of Chile promulgated banking reform legislation in December 1997 that, inter alia, established objective criteria for issuing new bank licenses.

Principal non-tariff barriers: The main trade remedies used by the Chilean government are surcharges, minimum customs values, countervailing duties, antidumping duties, and import price bands and safeguards. A significant nontariff barrier is the import price-band system for wheat, wheat flour, vegetable oils, and sugar. When import prices are below a set threshold, surtaxes are levied on top of the across-the-board 10-percent tariff to bring import prices up to an average of international prices over previous years. Because of low international wheat and sugar prices this year, the price-band system imposed import duties well above Chile's WTO bound rate of 31.5 percent. As a consequence, the GOC announced the use of safeguards to legalize the lack of compliance with its WTO bound tariff rate. Domestic beverage manufacturers have complained bitterly about the high duty on sugar. Imports of U.S. wheat, while subject to import duties of nearly 40 percent will be at near record levels in 1999.

Animal health and phytosanitary requirements: Chile has been slow to recognize pest-free areas in the United States, delaying the export approval for many U.S. fruits and vegetables to Chile. Chile has begun to publish its regulations and allow for a public comment period on proposed rules changes. Most import permits are issued on a case-by-case basis, thereby lending to uncertainty and possible discriminatory treatment. Procedures and tolerances for testing imported chicken for the presence of salmonella present such a severe commercial risk that local importers are reluctant to import such products. Chile's unique beef grading and labeling requirements deter the trade from considering the importation of beef cuts from the United States.

Government procurement practices: The government buys locally produced goods only when the conditions of sale (price, delivery times, etc.) are equal to or better than those for equivalent imports. In practice, given that many categories of products are not manufactured in Chile, purchasing decisions by most state-owned companies are made among competing imports. Requests for public and private bids are published in the local newspapers and will soon be published on the Internet.

6. Export Subsidies Policies

Chile offers a few non-market incentives to exporters. For example, paperwork requirements are simplified for nontraditional exporters. The government also provides exporters with quicker returns of VAT paid on inputs than other producers receive. In 1997, Chilean subsidies became the focus of a countervailing duty investigation by the Department of Commerce of Chilean salmon exports to the United States; on June 22, 1998, the countervailing duty determination was found to be negative.

The most widely used indirect subsidy for exports is the simplified duty drawback system for nontraditional exports. This system refunds to exporters of certain products a percentage of the value of their exports, rather than refunding the actual duty paid on imported inputs to production (as is the case in Chile's standard drawback program). All Chilean exporters may also defer tariff payments on capital imports for a period of seven years. If the capital goods are used to produce exported products, deferred duties can be reduced by the ratio of export sales to total sales. If all production is exported, the exporter pays no tariff on capital imports.

In 1998, the Chilean congress replaced earlier forestry-sector subsidy legislation with a new law that will be directed mainly toward assisting small farmers. Planting costs will be subsidized by as much as 90 percent for the first 15 hectares and 75 percent for the remainder in the case of small farmers. A maximum of $15 million dollars yearly will be destined for this purpose. Special land-tax exemptions will also be part of the program. Under the previous law, the combined subsidy costs incurred during 1997 totaled $7.7 million, down from $15.3 million in 1996.

7. Protection of U.S. Intellectual Property

Chile's intellectual property regime is basically strong. However, deficiencies in the intellectual property regime have kept Chile on the USTR Special 301 watch list since 1989. Chile belongs to the World Intellectual Property Organization. In late 1999 the Chilean Government submitted draft legislation to the Congress to attempt to bring Chile into compliance with its WTO TRIPS commitments.

Copyrights: Piracy of video and audio tapes has been subject to criminal penalties since 1985. Chilean authorities have taken enforcement measures against video, video game, audio, and computer software pirates in recent years, and piracy has declined in each of these areas. In the mid-1980s, the software piracy rate was believed to be around 90 percent; it is currently estimated at roughly 55 percent, believed to be the lowest rate in Latin America. The decline is in part the result of a campaign by the U.S. and international industry, with the cooperation of Chile's courts and government, to suppress the use of pirated software. Greater access to authorized dealers and service has also helped to reduce the rate of piracy. Industry sources say that penalties remain low relative to the potential earnings from piracy and that stiffer penalties would help to deter potential pirates. Copyright protection is generally the life of the author plus 50 years.

Trademarks: Chilean law provides for the protection of registered trademarks and prioritizes trademark rights according to filing date. Local use of a trademark is not required for registration. As with the licensing of other intellectual property privileges, contracting parties may freely set payment rates for use of trademarks.

8. Worker Rights

a. *The Right of Association:* Most workers have a right to join unions or to form unions without prior authorization, and around 12 percent of the work force belongs to unions. Government employee associations benefited from legislation in 1995 that gave them many of the same rights as unions, although they may not legally strike. Reforms to the labor code in 1990 removed significant restrictions on the right to strike. Those reforms require that a labor inspector or notary be present when union members vote for a strike. In late 1999, the Government of Chile narrowly failed in pushing through Congress reforms to Chilean labor laws that encouraged greater collective bargaining.

b. *The Right to Organize and Bargain Collectively:* The climate for collective bargaining has improved, though unions still face difficulties. Sector-wide collective bargaining would be permitted under legislation proposed by the Government of Chile and narrowly defeated in the Chilean Congress. The process for negotiating a formal labor contract is heavily regulated, a vestige of the statist labor policies of the 1960's. However, the law permits (and the Frei government has encouraged) informal union-management discussions to reach collective agreements outside the regulated bargaining process. These agreements have the same force as formal contracts.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in the constitution and the labor code and is not practiced.

d. *Minimum Age for Employment of Children:* Child labor is regulated by law. Children as young as 14 may be legally employed with permission of parents or guardians and in restricted types of labor. Some children are employed in the informal economy, which is more difficult to regulate. The Chilean government estimates that roughly 50,000 children between the ages of 6 and 14 work. Most of these children work in the countryside, and many of them work with their parents.

e. *Acceptable Conditions of Work:* Minimum wages, hours of work, and occupational safety and health standards are regulated by law. The legal workweek is 48 hours. The minimum wage, currently around $190.00 per month, is set by government, management, and union representatives or by the government if the three groups cannot reach agreement. Lower-paid workers also receive a family subsidy. The minimum wage and wages as a whole have risen steadily over the last several years. As a result, poverty rates have declined dramatically in recent years from 46 percent of the population in 1987 to 21.7 percent in 1998. Currently 11 percent of salaried workers earn the minimum wage.

f. *Rights in Sectors with U.S. Investment:* Labor rights in sectors with U.S. investment are the same as those specified above. U.S. companies are involved in virtually every sector of the Chilean economy and are subject to the same laws that apply to their counterparts from Chile and other countries. There are no special districts where different labor laws apply.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		18
Total Manufacturing		845
Food & Kindred Products	162	
Chemicals & Allied Products	294	
Primary & Fabricated Metals	39	
Industrial Machinery and Equipment	14	
Electric & Electronic Equipment	(1)	
Transportation Equipment	(1)	
Other Manufacturing	204	
Wholesale Trade		342
Banking		627
Finance/Insurance/Real Estate		3,429
Services		212
Other Industries		3,659
TOTAL ALL INDUSTRIES		9,132

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

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

COLOMBIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment: [2 3]			
Nominal GDP	96.2	89.7	87.9
Real GDP Growth (pct)	3.1	0.6	–3.5
GDP by Sector:			
Agriculture	17.6	17.4	15.8

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1]1999
Manufacturing	17.3	17.5	15.9
Services (includes financial)	30	29.5	26.7
Commerce	11.1	11.2	10.1
Government[4]	27	27.5	26.6
Per Capita GDP (US$)	2,440	2,243	2,219
Labor Force (000's)[5]	16,908	17,212	17,521
Unemployment Rate (pct)	13.3	15.9	20.0
Money and Prices (annual percentage growth):[6]			
Money Supply Growth (M2)	24.6	20.5	18.0
Consumer Price Inflation	17.7	16.7	11.0
Exchange Rate (Peso/US$ annual average)			
Official	1,141.1	1,425.9	1,750.0
Balance of Payments and Trade:[7]			
Total Exports FOB	11.6	10.8	10.9
Exports to U.S.	4.2	4.0	4.6
Total Imports CIF	15.3	14.6	11.1
Imports from U.S.	5.8	4.6	4.5
Trade Balance	–3.7	–3.8	–0.2
Balance with U.S.	–1.6	–0.6	0.1
Current Account Deficit/GDP (pct)	–5.8	–5.9	–2.8
External Public Debt	16.1	18.4	20.4
Debt Service Payments/GDP (pct)	3.5	3.7	2.6
Fiscal Deficit/GDP (pct)	–4.4	–4.5	–4.0
Gold and Foreign Exchange Reserves	9.9	8.7	8.4
Development Aid from U.S. (US$ millions)[8]	0.1	0.1	0.1
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are estimates based on available monthly data in October.
[2] Percentage changes calculated in local currency.
[3] Sources for all figures in section except government spending are National Department of Statistics (DANE). For government spending: Ministry of Finance.
[4] Approved national budget. Source: Ministry of Finance.
[5] Economically active population for the whole country.
[6] Source: Banco de la Republica (BDR).
[7] Source: Ministry of Foreign Trade.
[8] Aid reflects U.S. AID program only.

1. General Policy Framework

Colombia is a free-market economy with major commercial and investment links to the United States. Transition from a highly regulated economic regime has been underway for a decade. The United States is Colombia's largest trading partner, receiving 37.2 percent of Colombia's exports and providing 32 percent of Colombia's imports in 1998. More than 70 percent of Colombian exports to the United States are primary products such as food (mainly coffee, bananas, flowers, tuna, shrimp, and sugar), and fuel (petroleum and coal). The United States also holds the largest country share of foreign direct investment: $4.3 billion, or 28.1 percent of the estimated total direct foreign investment of $15.4 billion.

In 1990, the administration of President Cesar Gaviria (1990-94) initiated economic liberalization, or "apertura," and it has continued since then. Its start consisted of tariff reductions, financial deregulation, privatization of state-owned enterprises, and adoption of a more liberal foreign exchange regime. Almost all sectors became open to foreign investment although agricultural products remained protected. A price-band system to determine tariffs for agricultural products excluded them from the liberalization process. Import license requirements were eliminated for most products though some agricultural products still require licenses.

Until 1997, Colombia had enjoyed a fairly stable economy. The first five years of liberalization were characterized by high economic growth rates of between four and five percent annually. Subsequently, the GDP growth rate fell until it was 0.6 percent in 1998, the lowest in the last fifty years. The National Planning Department (DNP) projects a 3.5 percent contraction in real GDP for 1999. However, private analysts project a decline of as much as 5.0 percent, which would be the worst recession of the century. The Samper administration (1994-98) adopted social welfare policies which targeted Colombia's poor population. However, these reforms led to higher government spending which increased the fiscal deficit and public sector debt. Financing the larger deficits pushed interest rates higher, with contractionary effects on the private sector. The construction industry, one of the largest employment sectors in Colombia, was particularly hard-hit by the tight credit conditions. Unemployment increased dramatically as the economy slowed, reaching 15.9 percent by year-end of 1998. As of September 1999 unemployment stood at 20.1 percent.

The government of Andres Pastrana, which came into power in 1998 has attempted to strengthen Colombia's public finances and has sought an agreement with the International Monetary Fund (IMF). However, the fiscal deficit continued to widen this year, as the recession has weakened government revenues, rising to an estimated 6.2 percent of GDP from 3.9 percent in 1998. However, the fiscal deficit is scheduled to decline to 3.6 percent of GDP in 2000 under the IMF program, and to 2.5 percent in 2001.

Between 1990 and 1999 the government privatized a number of state-owned banks, ports, railroads, and mining companies. It also sold concessions to private providers of telecommunications and broadcasting services that began using the government-owned spectra. The Pastrana administration (1998-2002) also has plans to privatize the remaining profitable public enterprises, including two electricity generating companies, ISA and ISAGEN, plus 14 electric distributors, and the 50 percent government-owned share of the Carbocol mining company.

Several tax reforms have been implemented over the last years. In December 1998, the Colombian Congress passed Law 488, which lowered the value-added tax (VAT) from 16 to 15 percent effective November 1, 1999, and increased the number of goods and services subject to the VAT. Law 488 established a common tax regime for small taxpayers and increased the stamp tax paid on all written contracts from one to one-and-a-half percent.

The Central Bank conducts monetary policy based on targeted growth rates of monetary aggregates which must be consistent with final inflation and economic growth expectations. The Central Bank intervenes in the money market to reduce the volatility of interest rates, and until September 1999 it had been actively intervening in the foreign exchange market to maintain the foreign exchange rate within a band system. In 1998, inflation was 16.7 percent, only 0.7 percent higher than the expected target but significantly lower than the 21.6 percent registered in 1996. As of September 1999, inflation reached its lowest level in decades, 9.8 percent. The official target for 1999 has been dropped to 12 percent.

2. Exchange Rate Policy

The Colombian peso has floated freely against the dollar and other currencies since September 25, 1999, when the Central Bank abandoned the crawling band exchange regime. Under that system, the Bank intervened in the market by buying or selling dollars to keep the dollar's price in pesos within the band, which it was forced to adjust twice in the previous year (September 1998 and June 1999) in response to exchange market pressure. The exchange rate stabilized soon after abolition of the band and the peso actually recovered slightly. As of mid-December 1999, the peso had depreciated 20 percent from the beginning of the year. The peso's depreciation has reduced the price competitiveness of U.S. exports to Colombia, while boosting the competitiveness of Colombian exports to the United States. Currency depreciation together with import compression due to recession has brought a dramatic turnaround in Colombia's overall trade balance, as well as its bilateral balance with the United States. Through September 1999, Colombia's overall trade balance has swung from a $2.7 billion deficit to a $1.1 billion surplus, while the U.S.-Colombia trade balance swung from a $292 million U.S. surplus to a $1.8 billion deficit.

3. Structural Policies

As member of the Andean Community, Colombia has had a Common External Tariff (CET) in effect since 1995. The CET has different duty levels that vary from 0 to 20 percent for most non-agricultural products. A special Andean price-band system (based on domestic and international prices) is applied to calculate tariffs of agricultural imports. Tariff rates for agricultural products subject to the price-band system vary between 78 and 246 percent. Fourteen basic agricultural commodities including wheat, sorghum, corn, rice, barley, milk, and chicken parts, and an additional 120 commodities considered substitute or related products are subject to tariffs calculated under the price-band system. The government also regulates prices of electricity, water, sewage, and telephone services, public transportation, rents, education tuition, and pharmaceuticals. Colombia's special import-export system for machinery and its free trade zones constitute export subsidies. Colombia's tax rebate certificate program (CERT) also contains a subsidy component which the Colombian government has stated it will replace with an equitable drawback system, although it has not yet done so.

Rising fiscal deficits forced the authorities to adopt several tax reforms over the last year. Law 488, approved in December 1998, lowered the value-added tax (VAT) from 16 to 15 percent while it increased the number of goods and services subject to the VAT. Colombia also assesses a discriminatory VAT of 35 percent on whiskey aged for less than 12 years, which is more characteristic of U.S. whiskey, versus a rate of 20 percent for whiskey aged for 12 or more years, most of which comes from Europe. This tax regime on distilled spirits appears to violate Colombia's WTO obligation whereby a member cannot provide an advantage or favor to products of one WTO member without according the same advantage to "like products" of another member. A unified tax regime for small taxpayers was created to simplify the tax collection process. In December 1998 the government decreed an economic emergency under which it instituted a tax on all transactions in the financial system at a rate of 0.2 percent. The tax on financial transactions commonly known as the "two per thousand" tax was initially to remain in effect until December 31, 1999. However, on January 25, 1999 an earthquake devastated Colombia's coffee region. This tragedy frustrated the government's hope of meeting its lower spending targets and the tax was extended until 2001. The government is currently studying the possibility of making the tax permanent in its next tax reform proposal to Congress. The proposal will also include measures to regulate regional taxes. Other major taxation issues include the future of the 35 percent income tax, a "war tax" on the export value of crude oil, gas, coal, and nickel (in effect until 2000), and a requirement that all corporations invest 0.6 percent of their liquid assets in the seven-year term "peace bonds" which are freely negotiable and bear a return equivalent to inflation plus 10 points.

All foreign investment in petroleum exploration and development in Colombia must be carried out under a profit-sharing association contract between the investor and the state petroleum company, "Ecopetrol." U.S. oil companies have voiced interest in increasing exploration and development in Colombia if contract and tax requirements are made more flexible. The Pastrana administration has responded by making the terms of association contracts significantly more liberal.

Under the current Andean Pact automotive policy, Colombia and Venezuela impose strict regional content requirements for the automotive assembly industry.

After a period of lack of interest during the Samper administration in continuing liberalization, the Pastrana administration has taken a number of concrete steps to promote trade and investment. These have included the signing of an agreement in October 1998 with the U.S. Government establishing periodic Trade and Investment Council meetings with the Andean Community, efforts to improve oversight of the television sector and reduce cable and satellite signal piracy, and issuance of a Presidential Directive in early 1999 requiring all Colombian public entities to respect international copyrights. The administration also successfully pressed for an amendment repealing an article in the 1991 Constitution which allowed expropriation of foreign investment without compensation.

4. Debt Management Policies

Colombia's history of continuous timely servicing of its international debt obligations and, at least until recently, modest external debt burden earned the country one of the few "investment" grade credit ratings from the major rating companies. However, in 1999, Standard & Poors, Moody's, and Duff & Phelps downgraded Colombia's debt, citing Colombia's faltering peace process, increased security concerns, and insufficient progress in fiscal consolidation. The rating downgrades had little impact on the secondary market prices of Colombian debt, as the move had largely been priced into the market already. Colombian debt had traded at significantly wider spreads than would be indicated by its "investment grade" rating for some time.

The international financial institutions announced their intention in September 1999 to provide $6.9 billion to finance the Colombian government's fiscal adjustment and development programs through 2002: $2.7 billion from the International Monetary Fund, $1.7 billion from the Inter-American Development Bank, $1.4 billion from the World Bank, $600 million from the Andean Development Corporation, and $500 million from the Latin American Reserve Fund.

In September 1998, the Central Bank reduced its imposed deposit requirement on foreign borrowing from 25 to 10 percent (the term of the deposit was also reduced from 12 to 6 months). In January 1999, the Central Bank completely removed the deposit requirement for import-related borrowing while maintaining a 10 percent deposit requirement on export-related foreign borrowing operations.

5. Aid

The U.S. Agency for International Development (USAID) office in Bogota coordinates the provision of resources for development programs in Colombia. Its Operating Year Budget (OYB) for 1999 was $18.3 million and the estimated OYB for 2000 is $11 million. The USAID/Colombia current program portfolio totals approximately $103 million.

U.S. aid and assistance to the Colombian National Police and other counternarcotics programs is coordinated by the Narcotics Affairs Section (NAS) in Bogota. Total narcotics-related aid is programmed to amount approximately to $300 million in 1999.

U.S. military training assistance to the Colombian Army, Air Force and Navy totals $1,590,000 for 1999.

6. Significant Barriers to U.S. Exports

Import Licenses: Prior import licenses are still required for various commodities, narcotics-precursor chemicals, armaments and munitions, donations, and some imports by government entities. Though the government abolished most import licensing requirements in 1991, it has continued to use prior import licensing to restrict importation of certain agricultural products such as powdered milk (during Colombia's high milk production season) and chicken parts. In addition, the Ministry of Agriculture must approve import licenses for products which, if imported, would compete with domestic products. Some of these products, which include important U.S. exports to Colombia, are wheat, malting barley, corn, rice, sorghum, and wheat flour.

Services Barriers: The provision of legal services is limited to law firms licensed under Colombian law. Foreign law firms can operate in Colombia only by forming a joint venture with a Colombian law firm and operating under the licenses of the Colombian lawyers in the firm. Insurance companies require a commercial presence in order to sell policies other than those for international travel or reinsurance. Colombia permits the establishment of 100 percent-owned subsidiaries, but not branch offices, of foreign insurance companies. Colombia denies market access to foreign maritime insurers. A commercial presence is required to provide information processing services. Colombian television broadcast laws (Law 182/95 and Law 375/96) impose several restrictions to foreign investment. For example, foreign investors must be actively engaged in television operation in their home country. Their investments are limited to 15 percent of the total capital of local television production companies and must involve an implicit transfer of technology. At least 50 percent of programmed advertising broadcast on television must have local content.

Investment Barriers: Colombian law provides for equal treatment of foreign and national investors. One-hundred percent foreign ownership is permitted in most sectors of the Colombian economy. Exceptions include activities related to national security and the disposal of hazardous waste. All foreign investors (acting as individuals or investment funds) must receive prior approval from the Banking Superintendency to acquire an equity participation of five percent or more in a Colombian financial entity. As a measure against money laundering, Foreign Direct Investment (FDI) in real estate is prohibited except in connection with other investment activities. Colombian law requires that at least 80 percent of employees of companies in the mining and hydrocarbons sector be Colombian nationals. It also requires that foreign employees in financial institutions be limited to managers, legal representatives and technicians. Colombia limits foreign ownership of telecommunication companies to 70 percent. An economic needs test determines market access and national treatment for cellular, PCS, long distance, and international telecommunications services.

All foreign investment must be registered with the Central Bank's foreign exchange office within three months in order to insure the right to repatriate profits and remittances. All foreign investors, like domestic investors, must obtain a license from the Superintendent of Companies and register with the local chamber of commerce.

Standards, Testing, Labeling, and Certification: The Colombian Foreign Trade Institute (INCOMEX) requires specific technical standards for a variety of products. The particular specifications are established by the Colombian Institute of Technical Standards (ICONTEC), or under ISO-9000. Certificates of conformity must be obtained from the Superintendency of Industry and Commerce before importing products that are subject to technical standards.

Government Procurement Practices: Law 80 of 1993 is Colombia's government procurement and contracting law. It affords equal treatment to foreign companies on a reciprocal basis and eliminates the 20 percent surcharge previously added to foreign bids. In implementing Law 80, the Colombian government established a requirement that foreign firms without an active local headquarters in Colombia certify that Colombian companies enjoy reciprocity in similar bids under their countries' procurement legislation. A local agent or legal representative is required for all government contracts. When foreign firms bid under equal conditions, the contract is usually awarded to the one that incorporates a greater number of domestic workers, involves more domestic content, or provides better conditions for transfer of new technology. Some U.S. companies have complained of corruption and lack of transparency in bidding and contracting processes. Colombia is not a party to the WTO agreement on government procurement.

Customs Procedures: Imported merchandise inspection can be prearranged through preshipment inspection entry, and duties can be prepaid through commercial banks. For certain items, preshipment inspection is mandatory.

7. Export Subsidies Policies

Colombia has sharply reduced its export subsidies, and its subsidy practices are generally compatible with WTO standards. At present, the government manages only two export subsidy programs. One, the CERT (Certificado de Reembolso Tributario), refunds a percentage of the Free on Board (FOB) value of an export. Under a 1990 bilateral agreement, the CERT does not apply to goods exported to the U.S. The other export subsidy, known as the "Plan Vallejo," allows for duty exemptions on the import of capital goods and raw materials used to manufacture goods that are subsequently exported. Colombia's free-trade zones also constitute an export subsidy through the mechanism of tax exemptions on imported inputs. The U.S. and Colombian flower industries, with the approval of the U.S. Department of Commerce and Justice, finalized a settlement agreement to terminate the longstanding antidumping duty orders and to utilize resources spent on dumping duties and direct it towards promotion of flowers in the U.S. market. However, there are currently five antidumping reviews still under litigation. The sunset review of the antidumping orders on Colombian cut flowers will also be terminated as a result of this agreement.

8. Protection of U.S. Intellectual Property

Despite improvements in 1999, Colombia remains on the "Watch List" under the "Special 301" provision of the 1988 Omnibus Trade Act because of concerns regarding effective protection of intellectual property rights. It has been on the "Watch List" every year since 1991. Colombia has ratified, but not yet fully implemented, the provisions of the World Trade Organization (WTO) agreement on Trade Related Aspects of Intellectual Property (TRIPS). A major issue has been the Colombian Government's failure to license legitimate pay television operators and to pursue pirate operators. As of November 1999, the Colombian Government completed licensing for 114 cable television operators. Colombia's Television Broadcast Law increased legal protection for all copyrighted programming by regulating satellite dishes, but enforcement has only recently begun through a licensing process that is scheduled to be completed by the end of 1999. Colombia has created a Special Investigative Unit within the Prosecutor General's Office dedicated to intellectual property rights issues. This unit began functioning in November 1999.

Colombia, which is a WTO member, has ratified its Uruguay Round implementing legislation. It is a member of the World Intellectual Property Organization (WIPO) and has negotiated to join the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Union for the Protection of New Plant Varieties. Colombia belongs to the Berne and Universal Copyright Conventions, the Buenos Aires and Washington Conventions, the Rome Convention on Copyrights, and the Geneva Convention for Phonograms. It is not a member of the Brussels Convention on Satellite Signals.

Patent and Trademarks: Colombia is a member of the Inter-American Convention for Trademark and Commercial Protection. Colombia requires registration and use of a trademark in Colombia to exercise trademark protection. Trademark registration has a 10-year duration and may be renewed for successive 10-year periods. Although Colombian law provides, for example, 20-year protection for patents and reversal of burden of proof in cases of alleged patent infringement, it is deficient in the areas of compulsory licensing provisions, working requirements, biotechnology inventions, transitional ("pipeline") protection, and protection from parallel imports. Enforcement of trademark legislation in Colombia is showing some progress, but contraband and counterfeiting are widespread. U.S. pharmaceutical firms continue to press for a range of legislative and administrative reforms. The Superintendency of Industry and Commerce acts as the local patent and trademark office in Colombia. This agency suffers greatly from a backlog of trademark and patent applications exceeding 25,000 as of June 1999.

Copyrights: Colombia's 1993 Copyright Law increased penalties for copyright piracy. In April 1999, President Pastrana issued a directive to all government and educational institutions to respect copyrights and avoid the use or purchase of pirated printed works, software and audio/video material. The most recent available data from the International Intellectual Property Alliance (IIPA) suggests that while there is less counterfeit merchandise available in the Colombian market, U.S. industries continue to lose substantial revenue from piracy—$151 million in 1997. Enforcement problems consistently arise not only with inadequate police activity, but also in the judicial system, where there have been complaints about the lack of respect for preservation of evidence and frequent perjury. The IIPA estimates that videocassette piracy represents approximately 60 percent of the video market; sound recording piracy 60 percent of the market; and business software piracy 73 percent of the market. Satellite programmers estimate there are about 3.6 million Colombian households that receive satellite signals, of which only 200,000 are legally subscribed. The Colombian Government, as mentioned above, has already initiated a licensing process designed to make illegal operators responsible for paying copyright fees. The licensing process, if effective, should reduce the widespread piracy by legitimizing non-royalty paying service providers.

New Technologies: Colombia has a modern copyright law which gives protection for computer software for 50 years and defines computer software as copyrightable subject matter but does not classify it as a literary work. Semiconductor design layouts are not protected under Colombian law.

9. Worker Rights

a. *The Right of Association:* Colombian law recognizes the rights of workers to organize unions and to strike. The labor code provides for automatic recognition of unions that obtain at least 25 signatures from potential members and that comply with a simple registration process at the Labor Ministry. The law penalizes interference with freedom of association. It allows unions to freely determine internal rules, elect officials and manage activities, and forbids the dissolution of trade unions by administrative fiat. Unions are free to join international confederations without government restrictions.

b. *The Right to Organize and Bargain Collectively:* The constitution protects the right of workers to organize and engage in collective bargaining. Workers in larger firms and public services have been the most successful in organizing, but these organized workers represent only a small portion of the economically active population. According to the Labor Ministry's Planning Bureau figures, approximately five percent (926,155 affiliates) of Colombia's total work force is organized into 5,544 unions. However, the most recent estimate for 1999 by the Colombian Union School (ENS) accounts for 3,560 labor unions with 872,635 affiliates. Accurate estimates are difficult to obtain due to the high rate at which new unions are created and old ones disappear. High unemployment (19.8 percent as of September 1999), traditional anti-union attitudes, union disorganization and weak leadership limit workers' bargaining power in all sectors.

c. *Prohibition of Forced or Compulsory Labor:* The constitution forbids slavery and any form of forced or compulsory labor, and this prohibition is respected in practice.

d. *Minimum Age for Employment of Children:* The constitution bans the employment of children under the age of 14 in most jobs, and the labor code prohibits the granting of work permits to youths under the age of 18. This provision is respected in large enterprises and in major cities. Nevertheless, Colombia's extensive and expanding informal economy remains effectively outside government control. Statistics vary: according to different studies (Labor Ministry and Los Andes University among the most reliable), there are between 1.5 and 2 million working children between the ages of 12 and 17. According to ENS, the number of working children in that range of ages is 1.8 million for 1999. These children work—often under substandard conditions—in agriculture or in the informal sector, as street vendors, in leather tanning, and in small family-operated mines. According to these studies, 80 percent of the working children work in the informal sector, and 90 percent of the working children perform risky or dangerous activities.

e. *Acceptable Conditions of Work:* The government sets a uniform minimum wage for workers every January to serve as a benchmark for wage bargaining. The minimum wage for 1999 is approximately $135 (236,460 pesos) per month. Because the minimum wage is based on the government's target inflation rate, which has been exceeded in recent years, the minimum wage has not kept up with inflation. By government estimates, the price of the low-income family shopping basket ("canasta familiar") is 2.4 times the minimum wage. For medium-income families, the price of the shopping basket is 6.1 times the minimum wage. Seventy percent of the Colombian workers earn twice the minimum wage or less. The law provides for a standard

8-hour workday and 48-hour workweek, but does not specifically require a weekly rest period of at least 24 hours. Legislation provides comprehensive protection for workers' occupational safety and health, but these standards are difficult to enforce, in part due to the small number of Labor Ministry inspectors.

f. *Rights in Sectors with U.S. Investment:* U.S. foreign direct investment is concentrated principally in the petroleum, coal mining, chemicals and manufacturing industries. Worker rights conditions in those sectors tend to be superior to those prevailing elsewhere in the economy, owing to the large size and high degree of organization of the enterprises.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		1,159
Total Manufacturing		1,094
Food & Kindred Products	301	
Chemicals & Allied Products	352	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	25	
Transportation Equipment	(1)	
Other Manufacturing	307	
Wholesale Trade		168
Banking		(1)
Finance/Insurance/Real Estate		808
Services		87
Other Industries		(1)
TOTAL ALL INDUSTRIES		4,317

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

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

COSTA RICA

Key Economic Indicators [1]

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[5] 1999
Income, Production and Employment:			
Nominal GDP [2]	9,727.9	10,482.8	11,000.0
Real GDP Growth (pct) [3]	3.8	6.2	8.2
GDP by Sector (pct):			
Agriculture	18.0	18.0	16.0
Industry	21.5	21.5	23.0
Services	53.1	53.3	54.0
General Government	7.4	7.2	7.0
Per Capita GDP (US$)	2,790.0	2,944.0	3,062
Labor Force (000's)	1,330	1,400	1,480
Unemployment Rate (pct)	5.7	5.6	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.0	15.0	17.0
Consumer Price Index	12.0	12.4	10.0
Exchange Rate (Colones/US$ annual average)			
Official	None	None	None
Parallel	232.37	257.14	282.00
Balance of Payments and Trade:			
Total Exports FOB [4]	4,335.0	5,528.0	6,634.0
Exports to U.S. [4]	1,266.0	2,674.0	3,200.0
Total Imports CIF [4]	4,953.0	6,230.0	6,541.0

Key Economic Indicators [1]—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[5] 1999
Imports from U.S.[4]	1,534.0	1,784.0	2,000.0
Trade Balance[4]	–618.0	–702.0	93.0
Balance with U.S.[4]	–268.0	890.0	1,200.0
External Public Debt	2,640.2	2,872.4	3,042.0
Fiscal Deficit of Public Sector/GDP (pct)	3.3	2.7	3.3
Current Account Deficit/GDP (pct)	2.2	4.4	3.0
Foreign Debt Service Payments/GDP (pct)	6.1	5.0	4.9
Gold and Foreign Exchange Reserves	1,141.3	991.3	1,200.0
Aid from U.S.	5.0	18.0	15.0
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data in September.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] FY 1999 figures estimated.

1. General Policy Framework

The Costa Rican economy is performing moderately well, continuing to recover from the 1996 contraction caused by anti-inflationary public sector spending reductions, increased taxation and credit tightening. The government forecasts GDP growth of 8.2 percent for 1999, not quite the impressive growth of 6.2 percent in 1998, the highest in Latin America, but still considerable considering the government's worsening fiscal picture. The Costa Rican economy is based on a free market system and relatively open trading regime. There are, however, several large public sector monopolies in electricity transmission and distribution, telecommunications, petroleum distillation and distribution and insurance.

The Rodriguez Administration, inaugurated in May 1998, initially proposed selling some state monopolies. However, it has been unable to achieve a political consensus on the appropriate roles of the public and private sectors in fields such as telecommunications, energy and insurance. In place of privatization, concessions to build and manage public works are being pursued by the government. A consortium led by an U.S. firm recently won the concession to manage the San Jose international airport in 1999.

The most serious problem facing the Costa Rican economy is the fiscal deficits of the central government and the combined public sector. The reduction of these deficits is a prerequisite for improving the overall fiscal health of the public sector. The fiscal deficit of the combined public sector was $282 million in 1998, equivalent to 2.7 percent of GDP. It is expected by the Government of Costa Rica to reach $360 million, about 3.3 percent of GDP, by the end of 1999. The deficit is financed by issuing bonds, the service of which is not only impinging on government finances, but is also an important cause of high interest rates, low investment and continued double digit inflation. The internal (bond) debt service requires approximately a third of the Government's ordinary income.

The government has discarded the alternatives of increasing tax revenue significantly, firing large numbers of public sector employees and selling state assets to foreign investors. A partial solution has been the refinancing of internal debt with lower-cost dollar-denominated foreign debt. This is convenient for the current government and should help ease upward pressure on domestic interest rates. However, it increases the risk of balance of payments problems for future governments.

Impressive growth in export revenues, due in large measure to exports by Intel Corporation, brought about a merchandise trade surplus during the first nine months of 1999. This was the first trade surplus in decades. New tourist facilities continue to be built, and tourist income continues to grow. Together, new exports and tourist income allow a reasonable expectation of continued moderate growth.

2. Exchange Rate Policy

The current exchange rate policy, originally devised in 1993, is of the "crawling peg" variety employing small daily changes. The rate of devaluation, indirectly set by the Central Bank, is driven by the market and is adjusted by the Central Bank through its sale or purchase of foreign currency. Virtually all private business is transacted at the same rate. All foreign transactions by state institutions are channeled through the Central Bank at that rate. Commercial banks are free to negotiate foreign exchange prices, but must liquidate their foreign exchange positions daily with the Central Bank.

The colon-to-US dollar exchange rate varied 10.7 percent during 1998, a rate similar to the change in the aggregate price level. This maintained a foreign trade-neutral exchange rate. The Government has projected a devaluation of about 10.8 percent and a CPI increase of 10 percent for 1999. Thus, the rate of exchange of the colon with respect to the US dollar should not have a significant impact on the importation of US goods and services.

Freely traded dollars from tourism and capital investment continue to flow into Costa Rica. The free and sufficient supply of foreign currency allowed imports to continue to grow during 1998 and 1999.

3. Structural Policies

The elimination of "consumer protection" regulations that controlled prices and prohibited price speculation in January 1995 permitted an increase in the availability of imported goods. Antitrust legislation and rules protecting consumers against product misrepresentation and price fixing were enacted at the same time.

Purchases by state institutions must follow detailed laws and regulations on public bidding. Local suppliers are not subsidized and enjoy no special advantages over foreign suppliers. U.S. companies often succeed in supplying pharmaceuticals, machinery, electrical and transportation equipment to public sector purchasers. There have been no recent tax modifications that affect the import of U.S. goods and services. Corruption was a major theme in the last political campaign, and several important cases are being tried in the courts.

4. Debt Management Policies

Costa Rica's foreign official debt totaled $2.872 billion on December 31, 1998. This is an amount equivalent to 27.4 percent of GDP, and an increase of $232 million from year-end 1997. This is also a reversal in the previous decline in the size and importance of the foreign official debt with relation to GDP. Costa Rica placed dollar-denominated bonds for $200 million in April 1998 and another $300 million April 1999, taking advantage of relatively low interest rates available in the Eurodollar market. The government used the proceeds to retire equivalent amounts of its more expensive, colon-denominated debt, thus reducing the cost of servicing the public debt. The Ministry of Finance plans to place an additional $200 million every two years, or $1,200 million within the next 12 years. The savings to the government from using dollar-denominated bonds instead of the internal capital market are about five percentage points at present rates of interest.

Costa Rica paid $430 million in foreign official debt service in 1998, equivalent to 4.1 percent of GDP and 7.7 percent of merchandise exports. Costa Rica paid $268.3 million in debt service during the first semester of 1999, $189 million for amortization of principal, and $79.3 million in interest payments. The Central Bank projects that it will pay $595.5 million during calendar year 2000, including $393.1 million of principal and $202.4 million in interest payments. The more pressing concern is the size of the large internally-financed public debt, which amounted to $3.026 billion at the end of 1998. The government spends a third of central government budget revenues on interest on outstanding bonds, an amount second only to salaries for public employees. This problem is compounded by the Central Bank's anti-inflationary monetary policy, which results in high interest rates and high debt service costs for the Ministry of Finance.

5. Aid

U.S. Government agencies provided an estimated $18 million of assistance during fiscal year 1998, of which $13 million was for the Screworm Eradication Program. Total assistance from U.S. military programs was $3.2 million. Costa Rica abolished its military forces in 1948, but the United States provides assistance to Costa Rica's civilian police.

6. Significant Barriers to U.S. Exports

Costa Rica replaced all import licenses or permits with tariffs as a condition for joining the WTO in 1994. The Central Bank now monitors imports for statistical purposes only. The current tariff on most goods is 15 percent of the CIF price, with a few items such as poultry and automobiles taxed in excess of 40 percent. Solvents and chemical precursors used in the elaboration of illegal drugs are carefully regulated. Surgical and dental instruments and machinery can be sold only to licensed importers and health professionals. All food products, medicines, toxic substances, chemicals, insecticides, pesticides and agricultural inputs must be registered and certified by the Ministry of Health prior to sale.

Foreign companies and persons may legally own equity in Costa Rican companies, including real estate. However, several activities are reserved to the state, including telecommunications, insurance, the transmission and distribution of electricity, hydrocarbon and radioactive mineral extraction and refining, and the operation of ports and airports. Representatives or distributors of foreign products must have resided in Costa Rica for at least ten years. Medical practitioners, lawyers, certified public accountants, engineers, architects, teachers and other professionals must be members of local guilds, which stipulate residency, examination and apprenticeship requirements that cannot be met by newcomers.

Legislation approved in October 1995 allowed private banks to offer demand deposits. However, private banks must be incorporated locally; branches of foreign banks are not permitted. The three state-owned commercial banks still account for close to 90 percent of country's demand deposits.

An electricity co-generation law enacted in 1996 allowed some private-sector participation in the production of electricity, but not in its transmission. This law has since been modified to permit the private construction and operation of plants under BOT (build-operate-transfer) and BLT (build-lease-transfer) mechanisms, but the operator must have at least 35 percent Costa Rican equity. There are legislative proposals to open the electricity, telecommunications, and insurance sectors to foreign investment and competition, but it is difficult to predict when this legislation might be passed.

Documentation and labeling of U.S. exports to Costa Rica must use the metric system and contain specific information in Spanish. Car bumpers are subject to strength requirements. Phytosanitary and zoosanitary restrictions and high tariffs on certain agricultural products significantly constrain imports of some products. The Ministry of Health must approve imports of pharmaceuticals, veterinary drugs and pesticides, and the same items must be legally available in the exporting country.

Costa Rican laws encourage the development of tourism and nontraditional exports, and provides incentives for foreign investment. The law does not restrict foreign equity participation, with very few exceptions, as noted above. The Labor Code ordinarily limits the percentage of foreign workers that can work in an enterprise to 10 percent of the total workforce. Foreigners may account for no more than 15 percent of the total payroll. Permits for foreign participation in management are routinely granted. No requirements exist for foreign owners to work in their own companies. There are no restrictions on the repatriation of profits and capital.

The government and other state institutions procure goods and services through open public bidding. However, the General Law on Financial Administration allows private tenders and direct contracting of goods and services in relatively small quantities or, in case of emergency, with the consent of the Controller General (General Accounting Office). Public bidding is complicated and highly regulated, with the result that foreign bidders are frequently disqualified for failure to comply exactly with the required procedures. Appeals of contract awards are common, lengthy and costly, sometimes leading to losses when market prices change and bid prices remain fixed. No special requirements apply to foreign suppliers, and U.S. companies regularly win public contracts. Competition is fierce among foreign suppliers, and frequently the winner must propose comprehensive packages that include performance guarantees and financing. Foreign suppliers must have a legal representative in Costa Rica in order to sell goods or services to public entities. A 1996 law simplified government procurement procedures, but the process is still complex.

Customs procedures are often costly and complex, but they do not discriminate between Costa Ricans and foreign traders. Most large firms have customs specialists on the payroll, in addition to contracting the mandatory services of customs brokers. Customs brokers must be Costa Rican nationals. The government is automating and simplifying the customs system and has established a one-stop window to speed it up.

The government expropriation policy has created problems for some U.S. investors. The government has expropriated large amounts of land for national parks and for ecological and indigenous reserves, but compensation is rarely, if ever, prompt. Some unpaid expropriation claims date back over 25 years. It is possible to obtain compensation through the court system, but the time, effort and costs involved can greatly diminish the net value of any settlement. Claimants also have recourse to international arbitration through the International Center for the Settlement of Investment Disputes (ICSID) as of 1993. Submission of the first expropriation case to ICSID continues in a case involving the government and a prominent group of U.S. investors. Local arbitration has been employed since 1991. Landowners in Costa Rica also run the risk of losing their property to squatters, who are often organized and sometimes violent. A U.S. citizen and long-term resident of Costa Rica was killed in November 1997 in a dispute over an ocean front land concession granted by a municipal government. Squatters enjoy certain rights under Costa Rican land tenure laws and can eventually receive title to the land they occupy if the occupation is left unchallenged by the landowners. Police protection of landowners in rural areas is often inadequate. The government has in some cases expropriated property taken over by squatters in order to resolve property conflicts, but it has not always compensated adequately those from whom the land was originally taken.

7. Export Subsidies Policies

Nontraditional exports to destinations outside of Central America and Panama qualified for negotiable tax rebate certificates (CATS) under the Export Promotion Law of 1972. This program is being phased out and will be completely terminated by December 31, 1999. The Export Processing Law of 1981 permits companies in designated free trade zones to be exempted from paying duties on imported inputs that are incorporated into exported products. It also provides holidays on income and remittance taxes. The Active Processing Regime of 1997 offers similar duty-free entry for imported inputs, but does not provide tax holidays.

8. The Protection of U.S. Intellectual Property

Costa Rica belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Costa Rica is also a signatory to the Paris Convention, Berne Convention, Lisbon Agreement, Rome Convention, Phonograms Convention and the Universal Copyright Convention. The U.S. Trade Representative placed Costa Rica on the "Special 301" Watch List in 1995, and each year since then, because of deficient patent legislation and widespread copyright and trademark piracy.

Significant weaknesses exist in copyright and trademark enforcement and in the duration of patent protection. The government has submitted several bills to the Legislative Assembly in order to implement required modifications to ensure that the country is in compliance with its IPR obligations under the WTO TRIPS Agreement by the January 1, 2000 deadline. It is not certain that all the issues will be resolved in time, but the bills appear to include all the required modifications and are currently under consideration.

Patents: The new legislation is expected to resolve the following problems in the area of patents. Patents have been granted for non-extendible, 12-year terms, less than the 20 years required by the TRIPS Agreement. Coverage has been for only one year for products deemed "in the public interest," such as pharmaceuticals, chemicals and agrochemicals, and all beverage and food products. No patent protection has been available for plant or animal varieties, or for any biological or microbiological process or products, but the government is working on a legislative proposal that would protect such products within the framework of the Convention for the Protection of New Varieties of Plants (UPOV). Costa Rica also has had broad compulsory licensing requirements that force patent owners to license inventions that are not produced locally.

Trademarks: Trademarks, service marks, trade names and slogans can be registered in Costa Rica. Registration is renewable for 10-year periods. However, there are enforcement problems similar to those encountered with copyrights, particularly in the area of designer clothing (e.g., jeans). There is also a problem in the registration of famous marks by speculators, who demand to be bought out when the legitimate trademark owner comes to Costa Rica. Litigation to establish trademark ownership can be expensive.

Copyright: Costa Rica's copyright laws are generally adequate, and market access for legitimate copyrighted goods is not restricted by anything other than the unfair price advantage enjoyed by pirated goods. The Government issued regulations that provide better protection and mandate police participation in developing criminal cases against pirates on May 24, 1994. The main problem is enforcement, particularly against videocassette and business software pirates. The cable television industry now operates almost entirely under agreements with foreign producers. The major public universities recently contracted to use copyrighted software. However, some hotels continue to pirate satellite transmission signals. Pirated videocassettes, usually duplicated domestically, are widely available and constitute at least 90 percent of the market. An authorized distributor of videocassettes has successfully begun enforcement efforts to regularize the videocassette market, and licensed products are becoming more widely available in rental outlets.

Existing laws protect trade secrets, and Article 24 of the Constitution protects the confidentiality of communications. A new bill before the legislature updates existing law in accordance with TRIPS standards. The penal code stipulates prison sentences for divulging trade, employment, or other secrets, and doubles the punishment for public servants. Some existing laws also stipulate criminal and civil penalties for divulging trade secrets. The burden of proof is on the affected party.

9. Worker Rights

a. *The Right of Association:* Costa Rican law specifies the right of workers to join labor unions of their choosing without prior authorization. Nevertheless, some barriers exist in practice. Unions operate independently of government control and may form federations and confederations and affiliate internationally. Many Costa Rican workers join solidarity associations, under which employers provide easy access to saving plans, loans, recreation centers, and other benefits in return for their agreement to employ non-confrontational methods to settle disputes. Both solidarity associations and labor unions coexist at some workplaces, primarily in the public sector.

b. *The Right to Organize and Bargain Collectively:* The Constitution protects the right to organize. Reforms to the Labor Code enacted in 1993 provide protection from dismissal for union organizers and members during union formation and require employers found guilty of discrimination to reinstate workers fired for union activities. Costa Rica has no restrictions on the right of private sector employees to strike or engage in collective bargaining. The constitutionality of public sector collective bargaining agreements was recent challenged in the Supreme Court, which will rule on this issue sometime in the year 2000. The Constitutional Chamber of the Supreme Court ruled in 1998 that public sector workers, except those performing essential services, have the right to strike.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor and requires employers to provide adequate wages to workers in accordance with minimum wage and salary standards. Laws prohibit forced and bonded labor by children. The government enforces this prohibition effectively.

d. *Minimum Age for Employment of Children:* The Children's Code enacted in 1992 prohibits the employment of children under 15 years of age. The Ministry of Labor issued some waivers to this provision, with the goal of moving gradually toward the elimination of child labor. The Constitution provides special employment protection for women and youth. Children between 15 and 18 can work a maximum of seven hours daily and 42 hours weekly, while children between 12 and 15 can work a maximum of five hours daily and 30 hours weekly. The National Children's Institute, in cooperation with the Ministry of Labor, enforces these regulations in the formal sector, but child labor remains an integral part of the informal economy.

e. *Acceptable Conditions of Work:* The Constitution provides for a minimum wage, and a national wage council sets minimum wage and salary levels for the private and public sectors every six months. Workers may work a maximum of eight hours during the day and six at night, up to weekly totals of 48 and 36 hours, respectively. Industrial, agricultural and commercial firms with ten or more workers must establish management-labor committees and allow government workplace inspections. Workplace enforcement is less effective outside the San Jose area.

f. *Rights in Sectors with U.S. Investment:* Labor regulations apply throughout Costa Rica, including in the country's export processing zones. Companies in sectors with significant U.S. investment generally respect worker rights, especially at plants under U.S. ownership and management. Abuses occur more frequently at plants operated by investors based outside the United States.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		28
Total Manufacturing		371
Food & Kindred Products	102	
Chemicals & Allied Products	137	
Primary & Fabricated Metals	20	
Industrial Machinery and Equipment	–17	
Electric & Electronic Equipment	(1)	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		(1)
Services		(2)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
Other Industries	(1)
TOTAL ALL INDUSTRIES	2,126

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

DOMINICAN REPUBLIC

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	15.0	15.9	18.5
Real GDP Growth (pct) [3]	8.2	7.3	7.6
GDP by Sector:			
Agriculture	1.9	2.1	2.1
Manufacturing	2.7	2.9	3.1
Services	4.7	5.2	6.8
Government	1.0	1.1	1.4
Per Capita GDP (US$)	1,882	1,942	2,219
Labor Force (000's)	3,614	3,697	N/A
Unemployment Rate (pct)	15.7	14.3	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	24	16	17
Consumer Price Inflation	8.3	7.8	7.5
Exchange Rate (DR Peso/US$ annual average)			
Official	14.01	14.71	15.89
Parallel	14.27	15.27	16.15
Balance of Payments and Trade:			
Total Exports FOB [4]	4.8	5.0	5.1
Exports to U.S.[4]	4.4	3.6	3.7
Total Imports CIF [4]	6.6	7.6	7.7
Imports from U.S.[4]	3.9	4.0	4.1
Trade Balance (US$ millions) [4]	–1.8	–2.6	–2.6
Trade Balance with U.S.[4]	0.5	–0.4	–0.4
External Public Debt	3.5	3.5	N/A
Fiscal Surplus/GDP (pct)	1.6	–1.2	N/A
Current Account Deficit/GDP (pct)	–1.5	–2.4	–3.1
Debt Service Payments/GDP (pct)	1.5	2.3	2.5
Gold and Foreign Exchange Reserves [4]	0.5	0.7	0.8
Aid from U.S. (US$ millions) [4 5]	11.6	60.4	10.4
Aid from All Other Sources [4]	N/A	141.0	N/A

[1] 1999 figures are all estimates based on available monthly data through September.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Central Bank; exports FAS, imports customs basis; 1999 figures are estimates based on data available through September.
[5] Military aid equaled US$ 880,000 in both 1998 and 1999.
Source: Economic Studies Department, Central Bank of the Dominican Republic, unless otherwise indicated.

1. General Policy Framework

Despite extensive damage to infrastructure and agriculture caused by Hurricane Georges in September 1998, the economy of the Dominican Republic continued its excellent rate of growth in the first three quarters of 1999, with the central bank predicting GDP growth of at least seven percent for the fourth year in a row. The central bank also predicts that inflation will again be held to the single digit level.

Because of the Dominican Republic's high propensity to import, changes in the exchange rate are politically significant. The need to keep the peso stable forces the central bank to maintain a high interest rate structure to retain short-term capital. Foreign exchange operations also play a role in meeting money supply targets since the central bank's purchase of pesos for dollars tends to reduce the money in circulation within the country.

According to the central bank, the money supply grew 17 percent from September 1998 to September 1999. The central bank regulates the money supply by issuance of new money through the banking system and by the purchase or issuance of debt instruments of the central bank itself. Since there is no secondary market for government securities and no liquid security market, the tools available to the central bank are limited. The central bank can modify bank reserve requirements but rarely does so. Banks resort to the discount window of the central bank only rarely. The Superintendency of Banks has continued its work to improve banking regulation. Although the Dominican Republic has no deposit insurance, the central bank guaranteed deposits at Bancomercio, the country's third largest bank, when it failed in early 1996, and subsequently supervised its sale to another Dominican bank. There have been no significant bank failures since then.

Gross foreign exchange reserves were approximately $830 million in September 1999. The reserve figures include some central bank assets, which are not actually available for use in payments. The government continued timely payments of foreign private bank debt and payments on renegotiated Paris Club debt.

The government continues to compensate the central bank for foreign debt payments carried out on its behalf. In the past, the central bank obtained the dollars needed for debt service by monetary expansion and compensated for this expansion by issuing Certificados de Participacion, which are short-term debt instruments. While this helps absorb excess liquidity, interest payments on these certificates may also be covered by net money creation.

Prior to Hurricane Georges, government cash flows were in surplus according to the central bank. Relief and reconstruction expenditures caused the government to run a minor deficit, despite contributions from the multilateral financial institutions. On an accrual basis, however, there is probably a significant deficit. The government has accumulated large arrears to domestic suppliers and contractors, although the Fernandez administration is moving slowly to repay some portion of this. For example, in September of 1999, the government agreed to pay off $125 million in debts of the State Sugar Council in connection with the privatization of that entity. The central government continues to provide subsidies to some state enterprises without regard to efficiency or production targets, but has moved decisively on privatization of electricity, sugar, flour, and airports. The exact size of this debt is unknown, but has been variously put at the peso equivalent of 150 to 600 million dollars. This domestic debt is owed to foreign firms now or previously operating in the Dominican Republic, as well as to purely local firms. Current government financial flows leave substantial doubt about the ability of the Dominican Government to pay this debt. The government has considered covering this debt by the issuance of bonds.

The Dominican Republic has ratified the GATT 94 and participates in WTO meetings. The Dominican Government has yet to determine an equitable and transparent method of quota distribution to implement its rectification agreement for eight protected agricultural products. In addition, the Dominican Republic has a discretionary import permit requirement for some agricultural products, especially beef and pork.

2. Exchange Rate Policy

The official exchange rate is set by the central bank. On July 2, 1998, the peso was devalued nine percent from 14.02 pesos/dollar to 15.33 pesos/dollar. It has continued to devalue slowly since then with the most recent official rate (November 1999) set at 15.93 pesos/dollar. The unofficial rate has also devalued and is currently in the range of 15.90 pesos to the dollar. An October 1999 increase in the fee for purchasing foreign currency to 5% (up from 1.75%) has effectively further devalued the peso. Traditional exporters such as sugar, cocoa, and coffee producers, credit card companies, and airlines are still required by law to sell foreign exchange to the Central Bank at the official rate, but most businesses and individuals are free to carry out foreign exchange transactions through the commercial bank system. The market rate is influenced by Central Bank activities such as dollar sales and the use of its considerable regulatory discretion to "jawbone" banks.

3. Structural Policies

Most domestic prices are determined by market forces, although distortionary government policies sometimes limit the operation of these forces. High tariff and non-tariff barriers also increase the cost of doing business in the Dominican Republic. Since tariff reform was enacted by presidential decree in 1990 and modified by law in 1993, no further reform has affected U.S. exporters. In December 1996, President Fernandez submitted a proposal to Congress to decrease all tariffs. This proposal was not acted upon. Following the negotiation of a free trade pact with Central America, however, the Fernandez administration submitted a new proposal to the Congress to decrease tariff levels to Central American levels (i.e. a top tariff of 20 percent). Action is still pending on this proposal.

The 1990 tariff regime reduced and simplified the tariff schedule to six categories with seven tariff rates ranging from 3 to 35 percent. It also replaced some quantitative import restrictions with tariffs and transformed all tariffs to ad valorem rates. While it marked an improvement over the previous tariff regime, this reform still left the Dominican Republic with high trade barriers. Few imports actually enter at the maximum 35 percent tariff rate, however, since together with other taxes and fees, it acts as an effective barrier to trade. Since nearly 40 percent of government revenues come from duties, taxes and fees collected on imports, the government's flexibility in trade policy is limited.

The government has continued to implement changes in its tax system aimed at increasing revenues. The concept of taxable income has been enlarged, marginal tax rates on individuals and companies reduced and capital gains are no longer considered exempted income. The government submitted proposals for changes in the tax system as part of a reform package in late 1998, but these have yet to be approved by Congress. In May 1992, a new labor code was promulgated with provisions that increased a variety of employee benefits. After an increase of 25 percent in 1997, public sector minimum wages have not increased.

Government policy prohibits new foreign investment in a number of areas including national defense production, forest exploitation and domestic air, surface and water transportation. Government regulations, such as the process required to obtain the permits to open new businesses, choke economic growth and innovation. The difficulties of protecting intellectual property rights have slowed the use of modern medicines. Investment in modern agricultural techniques is impeded by a chaotic land tenure system and the unwillingness of large landowners to modernize.

4. Debt Management Policies

The total external debt of the government is now approximately $3.5 billion. A significant portion of the official debt was rescheduled under the terms of Paris Club negotiations concluded in November 1991. In August 1994, the government successfully concluded debt settlement negotiations with its commercial bank creditors. The deal involved a combination of buy-back schemes and U.S. Treasury-backed rescheduling. Payment to foreign private and public creditors in the financial sector has generally been current since then, particularly since the agreement noted above with the CCC. A September 1999 Dominican request to defer Paris Club debt payments due in the first half of 2000 was denied. However, an IPP agreement was signed in late November 1999, which is a credible step towards resolving some of the major outstanding issues.

Government payments to foreign non-financial institutions are notoriously slow. Some debts are ten years old. The Fernandez government continues to express its desire to resolve these debts, but progress has been limited.

5. Significant Barriers to U.S. Exports

Trade Barriers: Tariffs on most products fall within the 5 to 35 percent range. In addition, the government imposes a 5 to 80 percent selective consumption tax on "non-essential" imports such as home appliances, alcohol, perfumes, jewelry, and automobiles. The government recently adjusted the formula for determining the base on which to apply the selective consumption tax to imported liquor following complaints from importers that the old formula discriminated against them in violation of WTO commitments.

The Dominican Republic requires a consular invoice and "legalization" of documents, which must be performed by a Dominican Consulate in the U.S. Fees for this service vary by consulate but can be quite substantial. Some importers now pay the consular invoice fee in Santo Domingo directly to customs. Moreover, importers are frequently required to obtain licenses from the Dominican Customs Service.

There are food and drug testing and certification requirements, but these are not burdensome.

Customs Procedures: In the past, bringing goods through Dominican Customs was a slow and arduous process, but there is anecdotal evidence that this situation has improved. Customs Department interpretation of exonerated materials being brought into the country still provokes complaints, however, and businesspersons here sometimes spend considerable time and money to get items through customs.

Arbitrary customs clearance procedures sometimes cause problems for business. The use of "negotiated fee" practices to gain faster customs clearance continues to put some U.S. firms at a competitive disadvantage in the Dominican market. Customs officials routinely reject invoice prices as a basis for computing duties and customs fees and use their own assumed value database. This applies to virtually all non-free trade zone imports.

Government Procurement Practices: The Dominican Republic has a centralized Government Procurement Office, but the procurement activities of this office are basically limited to expendable supply items of the government's general office work. In practice, each public sector entity has its own procurement office, both for transactions in the domestic market and for imports. Provisions of the U.S. Foreign Corrupt Practices Act often put U.S. bidders on government contracts at a serious disadvantage in what are sometimes non-transparent bidding procedures.

Prohibitions on Land Ownership: A long-standing requirement that foreigners wishing to purchase land first obtain permission from the presidency was lifted in early 1998.

Investment Barriers: Legislation designed to improve the investment climate passed in November 1995. Its implementing regulations were issued by the Fernandez administration in September 1996. The legislation does not contain procedures for settling disputes arising from Dominican Government actions. The seizures of foreign investors' property by past governments which are still unresolved, refusal to honor customs exoneration commitments, and the government's slowness in resolving claims for payment reduce the attractiveness of the investment climate, notwithstanding passage of the 1995 legislation.

Foreign investment must receive approval from the Foreign Investment Directorate of the central bank to qualify for repatriation of profits (the new law provides for repatriation of 100 percent of profits and capital and nearly automatic approval of investments). A new Fiscal and Monetary Code that would have permitted restrictions on capital flows was vetoed by President Fernandez in November 1999.

The electricity sector is a weak link in the Dominican economy. Businesses operating in the DR cannot depend on the public electric utility (CDE) to be a reliable source of electricity. Legislation governing the privatization/capitalization of CDE as well as of other state enterprises was passed by the Congress in June 1997. CDE's distribution units and thermal generation facilities were capitalized in 1999, and are now under the control of private sector operators.

Foreign employees may not exceed 20 percent of a firm's work force. This is not applicable when foreign employees perform managerial or administration functions only.

Dominican expropriation standards (e.g., in the "public interest") do not appear to be consistent with international law standards; several investors have outstanding disputes concerning expropriated property. The Fernandez government continues to maintain that it wishes to resolve these issues although progress has been slow. The Dominican Republic does not recognize the general right of investors to binding international arbitration.

All mineral resources belong to the state, which controls all rights to explore or exploit them. Private investment has been permitted in selected sites. Currently, foreign investors are exploring for gold, natural gas, nickel and copper. The process of choosing and contracting such areas has not always been transparent.

Investors operating in the Dominican Republic's Free Trade Zones (FTZ's) experience far fewer problems in dealing with the government than do investors working outside the zones. For example, materials coming into or being shipped out of the zones are reported to move quickly, without the kinds of bureaucratic difficulties mentioned above.

6. Export Subsidies Policies

The Dominican Republic has two sets of legislation for export promotion: the Free Trade Zone Law (Law no. 8-90, passed in 1990) and the Export Incentive Law (Law no. 69, passed in 1979). The Free Trade Zone Law provides 100 percent exemption on all taxes, duties, and charges affecting the productive and trade operations at free trade zones. These incentives are provided to specific beneficiaries for up to 20 years, depending on the location of the zone. This legislation is managed jointly by the Foreign Trade Zone National Council and the Dominican Customs Service.

The Export Incentive Law provides for tax and duty free treatment of inputs from overseas that are to be processed and re-exported as final products. This legislation is managed by the Dominican Export Promotion Center and the Customs Service. In practice, use of the export incentive law to import raw materials for process and re-export is cumbersome and delays in clearing customs can take anywhere from 20-60 days. This customs clearance process has made completion of production contracts with specific deadlines difficult. As a result, non-free trade zone exporters rarely take advantage of the Export Incentive Law. Most prefer to import raw materials using the normal customs procedures which, although more costly, are more rapid and predictable.

There is no preferential financing for local exporters nor is there a government fund for export promotion.

7. Protection of U.S. Intellectual Property

The Dominican Republic belongs to the World Trade Organization (WTO), and is a signatory to the Paris Convention, Berne Convention, Madrid Agreement, and the Rome Convention. In 1998, and again in 1999, the U.S. Trade Representative placed the Dominican Republic on the "Special 301" Priority Watch List because it continues to have inadequate enforcement of its existing laws and a legal regime that does not meet international standards. Piracy of video and audio tapes, compact discs, and software is widespread. The government has, however, stepped up efforts to combat such piracy. While larger cable TV systems generally pay royalties to U.S. right holders, smaller ones continue to pirate satellite signals, and the government has not responded to requests from U.S. industry for more effective enforcement. Trademarks, particularly of apparel and athletic shoes, are commonly counterfeited and sold locally. The patent law still contains broad exceptions from patentability, and provides an inadequate term of protection.

Patents: Patents are difficult to receive and enforce against a determined intellectual property thief. In a local pharmaceutical market worth approximately $110 million per year, 70 percent of the total is locally produced or packaged. A significant percentage of that total is believed to be pirated. Resolutions issued by the government at year-end 1996 and early 1997 further encourage the violation of pharmaceutical patents in the Dominican Republic. Last year, however, the Supreme Court upheld the rights of a foreign patent holder against a local laboratory. Draft patent legislation, pending in Congress, is inadequate, raising the prospect that the Dominican Republic will not be in compliance with its WTO obligations with regard to intellectual property by the January 1, 2000 deadline.

Trademarks: Apparel and other trademarked products are counterfeited and sold in the local market. Although the Dominican Government is taking a more activist stance toward remedying shortcomings in this area, including seizure of pirated goods, protection remains problematic.

Copyright: Despite copyright laws that are generally adequate and improved efforts at enforcement, piracy of copyrighted materials is still widespread. Video and audio recordings and software are being counterfeited despite the government's efforts to seize and destroy pirated goods. Some television and cable operators are rebroadcasting signals without compensating either the original broadcaster or the originator of the recording. The Motion Picture Association of America (MPAA) estimates that losses in the Dominican Republic due to theft of satellite-carried programming are one million dollars per year. The International Intellectual Property Alliance has filed a petition requesting a review of the Dominican Republic's GSP status due to continued copyright violations.

Impact on U.S. Trade: Infringement of intellectual property rights is so widespread that quantifying its impact on U.S.-Dominican trade is virtually impossible. Legislation to enable the Dominican Republic to comply with the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) is pending in the Congress.

8. Worker Rights

a. *The Right of Association:* The Constitution provides for the freedom to organize labor unions and also for the right of workers to strike (and for private sector employers to lock out workers). All workers, except military and police, are free to organize, and workers in all sectors exercise this right. The government respects association rights and places no obstacles to union registration, affiliation or the ability to engage in legal strikes. Organized labor represents little more than 10 percent of the work force and is divided among three major confederations, four minor confederations and a number of independent unions.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining is lawful and may take place in firms in which a union has gained the support of an absolute majority of the workers. Only a minority of companies has collective bargaining pacts. The Labor Code stipulates that workers cannot be dismissed because of their trade union membership or activities.

The Labor Code applies in the 40 established Free Trade Zones (FTZs). The FTZ companies, over sixty percent of which are U.S.-owned or associated, employ approximately 172,000 workers, mostly women. Some FTZ companies have allegedly discharged workers who attempt to organize unions, but these allegations have primarily been made against non-U.S. companies.

c. *Prohibition of Forced or Compulsory Labor:* There were some reports of forced overtime in factories, mainly those owned by non-U.S. companies. Employers, particularly in the FTZs, sometimes locked the exit doors of factories after normal closing time so that workers could not leave. There have been reports of workers being fired for refusing to work overtime and both employers and workers state that new hires are not informed that overtime is optional.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits employment of youth under 14 years of age and places restrictions on the employment of youth under the age of 16. These restrictions include a limitation of no more than six hours of daily work, no employment in dangerous occupations or establishments serving alcohol and limitations on nighttime work. Dominican law requires six years of formal education.

The high level of unemployment and lack of a social safety net create pressures on families to allow children to earn supplemental income. Tens of thousands of children work selling newspapers, shining shoes or cleaning cars, often during school hours. The government has proposed a fine for the parents of truant children.

e. *Acceptable Conditions of Work:* The Constitution provides the government with legal authority to set minimum wage levels and the Labor Code assigns this task to a National Salary Committee. Congress may also enact minimum wage legislation. The Labor Code establishes a standard work period of eight hours per day and 44 hours per week. The Code also stipulates that all workers are entitled to 36 hours of uninterrupted rest each week. The Code grants workers a 35 percent differential for work over 44 hours up to 68 hours per week and double time for any hours above 68 hours per week.

The Dominican Social Security Institute (IDSS) sets workplace safety and health conditions. The existing social security system does not apply to all workers and is underfunded.

Workplace regulations and their enforcement in the FTZs do not differ from those in the country at large, although working conditions are sometimes better. Conditions for agricultural workers are in general much worse, especially in the sugar industry.

f. *Rights in Sectors with U.S. Investments:* U.S.-based multinationals active in the FTZs represent one of the principal sources of U.S. investment in the Dominican Republic. Some companies in the FTZs adhere to significantly higher worker safety and health standards than do non-FTZ companies. In other categories of worker rights, conditions in sectors with U.S. investment do not differ significantly from conditions in sectors lacking U.S. investment.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		390
Food & Kindred Products	2	
Chemicals & Allied Products	22	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	346	
Wholesale Trade		(1)
Banking		58
Finance/Insurance/Real Estate		(2)
Services		20
Other Industries		(1)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
TOTAL ALL INDUSTRIES	535

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ECUADOR

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	19.8	19.7	14.5
Real GDP Growth (pct)	3.4	0.4	–10.0
GDP by Sector:			
Agriculture, Fishing	4.1	–1.4	2.7
Petroleum, Mining	3.5	–3.3	–2.6
Manufacturing	3.5	0.4	–9.2
Commerce, Hotels	3.3	0.9	–11.3
Finance, Business Services	1.9	3.5	1.1
Government, Other Services	1.3	1.2	–11.9
Per Capita GDP (US$)	1,665	1,619	1,164
Labor Force (estimate-000's)	3,374	3,441	3,880
Urban Unemployment (pct)	9.3	11.5	16.9
Money and Prices (annual percentage growth):			
Money Supply (M2) [2]	35.0	43.0	N/A
Consumer Price Inflation	30.7	45.0	50.4
Exchange Rate (Sucres/US$ annual average)			
Central Bank	4,000	5,442	11,165
Market	4,070	5,445	11,182
Balance of Payments and Trade:			
Total Exports FOB [3]	5.3	4.2	2.8
Exports to U.S.[3]	2.0	1.7	1.1
Total Imports CIF [3]	2.2	5.2	1.7
Imports from U.S.[3]	1.5	1.7	0.6
Trade Balance [3]	3.1	–1.0	1.1
Balance with U.S.[3]	0.5	0.0	0.5
External Public Debt	12.6	13.3	13.6
Debt Service Payments/GDP (pct)	27.7	22.4	21.0
Current Account Deficit/GDP (pct)	–3.8	–11.0	2.6
Fiscal Balance/GDP (pct)	–2.5	–5.9	–4.0
Gold and Foreign Exchange Reserves	2.1	1.7	1.3
Aid from U.S. (FY-US$ millions)	11.5	12.5	16.4
Aid from Other Sources (US$ millions)	N/A	N/A	N/A

[1] 1999 figures are estimates based on data available in November 1999.
[2] 1999 figure is for August 1998-August 1999.
[3] All 1999 figures are for the period January-August.
Source: Ecuadorian Government and Central Bank of Ecuador data.

1. General Policy Framework

The Ecuadorian economy is based on petroleum production and exports of bananas, shrimp and other primary agricultural products. Industry is largely oriented to servicing the domestic market but is becoming more export-oriented. During the oil boom of the 1970s, the government borrowed heavily from abroad, subsidized consumers and producers, and expanded the state's role in economic production. These policies led to chronic macroeconomic instability in the 1980s. Continued borrowing and fiscal mismanagement in the 1990s have brought on Ecuador's worst economic crisis in 70 years.

The 1992-1996 government of Sixto Duran-Ballen sought to stabilize the economy, modernize the state, and expand the role of the free market. By 1994, a sound macroeconomic program had resulted in a balanced budget and reduced inflation. Those accomplishments, however, were undermined by a series of shocks during 1995, including the outbreak of fighting on the border with Peru, a corruption scandal and political crisis involving the then-Vice President, and several months of electricity rationing. The problems resulted in skyrocketing interest rates, a growing number of past-due loans, and the failure of a major financial institution. GDP growth slowed during 1995, increasing by only 2.3 percent instead of a projected 4 percent. The uncertainty associated with the 1996 elections, the rise of the populist Abdala Bucaram to the presidency, poor treatment of foreign investors, and delays in the announcement of the new government's economic program helped prevent an economic recovery. Economic reform stalled under Bucaram's six-month government (August 1996-February 1997) which was characterized by increased corruption and decreased investment.

The interim government of Fabian Alarcon (February 1997–August 1998) was faced with a number of economic challenges, including implementing the Duran-Ballen era reforms, falling oil prices, and coastal devastation from El Niño. Unfortunately, the Alarcon government was not up to the task, failing to privatize the state-owned telephone company, reduce the inflation rate to international levels, or improve the electricity generating sector. The current administration of Jamil Mahuad, which moved quickly to secure a peace treaty with Peru in the Fall of 1998, inherited growing economic problems and has been wracked by a chronic fiscal budget deficit, a collapsing banking system, a rapidly devaluing currency, severe inflation, and negative economic growth. The economy is expected to contract by about 10 percent in 1999. As a consequence, imports will drop by almost 50 percent from 1998 levels.

The government estimates that the fiscal deficit for 1999 will reach between 4.0 and 4.5 percent of GDP. Significant revenue and expenditure measures will be needed to reduce the deficit to what the government and the International Monetary Fund (IMF) believe is a sustainable figure of 2.5 percent of GDP in the year 2000. Public sector expenditures accounted for 22.4 percent of GDP in 1998. Debt service is the largest area of government spending (accounting for about 41 percent of central government expenditures), followed by education, defense and agriculture. The government remains highly dependent on revenue from oil exports and customs charges.

The central bank attempts to smooth out fluctuations in liquidity through weekly bond auctions and interventions in the secondary market, and has sometimes used bank reserve requirements as a monetary tool. During periods of capital inflows, the government has compensated for the inflationary effects of foreign exchange influx by increasing its sucre deposits at the central bank. Annual M2 percentage growth in 1998 increased from 35 percent to 43 percent. The monetary emission rate from January to October 1999 was 130 percent, fueling a 140 percent devaluation of the sucre against the U.S. dollar during this time period.

The Duran-Ballen policy of depreciating the currency at a rate slower than inflation helped reduce the annual increase in consumer prices from 60 percent in 1992 to 23 percent in 1995. However, the inflation rate rose to 30 percent in 1997, 43 percent in 1998, and will likely reach at least 55 percent in 1999. In 1999, the collapsing domestic financial system and a relative lack of U.S. dollars pushed nominal interbank interest rates as high as 180 percent before falling to about 55 percent in November.

2. Exchange Rate Policy

The central bank abandoned its crawling peg exchange rate system in February of 1999. The sucre trades freely against the U.S. dollar and other currencies. U.S. dollars are readily available on the free market, trading around 18,000 sucres to one dollar by mid-November 1999. The Sucre has devalued some 140 percent against the U.S. dollar between January and November 1999, and further depreciation is likely. By the end of October 1999, foreign exchange reserves amounted to about $1.3 billion, enough to cover imports for approximately six months.

3. Structural Policies

Recent administrations have enjoyed only partial success in carrying out structural reforms designed to promote investment and economic growth. Limited progress has been made on budget reform, reduction of public employment levels, and elimination of some unnecessary and market-distorting regulations. With exceptions for pharmaceuticals, fuels, and some foodstuffs, prices are set by the free market. Relatively new laws have established a basis for the development of equity capital markets, modern regulation of financial institutions, and improvement in the security of agricultural land tenure for both peasants and agribusiness. In most cases, however, implementation has lagged behind legislation. The Mahuad government would like to make structural reforms, including revamping the tax system and privatizing state-owned enterprises, such as telecommunications and power generation, but has been hampered by Ecuador's deep economic crisis and opposition in Congress.

The 1993 State Modernization Law allowed private sector participation in "strategic sectors" of the economy, including petroleum, electricity and telecommunications, but only on a concessional basis. The National Modernization Council (CONAM) has sought to promote privatization, and the state development banks have sold much of their equity shares in commercial enterprises to the private sector. In the past, the armed forces have expressed interest in selling some shares in military-owned companies to private sector partners, though Ecuador's recent economic problems may delay any such sales. Soon after entering office, the Mahuad administration put forth an ambitious plan to privatize much of the state-owned companies by the year 2000, but has fallen far behind schedule because of the economic crisis. Of key importance is the scheduled sale of the two state-owned telephone companies (Andinatel and Pacifictel), which was to have occurred in the third quarter of 1999. The Mahuad administration has asked foreign oil companies operating in Ecuador to build a second oil pipeline from the Amazon jungle to the Pacific Ocean. If the companies agree, construction could begin in the first half of 2000 and would last 18 months. Limited steps have been taken toward granting private concessions for public works, the civil registry, airports, ports, and postal and railroad services. The government will also need to address the need for major reform of public education and the social security system's insolvent pension program.

Investment liberalization measures in 1991 and 1993 provided foreign investors with full national treatment and eliminated prior authorization requirements for investment in most industries, including finance and the media. Specific restrictions, most applicable to Ecuadorian as well as foreign investors, remain for petroleum, mining, electricity, telecommunications and fishing investments. A Bilateral Investment Treaty with the United States that provides for free transfers and a binding arbitration dispute settlement procedure entered into force in May 1997. A value-added tax (VAT) of 12 percent applies to sales of goods and services in the formal sector. An excise tax on certain "luxury" products continues to be applied to imports in a discriminatory manner. Under this tax system, Ecuadorean Customs also assesses an arbitrary 25 percent mark-up on the ex-customs value of alcoholic beverage imports including distilled spirits. This additional 25 percent mark-up is not applied to like domestic products. In 1998, Congress passed legislation imposing a one percent tax (since lowered to 0.8 percent) on financial transactions in the nation's banking system. Although the Hydrocarbons Law is relatively investor-friendly, recent administrations have failed to respect many existing contracts with foreign investors in the oil sector.

4. Debt Management Policies

As of mid-1999, Ecuador's external public debt was $13.6 billion, or about 95 percent of 1999 estimated GDP. While expressing a desire to honor the country's debt obligations, President Mahuad stated in August 1999 at Ecuador could no longer afford to service its debt and that it would not meet a payment on its Discount Brady Bonds. Mahuad's action sent shock waves through international financial markets since no country had ever defaulted on its Brady Bonds. In late October, Ecuador also failed to meet its coupon payments on Eurobonds. As of November 1999, the Government of Ecuador was negotiating with bondholders over potential debt restructuring plans to reduce its debt-servicing burden.

Ecuador concluded bilateral rescheduling agreements with most of its official creditors, including the United States, under a 1994 Paris Club agreement but again ran substantial bilateral arrears in 1995-1999 (totaling some $550 million) and has stated its intention to seek another Paris Club rescheduling. During 1996 Ecuador failed to meet the targets of the IMF-monitored program that replaced the 1994 standby arrangement, with which Ecuador had quickly fallen out of compliance. As of November 1999, Ecuador is seeking another IMF program in order to reschedule Paris Club debt and unlock conditioned loans from international financial institutions.

5. Significant Barriers to U.S. Exports

Ecuadorian trade policy was substantially liberalized during the early 1990's, resulting in a reduction of tariffs, elimination of most non-tariff surcharges, and enactment of an in-bond processing industry (maquila) law. The Duran-Ballen administration continued the move towards open trade by concluding bilateral free trade agreements with its Andean Pact partners. After two years of negotiations with its major trading partners, Ecuador joined the World Trade Organization (WTO) in January 1996.

Duties and fees for most imports into Ecuador fall in the 5 to 20 percent range, though the government plans to impose additional surcharges through 2000. Ecuador agreed to an Andean Common External Tariff in February 1995. Special exemptions allow Ecuador to continue to charge higher rates for about half of the items on the common tariff schedule.

Customs procedures can be difficult but are not normally used to discriminate against U.S. products. The Mahuad administration has expressed its desire to repair damage done to customs services that occurred under previous administrations by focusing on corruption and improving efficiency. The government has yet to implement its commitment not to use sanitary and phytosanitary restrictions to block the entry of certain imports of consumption products and agricultural goods from the United States, but has increased the number of Ecuadorian institutions that are authorized to issue sanitary and phytosanitary permits. Import bans on used clothing, used cars and used tires have yet to be eliminated, despite Ecuador's promise in its WTO accession protocol to do so by July 1996. Andean Pact price bands that result in high effective tariffs for a variety of agricultural products are to be phased out. The government no longer sets minimum prices for assessing customs duties on certain imports.

All importers must obtain a prior import license from the central bank, obtainable through private banks. Licenses are usually made available for all goods. A discriminatory 1976 law that prevented U.S. and other foreign suppliers, but not domestic suppliers, from terminating existing exclusive distributorship arrangements without paying compensation was repealed in September 1997. However, the U.S. Government is concerned that the repealed law will continue to be applied in pending court cases or against U.S. companies that have existing contracts that were in force prior to the repeal. Foreigners may invest in most sectors, other than public services, without prior government approval. There are no controls or limits on transfers of profits or capital, and foreign exchange is readily available.

Government procurement practices are not sufficiently transparent but do not usually discriminate against U.S. or other foreign suppliers. However, bidding for government contracts can be cumbersome and time-consuming. Bids for public contracts are often delayed or canceled. Many bidders object to the requirement for a bank-issued guarantee to ensure execution of the contract.

6. Export Subsidies Policies

Ecuador does not have any explicit export subsidy programs.

7. Protection of U.S. Intellectual Property

Ecuador belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention, Rome Convention, and the Phonograms Convention. In 1999, the U.S. Trade Representative moved Ecuador from the "Special 301" Priority Watch List to the Watch List in recognition of significant improvements in Ecuador's protection of intellectual property rights (IPR).

Ecuador's protection of intellectual property is based primarily on the 1998 Intellectual Property Law, which protect patents, trademarks, copyrights, and plant varieties. The law generally meets the standards specified in the WTO TRIPs Agreement. Although a November 1996 Andean Pact court decision overturned Ecuadorian regulations that provided transitional or "pipeline" protection for previously unpatentable products, the Alarcon government approved 12 "pipeline" patents in 1998. Approximately 37 such patents held by U.S. firms still await final resolution under the Mahuad government. In 1999, the Andean Community imposed sanctions on Ecuador for its issuance of "pipeline" approvals on the grounds that Ecuador had violated the Community's own patent regime.

In October 1993, Ecuador and the United States signed a bilateral Intellectual Property Rights Agreement (IPRA) that guarantees full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs, and trade secrets. Although the Ecuadorian Congress has not yet ratified the IPRA, in 1998 it enacted legislation that generally harmonizes local law with the agreement's provisions (with the notable exception of "pipeline" patents). Despite the fact that Ecuador issued and notified an initial group of pipeline patent applications, consistent with its bilateral agreement with the United States, it has failed to issue any of the additional pending applications.

Enforcement of intellectual property rights has improved significantly in Ecuador, but copyright infringement still occurs, and there is widespread local trade in pirated audio and video recordings, as well as computer software. However, companies can seek preliminary injunctive relief under the 1998 IPR law. Local registration of unauthorized copies of well-known trademarks has been a problem in the past, but monitoring and control of such registrations have improved. Some local pharmaceutical companies produce or import patented drugs without licenses and have sought to block improvements in patent protection. Ecuadorian flower growers persuaded a local judge to suspend the patent and trademark rights of U.S. and other foreign flower breeders, which could lead to U.S. action to ban imports of flowers grown in Ecuador. As of November 1999, the case is on appeal before the Constitutional Tribunal.

8. Worker Rights

a. *The Right of Association:* Under the Ecuadorian Constitution and labor code, most workers in the parastatal sector and private companies enjoy the right to form trade unions. Public sector workers in non-revenue earning entities, as well as security workers and military officials, are not permitted to form trade unions. Less than 12 percent of the labor force, mostly skilled workers in parastatal and medium-to-large sized industries, is organized. Except for some public servants and workers in some parastatals, workers by law have the right to strike. Sit-down strikes are allowed, but there are restrictions on solidarity strikes. Ecuador does not have a high level of labor unrest. Most strike activity involves public sector employees.

b. *The Right to Organize and Bargain Collectively:* Private employers with more than 30 workers belonging to a union are required to engage in collective bargaining when requested by the union. The labor code prohibits discrimination against unions and requires that employers provide space for union activities. The labor code provides for resolution of conflicts through a tripartite arbitration and conciliation board process. Employers are not permitted to dismiss permanent workers without the express permission of the Ministry of Labor. The in-bond (maquila) law permits the hiring of temporary workers in maquila industries, effectively limiting unionization in the sector. Employers consider the labor code to be unfavorable to their interests.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is prohibited by both the constitution and the labor code, and is not practiced.

d. *Minimum Age for Employment of Children:* Persons less than 14 years old are prohibited by law from working, except in special circumstances such as apprenticeships. Those between the ages of 14 and 18 are required to have the permission of their parents or guardian to work. In practice, many rural children begin working as farm laborers at about 10 years of age, while poor urban children under age 14 often work for their families in the informal sector.

e. *Acceptable Conditions of Work:* The labor code provides for a 40-hour workweek, two weeks of annual vacation, a minimum wage and other variable, employer-provided benefits such as uniforms and training opportunities. The minimum wage is set by the Ministry of Labor every six months and can be adjusted by Congress. Mandated bonuses bring total monthly compensation to about $137. The Ministry of Labor also sets specific minimum wages by job and industry so that the vast majority of organized workers in state industries and large private sector enterprises earn substantially more than the general minimum wage. The labor code also provides for general protection of workers' health and safety on the job, and occupational health and safety is not a major problem in the formal sector. However, there are no enforced safety rules in the agriculture sector and informal mining.

f. *Worker Rights in Sectors with U.S. Investment:* The economic sectors with U.S. investment include petroleum, chemicals and related products, and food and related products. U.S. investors in these sectors are primarily large, multinational companies, which abide by the Ecuadorian Labor Code. In 1996 there were no strikes or serious labor problems in any U.S. subsidiary. U.S. companies are subject to the same rules and regulations on labor and employment practices governing basic worker rights as Ecuadorian companies.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		576
Total Manufacturing		188
Food & Kindred Products	30	
Chemicals & Allied Products	70	
Primary & Fabricated Metals	1	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	(1)	
Transportation Equipment	24	
Other Manufacturing	(1)	
Wholesale Trade		68
Banking		(1)
Finance/Insurance/Real Estate		36
Services		4
Other Industries		(1)
TOTAL ALL INDUSTRIES		952

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

EL SALVADOR

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	11,305.0	11,870.2	12,368.0
Real GDP Growth (Pct)	4.2	3.2	2.5
GDP By Sector:			
Agriculture	1,492.0	1,432.2	1,475.0
Manufacturing	2,400.0	2,629.4	2,760.0
Services	6,449.0	6,878.0	7,290.0
Government	747.0	800.0	848.0
Per Capita GDP (US$) [2]	1,897.0	1,968.0	2,025.0
Labor Force (000's) [3]	2,260.0	2,305.0	2,350.0
Unemployment Rate (Pct) [4]	7.6	8.0	8.0
Money and Prices (Annual Percentage Growth):			
Money Supply Growth (M2)	20.0	12.0	9.0
Consumer Price Inflation	2.0	4.2	4.0
Exchange Rate (Colon/US$)	8.75	8.75	8.75
Balance Of Payments And Trade:			
Total Exports Fob [5]	2,425.0	2,446.0	2,400.0
Exports To U.S. [5]	1,312.0	1,454.0	1,555.0
Total Imports CIF [5]	3,740.0	3,959.0	4,150.0
Imports From U.S. [5]	1,975.0	2,028.0	2,150.0
Trade Balance	−1,325.0	−1,513.0	−1,750.0
Balance With U.S.	−633.0	−554.0	−595.0
External Public Debt	2,680.0	2,630.0	2,500.0
Fiscal Deficit/GDP (Pct)	2.0	2.0	2.5
Current Account Deficit/GDP (Pct)	−1.9	−0.7	−0.9
Debt Service Payments/GDP (Pct)	3.0	3.0	3.0
Gold and Foreign Exchange Reserves	1,462.0	1,765.0	1,840.0
Aid From U.S.	38.0	38.0	56.8
Aid From All Other Sources [6]	38.0	38.0	38.0

[1] 1999 figures are central bank estimates based on August data.

[2] Per capita growth based on 1992 census data.
[3] Economically active population, i.e. all those over age 15.
[4] Figures do not include underemployment.
[5] Including gross maquila.
[6] Grants only; figures do not reflect NGO assistance and bilateral loan programs.

1. General Policy Framework

In 1998, El Salvador's economy grew by 3.2 percent, compared to the 4.2 percent growth posted in 1997. The damage caused by Hurricane Mitch to infrastructure and to agriculture production reduced 1998 growth by an estimated 0.5 percent. Growth weakened further in 1999 due to poor international prices for El Salvador's principal export commodities, weak exports to Central American neighbors recovering from Hurricane Mitch, and an investment slow-down caused by the March 1999 presidential elections and delays in legislative approval of a national budget.

Data from the second and third quarter of 1999 indicates the economy has started to recover from the evident slow-down observed during the first quarter of the year. Ministry of economy/central bank data shows that the GDP has gradually risen from 2.1 percent growth in the first quarter to 2.4 percent growth in the third quarter. Growth has been led by the commerce, energy, finance, and manufacturing sectors. During the January-September 1999 period, exports decreased by 4 percent compared to 1998, while imports increased by 6 percent. Value added tax (vat) collections increased during the same period by 6 percent. This modest recovery has taken place within the context of a relatively low inflation rate, which is expected to be 4.0 percent in 1999, compared to 4.2 percent in 1998 and 2.0 percent in 1997. The official outlook for 2000 is for continued macro economic stability with 3.5 percent growth, 2.5 percent inflation and a fiscal deficit of 2.4 percent of the GDP. Economic performance may strengthen more next year if international assistance for Mitch reconstruction projects arrives in a timely fashion, and if the U.S. congress approves expanded Caribbean Basin Initiative (CBI) benefits.

The central bank tightened monetary policy in 1999. The money supply is expected to expand 9 percent in 1999 compared to 12 percent in 1998. Interest rates on loans for less than a year have remained at 15 to 16 percent in 1999, compared to 18 percent two years ago. Medium and long-term interest rates also went down from 20 to 18 percent in the same period.

In 1998, the government successfully privatized the state telephone company, the electricity distribution companies and pension funds. In 1999 the government successfully auctioned the thermal power plants and plans to sell its remaining shares in the telephone company. The 1999 US$2 billion central budget continues to shift spending from military to social investments, with about one third of the central budget dedicated to social development including health, education and public works. The 1999 budget is likely to result in a fiscal deficit no greater than 2.5 percent of GDP due to improved tax collection. The modest deficit has been financed with official domestic and external bonds. By law, the central bank is not allowed to finance government deficits. The 2000 budget is expansionary, and its spending is expected to increase by 6 percent over the 1999 budget.

1998 brought a slight increase in both exports (1 percent) and imports (5.8 percent). As in previous years, family remittances and external aid have offset the large structural trade deficit in El Salvador. Remittances continue to be the second most important source of foreign exchange after exports and a major factor in El Salvador's macro economic stability. Remittances are increasing at an annual rate of 6.5 percent, and an estimated 1.35 billion dollars will enter the national economy during 1999.

2. Exchange Rate Policy

The colon has been informally pegged at 8.75 per dollar since 1994. Large inflows of dollars from Salvadorans working in the United States offset a significant trade deficit. At the end of September 1999, net international reserves at the central bank were 1.8 billion dollars, one of the highest levels in history.

3. Structural Policies

The United States is El Salvador's main trade partner. Imports from the U.S. have increased an average of 16 percent per year since 1993. Imports from the U.S., which constitute about 50 percent of all El Salvador's imports, are projected to reach $2.15 billion in 1999, up from $2.02 billion in 1998. Key to this trend is the multiyear program (whose last phase concluded in July 1999), to radically lower tariff barriers. Under this program, tariffs for most capital goods and raw materials have been reduced to zero or one percent, and tariffs on intermediate and final goods have been reduced to a maximum rate of 15 percent.

In September 1997, the government launched a new, simplified customs procedure system that reduces the former cumbersome 20-step import process to seven steps.

A second stage of this customs modernization program, consisting of processing import/export papers via computer/satellite from the user's office, was implemented in November 1998, and a final stage to facilitate electronic payment of import duties was launched in February 1999. Close to 80 percent of all Salvadoran imports consist of capital and intermediate products. The government has an open procurement policy in practice, and U.S. companies compete actively for contracts.

El Salvador has liberal legislation under which it has privatized the state owned telephone company (Antel), four electricity distributors and two thermal generating companies, and pension funds. All of these projects represent good opportunities for U.S. suppliers and investors.

Prices, with the exception of bus fares and utilities, which are moving toward market prices, are unregulated. A commission to monitor the telecommunications and electric sectors (Siget) has been established.

The 13 percent value-added tax (vat) is applied to all goods and services, domestic and imported, with a few limited exceptions for basics like dairy products, fresh fruits and vegetables, and medicines. In September 1999, the vat and income tax laws were reformed in order to expand the country's taxable base and increase government revenues. At the end of 1994, the government replaced a price band mechanism, introduced in 1990 to regulate the tariffs on basic grains. The government policy on basic grain tariffs is set by seasonal supply and demand conditions in the local market. Currently, yellow corn is imported duty free; white corn enters duty free from February 1 through July 31, and is subject to 15 percent ad-valorem rate from August 1 to January 31. Paddy (rough) rice pays 20 percent ad-valorem. and milled rice, 35 percent.

4. Debt Management Policies

El Salvador has traditionally pursued a conservative debt policy. External debt stood at $2.630 billion at December 1998, a 2 percent below the previous year. The total external debt is expected to fall slightly to $2.5 billion by the end of 1999. Almost 70 percent of this debt has been contracted with international financing institutions, and 30 percent with bilateral organizations and other sources. The debt service in 1999 amounted to $309 million or 2.5 percent of the GDP, and is considered moderate. El Salvador's prudent debt policies have been recognized by improved risk ratings on its official debt instruments by organizations such as Moody's and Standard and Poor's.

El Salvador has succeeded in obtaining significant new credits from diverse international sources over the last three years. Some $300 million has been contracted from international institutions and governments (Spain, Germany, Japan) for infrastructure works and social programs to be undertaken over the next few years. In August 1999, El Salvador successfully placed US$150 million in Euro-bonds. The debt profile is expected to increase over the next several years as the international donor community has pledged 1.26 billion dollars to finance El Salvador's reconstruction and modernization.

5. Aid

Aid grants from the U.S. totaled $56.8 million in 1999. Bilateral military assistance (international military and educational training) from the U.S. totaled $500,000 in 1998 and $500,000 in 1999.

6. Significant Barriers to U.S. Exports

There are no legal barriers to U.S. exports of manufactured goods or bulk, nonagricultural products to El Salvador. Most U.S. goods face tariffs from 0 to 15 percent. The range for category is 0 to 5 percent for capital goods, 5 to 10 percent for intermediate products, and up to 15 percent for final goods. Higher tariffs are applied to automobiles, alcoholic beverages, textiles and some luxury items, but the Salvadoran government also plans to gradually reduce these tariffs in the near future.

Generally, standards have not been a barrier for the importation of U.S. consumer-ready food products. Poultry is the notable exception; since 1992, the government has imposed a zero tolerance requirement for several common avian diseases such as salmonella, effectively blocking all imports of U.S. poultry. The Ministry of Agriculture (MAG) requires a salmonella-free certificate showing that the product has been approved by U.S. health authorities for public sale. Importers may also be required to deliver samples for laboratory testing, but this requirement has not been enforced. However, lately MAG is requesting plant inspections at origin to allow imports of various food products into the local market. The cost for this procedure has to be paid by the exporter or the local agent/distributor. A sanitary certificate must accompany all fresh food, agricultural commodities and live animals.

Basic grains and dairy products also must have import licenses. Authorities have not enforced the Spanish language-labeling requirement.

El Salvador is a member of the WTO and expects to implement a full range of its Uruguay round commitments on schedule. The government is an active participant in the Summit of the Americas/Free Trade of the Americas process. The country is a member of the Central American common market, and together with Guatemala and Honduras, is negotiating a free trade agreement with Mexico. A free trade agreement is being negotiated with Chile, and limited scope free trade agreement has been signed with the Dominican Republic.

El Salvador officially promotes foreign investment in virtually all sectors of the economy. Foreign investment laws allow unlimited remittance of net profits, except for services where the law allows 50 percent. No restrictions exist on establishing foreign banks or branches of foreign banks in El Salvador. Recently, the legislative assembly approved a new more open and modern investment promotion law, as well as a new banking law.

7. Export Subsidies Policies

El Salvador does not employ direct export subsidies. It offers a 6 percent rebate to exporters of non-traditional goods based on the fob value of the export, but some exporters have found it difficult to collect. Free trade zone operations are not eligible for the rebate but enjoy a 10-year exemption from income tax as well as duty-free import privileges.

8. Protection of U.S. Intellectual Property

El Salvador belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty.

In 1998 and 1999, the intellectual property office of the attorney general's office took strong enforcement measures against IPR violators in a number of areas including, videos and music cassettes, medicines, and clothing. Starting in 1999, officials began raids on software pirates.

El Salvador's current law protecting intellectual property rights took effect in October 1994. This law, along with El Salvador's acceptance of TRIPS disciplines, addresses several weak areas. Patent terms were extended to 20 years, and the definition of patentability was broadened. Compulsory licensing applies only in cases of a national emergency. Computer software is protected, as are trade secrets.

Trademarks are still regulated by the Central American Convention for the Protection of Industrial Property. It is an occasional practice to license a famous trademark and then seek to profit by selling it when the legitimate owner wants to do business in El Salvador. In November 1994, El Salvador signed an amended version of the convention, which, among other things, would address this issue. The revised convention will take effect upon ratification by three of the participating Central American governments. According to Salvadoran government officials, they are working on a draft for a separate semiconductor chip law.

With international funding, the government is completing a comprehensive reorganization of its antiquated national registry office. The registration process has been simplified and computerized, and significant progress is being made in reducing backlogs and adjudicating disputes.

9. Worker Rights

a. *Right of Association:* The constitution prohibits the government from engaging in antiunion actions against workers trying to organize and the 1994 labor code streamlined the process required to form a union in the private sector. Unions and strikes are legal only in the private sector. Employees of autonomous public agencies may form unions but not strike. Nevertheless, many workers including those in the public sector form employee associations that frequently carried out strikes that, while technically illegal, were treated as legitimate. Approximately 20 percent of the workforce are members of unions, public employees associations, or peasant organizations.

b. *The Right to Organize and Bargain Collectively:* The constitution prohibits the government from using nationality, race, sex, creed, or political philosophy as a means to prevent workers or employees from organizing themselves into unions or associations. In practice, the government has generally respected this right. El Salvador has a small organized labor sector with approximately 150 active unions, public employee associations, and peasant organizations, representing over 300,000 citizens, or 20 percent of the total work force. By law, only private sector workers have the right to organize unions and strike. Some employees of autonomous public agencies may form unions if they don't deal with essential services. Public employees may form employee associations, but are prohibited from striking. In fact, some of El Salvador's most powerful labor groups are public employees associations, which take on the same responsibility as unions—including calling technically illegal strikes and collective bargaining. The government negotiates with these associations and generally treat strikes as legitimate, although the labor code mandates arbitration of public sector disputes. The constitution and the labor code provide for collective bargaining rights, but only to employees in the private sector and in autonomous government agencies. In fact, both private sector unions (by law) and public sector employee associations (in practice) use collective bargaining.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor, except in the case of calamity and other instances specified by law. This provision is followed in practice. Although not specifically prohibited, forced and bonded labor by children are covered by the general prohibition, and there were no reports of its use in the formal sector. However, there is strong evidence that minors are forced into prostitution.

d. *Minimum Age for Employment of Children:* The constitution prohibits the employment of children under the age of fourteen. The labor code specifically prohibits forced and bonded labor in general, but does not specifically cover children. Minors fourteen or older may receive special labor ministry permission to work, but only where such employment is absolutely indispensable to the sustenance of the minor and his family. This is most often the case with children of peasant families who traditionally work during planting and harvesting seasons. Child labor is not usually found in the industrial sector. Those legal workers under the age of eighteen have special additional rules governing conditions of work.

e. *Acceptable Conditions of Work:* The minimum wage was increased by 10 percent in 1998. Effective April 1998, the minimum wage is $4.80 (42 colones) per day, for commercial, industrial, and service employees. It had remained at $4.40 (38.50 colones) per day since 1995. For agricultural workers, it was raised to $2.47 from $2.26, plus a food allowance, per day. Minimum wage for workers at coffee mills was increased to $3.56 from $3.30 per day, and for sugar mill workers to $2.60 from $2.26 per day. The law limits the workday to 6 hours for youths between fourteen and eighteen years of age and 8 hours for adults, and it mandates premium pay for longer hours. The labor code sets a maximum normal workweek of 36 hours for youths and 44 hours for adults.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in El Salvador has increased in recent years, especially in the energy and financial sectors. The labor laws apply equally to all sectors, including the so-called "maquilas" or free trade zones (FTZ). During the last few years, most FTZ companies have accepted the provisions of voluntary codes of conduct from their parent corporations or U.S. purchasers. These codes include worker rights protection clauses. In April 1997, the Salvadoran Apparel Industry Association (ASIC) announced an industry wide code of conduct, currently being implemented, with worker rights protection. The great majority of workers in the FTZs receive much better salaries and working conditions than are offered elsewhere in the private sector. Nevertheless, there were credible reports of factories dismissing union organizers. In addition, accusations persist of some companies abusing their workers. This year, the labor ministry increased the number of inspectors and inspections, improved the professional training of the inspector corps, and made a better effort to follow up on such complaints.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		194
Total Manufacturing		26
Food & Kindred Products	10	
Chemicals & Allied Products	12	
Primary & Fabricated Metals	13	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	−15	
Transportation Equipment	0	
Other Manufacturing	6	
Wholesale Trade		(1)
Banking		18
Finance/Insurance/Real Estate		(1)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
Services	8
Other Industries	169
Total All Industries	599

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

GUATEMALA

Key Economic Indicators [1]

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP [2]	17,427	19,016	17,826
Real GDP Growth (pct)	4.3	4.7	3.5
GDP by Sector (pct):			
Agriculture	24	24	23
Manufacturing	21	21	21
Services	47	47	47
Government	8	8	8
Per Capita GDP (US$) [2]	1,603	1,793	1,635
Labor Force (000's) [3]	3,320	3,416	4,208
Unemployment Rate (pct) [4]	5.2	5.2	5.2
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.2	14.4	10.0
Consumer Price Inflation [5]	7.1	7.4	5.0
Exchange Rate (Quetzal/US$ annual average)			
Financial Market Rate (1999 data is Unofficial Embassy estimate)	6.10	6.40	7.50
Balance of Payments and Trade:			
Total Exports FOB [6]	2,391	2,562	2,262
Exports to U.S.	840	837	742
Total Imports CIF [6]	3,852	4,651	4,409
Imports from U.S.	1,585	1,931	1,767
Trade Balance [6]	–1,461	–2,089	–2,147
Balance with U.S. [6]	–745	–1,094	–1,025
External Public Debt [7]	2,200	2,368	2,600
Fiscal Deficit/GDP (pct) [7]	1.0	2.9	3.0
Current Account Deficit/GDP (pct) [7]	3.6	5.4	5.4
Debt Service Payments/GDP (pct) [7]	2.4	3.0	2.4
Gold and Foreign Exchange Reserves (Millions Net) [7]	1,100	1,400	1,100
Aid from U.S.	64	77	
Aid from Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available data in October.
[2] Depreciation of local currency results in apparent decline in GDP expressed in U.S. Dollars.
[3] 1999 Labor Force Data from 1999 Survey of Family Income and Expenditures.
[4] Does not reflect estimated 40 to 50 percent underemployment.
[5] The official CPI is not regarded as an accurate measure of price movements.
[6] Merchandise trade data from Guatemalan customs and central bank. Trade data does not include approximately $250 million in value added by the apparel assembly industry.
[7] Data from the Guatemalan government's preliminary 2000 budget projection and Guatemala's Central Bank.

1. General Policy Framework

Since assuming office in January 1996, the Arzu administration and the National Advancement Party (PAN), which has a majority in the legislature, have worked to implement a program of economic liberalization and to modernize the state. Signing of the final Peace Accord in December 1996, which ended Guatemala's 36-year armed internal conflict, removed a major obstacle to foreign investment. Among the government's remaining challenges, however, are the need to address the fiscal deficit, the elimination of bureaucratic inefficiency as well as private and government corruption, development of physical infrastructure and human capital, improvement in internal security and justice, and designing policies that promote sustained macroeconomic stability.

Guatemala's economy, the largest in Central America, is generally open, though the lack of transparency and bureaucratic complexity often make it difficult for foreigners to compete on an equal footing. For the last three years, real GDP growth has averaged about 4.0 percent, and population growth about 2.9 percent annually. Insufficient investment in education, health care, telecommunications, and transportation constrain the more rapid development of Guatemala's economy. The telecommunications sector and key elements of the electricity industry have been privatized and the government has awarded concessions for operation of the railroad and the postal service. Concessions to expand and operate the country's two state-owned sea ports and two international airports will be offered early in 2000. In July 1995, Guatemala became a member of the WTO.

Agriculture and commerce are the dominant economic activities, each contributing approximately 25 percent of GDP; manufacturing accounts for 15 percent of GDP. The agricultural sector accounts for two thirds of exports and about 40 percent of all employment, though there is much underemployment in all sectors. Activity in the agricultural sector is concentrated in production of the traditional products of coffee, sugar, and bananas. Non-traditional agricultural exports, e.g., specialty vegetables and fruits, berries, shrimp, and ornamental plants and flowers, account for an increasing share of export revenues. Other non-traditional industries that have experienced recent growth and have favorable prospects are apparel assembly for export and tourism. Remittances from abroad, which the Guatemalan Government estimates at between $450-500 million per year, are a significant source of foreign exchange.

Though tax revenues have historically been less than 8 percent of GDP, the government is committed to increasing tax revenues to 12 percent of GDP by the year 2002 to fund social and economic development projects related to the Peace Accords. Tax revenues in 1999 will nonetheless fall short of 10 percent of GDP. Beginning in 1994, the central bank (Bank of Guatemala) was prohibited from financing the government's budget deficit, forcing the government to issue treasury bonds, most of which were short-term. In 1996, the government began issuing securities for longer terms (up to 5 and 10 years), including several dollar-denominated issues placed on the international market at lower rates of interest than offered on local currency denominated bonds.

Several placements of dollar-denominated government securities were issued in 1999 to finance part of the budget deficit. The central bank and treasury also issued short-term notes to absorb excess liquidity and reduce consumption demand. The resulting higher interest rates curtailed capital flight and relieved some of the pressure on the foreign exchange market, but relatively high commercial bank lending rates have discouraged productive investment and retarded growth. However, despite increased reliance upon dollar-denominated instruments that carry lower coupon rates than notes denominated in local currency, debt service costs will increase in 2000 as a result of both higher debt and the depreciation of the local currency.

2. Exchange Rate Policy

Guatemala's trade deficit and capital flight have put pressure on the foreign exchange market. Though Guatemala sold an additional $400 million in foreign reserves in 1999, the local currency still depreciated by approximately 13 percent. Access to foreign exchange is unrestricted and there are no reports of foreign exchange shortages.

Though the government in 1998 passed legislation to permit banks and financial institutions to offer dollar-denominated accounts, enabling regulations have not been issued. A number of local banks currently offer dollar denominated accounts in which the funds are actually held in offshore accounts.

3. Structural Policies

As part of the Peace Process, the government is committed to increasing spending on social welfare programs, infrastructure expansion, and economic development programs. Though much of the financing for this additional spending will come from grants and loans provided by the international donor community, Guatemala must generate significant internal resources to complement foreign grants and lending to fund these expenditures. The recently created Tax Administration Superintendency has increased compliance, but it is highly doubtful that revenue targets can be met without broadening the tax base or introducing new taxes.

Ninety percent of the government's current income is from taxes. Indirect taxes, primarily the value-added tax and duties, account for 80 percent of all tax revenues. Personal income taxes account for less than two percent of all tax revenues. Guatemala received over $500 million from the sale of the state-owned electricity company in 1998 and will receive an additional $500 million over the next three years from the 1998 sale of the telephone company. Though these funds were earmarked for retirement of public debt and for investment in infrastructure, no appropriations or expenditures have been made thus far.

4. Debt Management Policies

Guatemala's 1999 budget will be in deficit by about 2.9 percent of GDP. Despite inclusion of extraordinary capital income from the sale of state-owned assets, the FY 2000 budget projects a deficit of approximately $511 million, or approximately 3.0 percent of GDP. This deficit will be financed through a combination of internal borrowing, foreign borrowing, and loans from foreign governments and international lending agencies. Guatemala's total public debt at the end of 1999 will be approximately $3.4 billion, of which $900 million is internally held and $2.5 billion is foreign debt.

Guatemala has successfully converted some domestic debt from short term, high-interest instruments to longer-term, lower interest debt, including dollar-denominated commercial debt. The FY 2000 budget calls for appropriation of $410 million for debt service. Guatemala is current in its payments on both U.S. and other foreign debt.

5. Aid

Total foreign donations anticipated in the 2000 budget are approximately $54 million. However, the budget only includes funds already pledged and programmed. Actual financial assistance is usually significantly higher than as stated in the preliminary budget document.

6. Significant Barriers to U.S. Exports

Guatemala applies the common external tariff schedule of the Central American Common Market, which has a range of from zero to 15 percent for nearly all agricultural and industrial goods. Exceptions include milk products other than powdered milk, on which tariffs were sharply increased in 1999, and agricultural commodity imports in excess of their Tariff Rate Quotas (TRQ).

Guatemala, in compliance with its WTO obligations, created TRQs for rice, corn, wheat and wheat flour, apples, pears, poultry and beef. The Ministry of Economy has implemented a new import policy for poultry that enlarges the TRQ to the level of Guatemala's final WTO commitment and reduces the in-quota tariff. However, all poultry parts are valued at a minimum of 56 cents/pound for customs purposes, significantly increasing the effective tariff rate and the cost of imported poultry products. Guatemala's current import tariff rates for agricultural products are below the WTO tariff bindings.

Imported processed foods must be registered with the Ministry of Health by each individual importer. However, importers have the option of joining an association of importers and paying a fee for the use of other members' registrations. Processed foods must also be labeled in Spanish. Enforcement of this requirement has been lax, though compliance is increasing. Full enforcement could significantly impact imports from the United States.

Sanitary and phytosanitary licenses are required for all imports of animal origin, and plants and vegetables. Inspection of the processing plant in the country of origin, at the importers' expense, is technically required for the license; however, implementation has been uneven, limiting trade disruption.

Importers should be aware that manifests require consular certification, an administrative process that can be time consuming. Delays in obtaining certification have resulted in some losses to shipments of perishables. Guatemala has also contracted with a private import verification service to assess the value of exports to Guatemala, a process that will impose additional administrative procedures on U.S. exporters. Imports are not generally subject to non-tariff trade barriers, though arbitrary customs valuation and excessive bureaucracy occasionally create delays and complicate the importation process.

Some restrictions remain on foreign investment, but foreign investors generally receive national treatment. Subsurface minerals, petroleum, and other resources are property of the state and concessions are typically granted in the form of production-sharing contracts.

Surface transportation is limited to companies with at least 51 percent Guatemalan ownership. Foreign firms are barred from directly selling insurance or providing legal, accounting or other licensed professional services. This hurdle can be overcome by establishing a locally incorporated subsidiary or through a correspondent relationship with a local firm. Most of the major U.S. accounting firms, for example, are represented through one of these methods.

7. Export Subsidies Policies

There are no export subsidies.

8. Protection of U.S. Intellectual Property

Guatemala belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, and the Nairobi Treaty. Nevertheless, in 1999, the U.S. Trade Representative placed Guatemala on the "Special 301" Priority Watch List.

The protection provided to intellectual property rights (IPR) holders is inadequate. Enforcement mechanisms are generally lacking, a poorly trained judiciary is slow to provide relief, and penalties are insufficient to dissuade IPR infringement. Although Guatemala passed a new Copyright Law in 1998, there have been no prosecutions. Local cable television companies have reduced their broadcasts of unauthorized programming considerably, and video piracy has diminished, but U.S. industry still suffers significant losses. Piracy, reproduction, and sale of computer software programs are also common.

Patents: Guatemala's Patent Law is outdated. It does not protect mathematical methods, living organisms, commercial plans, surgical, therapeutic or diagnostic methods, or chemical compounds or compositions. Protection is limited to 15 years (10 years for the production of food, beverages, medicines, and agrochemicals), and is subject to compulsory licensing provisions and local exploitation requirements. Patent rights do not extend to any action executed in the pursuit of education, research, experimentation, or investigation. Patent rights do not preclude the importation of counterfeit goods unless the product is being produced in Guatemala. Protection lapses six years from the date of the patent if the product is not being produced locally.

Trademarks: Guatemalan law does not provide sufficient protection against counterfeiting or misuse of trademarks, and the right to exclusive use is granted to the first to file. There is no requirement for use, nor any cancellation process for non-use. Firms whose trademarks have been registered by third parties often complain that legal remedies are slow and inadequate. Businesses whose trademark has been registered by another party are often forced either to buy out that party or pay a fee for use.

The lack of protection of intellectual property rights is a significant barrier to trade and investment. Industry estimates that 85 percent of all software used in Guatemala, including applications used by government agencies, are unlicensed or unauthorized copies. The lack of protection for well-known trademarks denies access to the Guatemalan market by legitimate rights-holders and is a disincentive to investment.

9. Worker Rights

a. *The Right of Association:* This right is guaranteed by the constitution, though less than eight percent of the labor force is unionized. There are more than 1300 unions, the majority of which are private sector unions. The Ministry of Labor has significantly simplified and accelerated the process of obtaining legal authorization to form a union. This procedure now takes 23 working days. Significant changes were made in 1993 to modernize the Labor Code. In addition, the process for resolving "workplace" disputes has been decentralized with the opening of 21 branch offices of labor inspectors.

b. *The Right to Organize and Bargain Collectively:* The Labor Code allows collective bargaining if at least 25 percent of a company's employees are union members. Anti-union practices, including discharging workers for attempting to organize a union, are legally forbidden. However, despite a major increase in the number of labor inspectors and inspections, enforcement of labor laws depends on an overloaded and inefficient labor court system. As a result, violations of worker rights are not always punished. The labor movement remains fractious. A widespread, historical distrust of unions by both employers and many workers, as well high rates of unemployment and underemployment, combine to make organizing and collective bargaining difficult.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor. Labor for prisoners with sentences of more than two years is obligatory, but this labor may not be used as punishment for expression of political or other opinions, or as a method of political reeducation.

d. *Minimum Age for Employment of Children:* By law, children under the age of 14 may work only with written permission of their parents, certified by the Ministry of Labor. Though there are currently fewer than 5,000 such permits, tens of thousands of children under 14 work in both the formal sector, including agriculture, and the informal sector, generally in family enterprises. The Ministry of Labor, the Guatemalan Social Security Institute, the U.N. and various non-governmental organizations conduct programs aimed at reducing illegal child labor educating minors about their rights as workers.

e. *Acceptable Conditions of Work:* The constitution provides for a 44-hour normal work week and the average number of hours worked is 42.5. Occupational safety and health regulations exist but often are not strictly enforced. The minimum wage is far below the level necessary to support an urban family of four, though many urban workers earn two or three times this amount; however, not all workers are paid the legally-mandated minimum wage.

f. *Rights in Sectors with U.S. Investment:* Generally, international corporations adhere to the labor code and respect worker rights. There have been some complaints about treatment of workers in garment assembly factories (maquilas), especially in some of those operated by Koreans. However, observation of and respect for worker rights has improved in this sector recently, due both to increased publicity and also to cooperation between the Ministry of Labor and the Republic of Korea's Ambassador.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		(1)
Total Manufacturing		191
Food & Kindred Products	83	
Chemicals & Allied Products	58	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	48	
Wholesale Trade		26
Banking		5
Finance/Insurance/Real Estate		(1)
Services		5
Other Industries		(1)
TOTAL ALL INDUSTRIES		429

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

HAITI

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
GDP [2]	3429	3800	4115.4
Real GDP Growth (pct) [3]	1.1	2.9	2.26
GDP by Sector:			
Agriculture	–2.4	0.5	2.5
Manufacturing	0.6	5.5	1.2
Services	0.5	1.2	2.4
Government	–0.2	N/A	N/A

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Per Capita GDP (US$)	458	497	506
Labor Force (000's)	4,100	4,290	4380
Unemployment Rate (pct)	65	70	70
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.7	7.0	14.7
Consumer Price Inflation	17.0	8.2	9.9
Exchange Rate (Gourde/US$ annual average)			
Market	16.9	16.8	16.94
Balance of Payments and Trade: [4]			
Total Exports FOB [5]	195.5	284.3	353.4
Exports to U.S. [6]	188	210	N/A
Total Imports FOB [5]	588.8	–659.8	–772.9
Imports from U.S. [6]	512	515	N/A
Trade Balance [5]	–393.3	–375.5	–419.5
Balance with U.S. [6]	–324	–305	N/A
Current Account Deficit/GDP (pct)	2.9	5.8	6.3
External Public Debt	1025	1086	1140
Debt Service Payments/GDP (pct)	0.9	1.2	0.62
Fiscal Deficit/GDP (pct)	0.5	1.1	1.7
Gold and Foreign Exchange Reserves (net)	162.5	194.8	218.3
Aid from U.S. [7]	145	N/A	N/A
Aid from All Other Sources	428	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data in November. Fiscal year is October-September. Fiscal year data used because calendar year data is unavailable in many cases.
[2] GDP at factor cost at 1976 prices.
[3] Percentage changes calculated in local currency.
[4] US and Haitian import/export data may vary as a result of different statistical practices. Data in Haiti are not reliable. Technical assistance is being provided to the Haitian Government to improve data collection procedures.
[5] Merchandise trade for calendar year; does not include U.S. goods imported for processing and re-exported under the Caribbean Basin Initiative.
[6] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1998 figures are estimates based on data available through November. Figures include substantial amounts of U.S. goods imported for processing and re-exported under Caribbean Basin Initiative.
[7] New commitments; USAID includes program assistance, budget support, and support for peacekeeping operations and police.

Sources: Various, including IMF. Where several data sets existed we have used those numbers provided by USAID.

1. General Policy Framework

Haiti has a predominantly agriculture-based, market-oriented economy. Historically, Haiti's economic performance has been strongly influenced by the United States, its principal trading partner and largest bilateral aid contributor. Following the restoration of President Jean-Bertrand Aristide on October 15, 1994, Haiti embarked on an economic program based on macroeconomic stabilization, trade liberalization, privatization, civil service reform, and decentralization. The government reduced tariffs to a maximum of 15 percent.

In 1995, the Aristide government began to slip on its commitments to international financial institutions. Inadequate implementation of privatization, civil service reform, and other structural reforms tied to loans from the IMF and World Bank thwarted a scheduled signing of the Structural Adjustment Credit and the Enhanced Structural Adjustment Facility, and prompted the resignation of Prime Minister Smarck Michel.

President Rene Preval took office in March 1996 and immediately moved to implement the structural adjustment program. The government proceeded to control expenditures and eliminate some 1,500 "ghost employees." By September, parliament passed civil service reform legislation and a modernization law to enable the government to proceed with privatization through the granting of management contracts, concessions, or "recapitalizations" (the forming of joint ventures with private investors through partial divestitures of state-owned enterprises). By mid-September of 1998, a total of nearly 2,250 "ghost" employees had been removed from the government payroll, saving the Haitian treasury $5.9 million per year. A further 2,000 people have been processed by the government for early retirement or voluntary departure.

However, by late 1999 the government appeared to have slipped from its commitments both to privatization and to civil service reform. Although almost 5000 employees had been removed from government payrolls by the end of 1998, by July 1999 government expenditures on salaries had crept back to July 1998 levels, and hiring was on the rise. Further, only the two least complicated of a planned seven privatizations had taken place. With legislative elections slated for March 2000, followed by presidential elections late in the year, the chance of forward progress on privatization appears remote despite government promises to the contrary.

The government maintained reasonably strict macroeconomic discipline during 1999. GDP growth hovered around 3 percent for both 1998 and 1999. Inflation fell from 18 percent in 1997 to 7 percent in 1998. By late 1999, inflation had crept past 9 percent and the previously stable gourde had begun to slip against the dollar. The triple pillars of international aid, remittances from the approximately one million Haitians living abroad and, increasingly, narcotics trafficking continue to prop up Haiti's economy.

Reserve requirements (which currently stand at 30 percent for primary reserves) have been the central bank's primary monetary policy tool. They have been used to control the money supply and to assist in the financing of the public sector debt. Since November 1996, the central bank has successfully conducted bond auctions to control liquidity in the economy, which allow for lower reserve requirements. The central bank has a rediscount facility and a lending facility for commercial banks. Use of the rediscount facility has been limited by a lack of eligible financial paper to rediscount. Use of the lending facility has been limited by the relatively high interest rate charged (usually the legal maximum), and low legal limits relative to bank capital on the amounts commercial banks can borrow. An interbank market also exists.

2. Exchange Rate Policy

For decades Haiti's currency, the gourde, was officially tied to the U.S. Dollar at the rate of five to one. A parallel market for foreign exchange emerged in the early 1980s, but for several years the official exchange rate continued to hold for some transactions. On September 16, 1991, the central bank ceased all operations at the official rate. In April 1995, the central bank abolished the 40 percent surrender requirement of export earnings. Haiti now has no exchange controls or restrictions on capital movements. Dollar accounts are available at local commercial banks. The gourde is allowed to float freely relative to the dollar and other currencies. The exchange rate gently declined from 15.5 to 17 gourdes per dollar during FY 97 and remained between 16 and 17 gourdes per dollar throughout 1998 and most of 1999. By late 1999, the gourde had slipped to 18 and appeared poised to slip further. Some critics of tight central bank monetary policy, particularly in the banking and export sectors, feel the gourde has become overvalued and might face swifter depreciation in the future. This and a possible increase in government spending during an election year may precipitate further exchange rate declines during 2000.

3. Structural Policies

The government's role in Haiti's market-oriented economy has been sharply reduced since 1994-95. In the few cases where the government has attempted to control prices or supplies, its efforts were frequently undercut by contraband or overwhelmed by the sheer number of small retailers. Consumer prices are governed by supply and demand, though the small Haitian market is imperfect for determining some prices. Gasoline pump prices and utility rates are more effectively regulated, and are probably the only exceptions to market prices. Haitian law adjusts gasoline pump prices within a pre-determined band to reflect changes in world petroleum prices and exchange rate movements. High international market prices in late 1999 are forcing the GOH to consider raising the band and hence the final pump price. Prices in late 1999 effectively have the GOH subsidizing the cost of kerosene.

Haiti's tax system is inefficient. Direct taxes on salary and wages represent only about 25 percent of receipts. Moreover, tax evasion is widespread and taxpayers were previously not registered with the tax bureau, Direction Generale des Impots (DGI). Not surprisingly, the government has made improved revenue collection a top priority. The DGI has organized a large taxpayers' unit which focuses on identifying and collecting the tax liabilities of the 200 largest corporate and individual taxpayers in the Port au Prince area, which are estimated to represent over 80 percent of potential income tax revenue. In mid-1999, the GOH created a State Secretary for Revenue to coordinate and oversee both Customs and DGI operations with a view toward increasing receipts from each. Efforts were also made to identify and register all taxpayers through the issuance of a citizen taxpayer ID card. In addition, the value added tax has been extended to include sectors previously exempt (banking services, agribusiness, and the supply of water and electricity). Both DGI and Customs made revenue collection a priority in 1999 and have continued to increase revenues. Nevertheless, in general, collection remains sporadic and inefficient.

4. Debt Management Policies

Following the 1991 coup which ousted President Aristide, Haiti suspended all payments on its foreign debt. When President Aristide returned to office in October 1994, Haiti's arrears with the International Financial Institutions (IFIs) totaled some $84 million. The international community made it an immediate priority to clear Haiti's arrears with IFIs so that new lending could begin.

On May 30, 1995, the Paris Club agreed to reschedule all of Haiti's bilateral debt to Paris Club members. Roughly two-thirds of this debt ($75 million) was forgiven under "Naples" terms. The balance was rescheduled over 26-40 years. An overwhelming percentage (91 percent in FY 1995, 85 percent in FY 1996) of Haiti's debt is in concessional loans from IFIs. These loans typically have 10-year grace periods, 40-year payback periods, and below-market interest rates.

Haiti's external public debt rose to about 28.7 percent of GDP in FY 98 (from 34 percent at the end of FY 96). Haiti's external debt service has risen to about 8.4 percent of exports of goods and services in 1998 from 12 percent a year earlier. Final FY 99 figures are not yet available. With continued progress on economic reform and a modest debt service burden, GOH officials believe the country should be able to meet all its obligations in a timely manner.

5. Significant Barriers to U.S. Exports

With the lifting of all economic sanctions against Haiti, the sharp reduction in tariffs, and the government's decision to remove all import licenses and the 40 percent foreign exchange surrender requirement on export earnings, there are few significant barriers to U.S. exports. Nevertheless, a number of fees and taxes continue to be levied on commodities imported into Haiti (i.e. verification fee, excise tax, etc.) The resumption of normal trade in October 1995 unleashed tremendous pent-up demand for U.S. goods. While the demand for U.S. goods remained strong in 1999, political and economic uncertainty significantly constrained growth. The import of firearms and other weapons into Haiti is controlled for foreign policy reasons. Haitian importers must obtain a license to purchase such goods from U.S. suppliers. Haiti's efforts to facilitate inward investment are insufficient to significantly draw all but the most intrepid foreign investors. The newly founded, Taiwan-financed Center for Promotion of Investment hopes to address the problems Haiti has had in promoting investment and exports.

6. Export Subsidies Policies

Haiti has no export subsidy programs.

7. Protection of U.S. Intellectual Property

While infringement of intellectual property rights occurs in Haiti, the economy only produces a small variety of products, most of which are for export to the United States and other countries that do not tolerate open infringement. Most manufactured goods sold here are imported. The most recent example of intellectual property rights infringement was the broadcast of a recently released U.S. film on a Haitian cable TV station last year. This was taken up with the Haitian authorities and has not happened again. Pirated video and audio cassettes are widely available and of poor quality.

Although the legal system affords protection of intellectual property rights, weak enforcement mechanisms, inefficient courts, and poor judicial knowledge of commercial law dilute the effectiveness of this statutory protection. Moreover, injunctive relief is not available in Haiti, so the only way to force compliance (should it become necessary) is to jail the offender. Efforts to reform and improve the Haitian legal system, now being undertaken with the assistance of international advisors, may prevent more extensive abuse of intellectual property rights as Haiti's economic recovery progresses. The Ministry of Commerce is working on legislation to protect intellectual property rights.

Haiti is signatory to the Buenos Aires Convention of 1910 and the Paris Convention of 1883 with regard to patents, and to the Madrid Agreement with regard to trademarks, and is a member of the World Intellectual Property Organization. However, Haiti is not a signatory to the Berne Convention.

8. Worker Rights

a. *The Right of Association:* The constitution and the labor code guarantee the right of association and provide workers, including those in the public sector, the right to form and join unions without prior government authorization. The law protects union activities, while prohibiting closed "union shops." The law also requires unions, which must have a minimum of ten members, to register with the Ministry of Social Affairs within 60 days of their formation.

Six principal labor federations represent about five percent of the total labor force, including about two to three percent of labor in the industrial sector. Each maintains some fraternal relations with various international labor organizations.

b. *The Right to Organize and Bargain Collectively:* The labor code protects trade union organizing activities and stipulates fines for those who interfere with this right. Unions are theoretically free to pursue their goals, although government efforts to enforce the law are non-existent. Unions complain that employers do not allow unions access to workers, and individuals who attempt to join unions risk being fired. Organized labor activity is concentrated in the Port-au-Prince area, in state enterprises, the civil service, and the assembly sector. The high unemployment rate and anti-union sentiment among some factory workers has limited the success of union organizing efforts. Collective bargaining is nearly nonexistent, especially in the private sector. Employers can generally set wages unilaterally, in compliance with minimum wage (currently approximately $2 per day) and overtime standards.

Haiti has no export processing zones, and the labor code does not distinguish between industries producing for the local market and those producing for export. Employees in the export-oriented assembly sector enjoy wages and benefits above the legal minimums, largely through piecework. Wages appear to be somewhat higher in the more capital-intensive industries producing for the local market.

c. *Prohibition of Forced or Compulsory Labor:* The labor code prohibits forced or compulsory labor. However, some children continue to be subjected to unremunerated labor as domestic servants. Rural families are often too large for the adult members to support, and children are sometimes sent to work for urban families in exchange for room, board and schooling. Reports of abuse are common, but the Ministry of Social Affairs rarely exercises its authority to remove children from abusive situations.

d. *Minimum Age for Employment of Children:* The minimum employment age in all sectors is 15 years. Fierce adult competition for jobs ensures that child labor is not a factor in the industrial sector. As in other developing countries, rural families in Haiti often rely on their children's contribution of labor in subsistence agriculture. Children under 15 commonly work at informal sector jobs to supplement family income.

e. *Acceptable Conditions of Work:* Annually, a minimum wage worker earns about $670, an income considerably above the per capita gross domestic product, but sufficient only to permit the family to live in very poor conditions. The majority of Haitians work in subsistence agriculture, a sector where minimum wage legislation does not apply.

The labor code governs individual employment contracts. It sets the standard workday at 8 hours, and the workweek at 48 hours, with 24 hours of rest on Sunday.

The code also establishes minimum health and safety regulations. The industrial and assembly sectors largely observe these guidelines. The Ministry of Social Affairs does not, however, effectively enforce work hours or health and safety regulations.

With more than 50 percent and possibly 75 percent of the active population unemployed or underemployed, workers are often not able to exercise the right to remove themselves from dangerous work situations without jeopardy to continued employment.

f. *Rights in Sectors with U.S. Investment:* U.S. direct investment in goods-producing sectors in Haiti is limited, consisting of ownership of two garment factories and a very few joint ventures. In general, conditions differ little from other sectors of the economy. Wages paid in these industries tend to be above the legal minimum, and in the case of industries producing for the local market, often a multiple of the legal minimum. Employers in these sectors frequently offer more benefits than the average Haitian worker receives, including free medical care and basic medications at cost.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount
Petroleum	(1)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		1
Other Industries		0
TOTAL ALL INDUSTRIES		32

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

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

HONDURAS

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP (US$) [2]	4,386	5,135.0	4,825.0
Real GDP Growth (pct)	4.5	3.0	–3.0
GDP by Sector:			
Agriculture	1,667.0	1,555.1	1,430.7
Manufacturing	935.0	989.0	1,018.7
Services	459.0	475.0	480.7
Government	298.0	318.0	324.4
Per Capita GDP (US$) [3]	808	880	791
Labor Force (000's)	1,955.0	2,040.8	2,299.0
Unemployment Rate (pct) [4]	6.3	6.3	12.0
Money and Prices (annual percentage growth):			
Money Supply (M2)	39.2	18.4	N/A
Consumer Price Inflation	12.8	15.7	11.6
Exchange Rate (LP/US$ annual average)			
Official	13.14	13.54	14.56
Parallel	13.05	13.41	14.42
Balance of Payments and Trade:			
Total Exports FOB	1,445.7	1,575.0	1,220.7
Exports to U.S.	613.6	590.7	N/A
Total Imports CIF	2,148.6	2,499.6	2,828.9
Imports from U.S.	1,033.0	1,165.8	N/A
Trade Balance	–702.9	–924.6	–1,608.2
Trade Balance with U.S.	–419.4	–575.1	N/A
Current Account Deficit/GDP (pct)	3.3	0.3	9.4
External Public Debt	3,454.5	3,481.8	4,383.0
Debt Service Payments/GDP (pct)	16.6	17.3	N/A
Fiscal Deficit/GDP (pct)	2.6	1.5	N/A
Gold and Foreign Exchange Reserves	606	670	N/A
Aid from U.S.	36.1	36.0	[5] 555.7
Aid from Other Countries	116	N/A	243.8

[1] 1999 figures are estimates based on data available in November.

[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Includes USAID, Department of Defense, and other agencies' disaster relief and reconstruction assistance in response to Hurricane Mitch.

1. General Policy Framework

Honduras, already one of the poorest countries in the hemisphere, with low per capita income and relatively low health and education indicators, was struck a devastating blow by Hurricane Mitch. The late October 1998 disaster inundated the entire country, resulting in massive flooding and landslides that killed over 5,000 people, left tens of thousands homeless, caused over US$ 3 billion in destruction, seriously damaged the road network, virtually wiped out the important banana crop (second largest export), and plunged the country into recession. Heavy rain during the 1999 rainy season exacerbated the damage.

Massive international assistance—led by the U.S. at over US$ 550 million in FY 99—provided emergency relief and is helping Honduras rebuild. Many of the homeless have already received new houses in an effort led by churches and NGO's. Epidemics have been averted, basic services restored, and temporary repairs made. The overall pace of reconstruction has been slow due to the Honduran government's lack of planning and executive capacity, the slow arrival of international aid, and the need to ensure that assistance is not misused.

Honduras has received significant debt relief in the aftermath of Hurricane Mitch. including the suspension of bilateral debt service payments and bilateral debt reduction. Honduras will likely qualify for multilateral debt reduction as well through the Highly Indebted Poor Countries (HIPC) Initiative.

Honduras continues to maintain macroeconomic stability. After an inflationary spike at the end of 1998, inflation is expected to fall to less than 12 percent for 1999. The currency (lempira) has only moderately devaluated. A widened balance of payments deficit, worsened by the Mitch-induced recession with decreased exports (from crop damage and low world prices in coffee and bananas) and increased imports (for reconstruction), is being covered by international aid, reinsurance payments, and increased family remittances. International reserves have risen.

Since 1990, succeeding governments have embarked on economic reform programs, dismantling price controls, lowering import tariffs, removing non tariff barriers to trade, adopting a free market exchange rate regime, removing interest rate controls, and passing legislation favorable to foreign investment. Honduras has committed to the International Monetary Fund to privatize management of the airports, the telephone system, and electricity distribution. Congress passed laws in late 1998 to encourage foreign investment in tourism, mining, and agriculture. The biggest success story of all has been the growth of the maquila industry (with significant U.S. investment), from virtually zero in 1989 to over 200 plants in 1999 generating over US$ 300 million in foreign exchange and employing 110,000 workers. Nonetheless, the growth in foreign investment is hampered by a politicized judiciary subject to influence, insecure property titles, non-transparent bidding procedures, and cumbersome bureaucratic procedures.

Honduras became a founding member of the World Trade Organization (WTO) in 1995 and participates in international trade negotiations, including those related to the establishment of the Free Trade Area of the Americas. A Bilateral Investment Treaty (BIT) was signed in 1995 and ratified by the Honduran Congress, with ratification pending before the U.S. Senate. A bilateral Intellectual Property Rights Agreement was negotiated in March 1999. The Honduran Congress passed legislation in December 1999 to comply with the WTO's TRIPS agreement.

2. Exchange Rate Policy

The central bank uses an auction system to regulate the allocation of foreign exchange. Dollar purchases, in which foreigners may participate, are conducted at 5 to 7 percent above or below the base price established every 5 days. During recent auctions, the central bank has been adjudicating an average of US$ 8 million daily. Foreign exchange demand in 1998 was 96.1 percent covered.

The Foreign Exchange Repatriation Law passed in September 1990 requires all Honduran exporters, except those operating in free-trade zones and export processing zones, to repatriate 100 percent of their export earnings through the commercial banking system. Until recently, commercial banks were allowed to use 70 percent of export earnings to meet their clients' foreign exchange needs. The other 30 percent had to be sold to the central bank at the prevailing interbank rate of exchange. Presently, commercial banks are required to sell 100 percent of these repatriated earnings to the central bank, which in turn auctions up to 60 percent in the open market.

3. Structural Policies

Trade Policy: In an effort to increase trade and maintain competitiveness with its Central American neighbors, in recent years Honduras has cut its import duties to between zero and 19 percent for most items. Certain sensitive products, such as automobiles, are assessed at a higher rate of up to 35 percent. In 1995, Honduras and other Central American Common Market (CACM) members agreed to work toward the full implementation of a common external tariff ranging from zero to 15 percent for most products, but allowed each country to determine the timing of the changes. In 1997, tariff rates were reduced to one percent on capital goods, medicines and agricultural inputs, and on raw materials and inputs produced outside of Central America. Honduras also intends to reduce its extra-regional tariffs for intermediate and finished goods over the next several years to between 10 and 17 percent.

Honduras has sought to expand trade by negotiating, together with Guatemala and El Salvador, free trade agreements with other countries. Agreements with Mexico and the Dominican Republic are mostly complete but are still held up on the status of a few sensitive products. The Central Americans are negotiating free trade agreements with Panama and Chile and are studying proposals for agreements with the Andean Community and Taiwan.

Pricing Policy: The only items under price control are coffee and medicines. The Government of Honduras maintains an informal control over prices of certain staple products such as milk, sugar, and cement by maintaining unwritten agreements with producers to limit and justify increases.

Tax Policies: President Flores' April 1999 Economic Plan decreased the corporate tax rate from 40 percent to 30 percent in 1998 and to 25 percent in 1999. The sales tax was increased from 7 percent to 12 percent in June 1998, which helped maintain government revenue in the aftermath of Hurricane Mitch despite a sharp drop in economic activity. Sales taxes were increased to 15 percent on liquor and tobacco products and are even higher on new car purchases. Export taxes on bananas are being reduced in stages from 50 cents to four cents a box by the year 2000. Export taxes on seafood, sugar and live cattle were eliminated in 1998.

4. Debt Management Policies

Debt service on Honduras' approximately US$ 4 billion public external debt is a major constraint on growth and represented about 35 percent of the government budget in 1998. In the aftermath of Hurricane Mitch, with the consequent drop in revenue and increase in government expenditures, the need for debt relief became even more imperative. Despite Paris Club Debt Rescheduling Agreements in July 1995 and March 1996, and over US$ 500 million in bilateral debt forgiveness (including US$ 430 million by the U.S. in 1991), Honduras had been unable to comply with the goals of the Enhanced Structural Adjustment Facility (ESAF) negotiated with the IMF in 1992. Honduras signed a new ESAF in 1999, pledging to maintain responsible monetary policies, strengthen oversight of the financial sector, overhaul the national pension system, and accelerate the privatization of international airport management, the telephone company, and the electric company's distribution system.

Honduras received significant bilateral debt relief. In 2000, it should receive even more relief on multilateral debt service in the years to come through the Highly Indebted Poor Countries (HIPC) Initiative. Shortly after Mitch, the Paris Club suspended bilateral debt service payments until 2002. Honduras subsequently signed an agreement with the Paris Club to reduce the overall bilateral debt burden by two thirds (Naples terms), saving the country some US$ 430 million over the next three years. The U.S. and Honduras signed a bilateral debt reduction agreement in August 1999, which should save Honduras about US$ 65 million. Concerning the multilateral debt, which encompasses the bulk of the country's total public foreign debt, Honduras will qualify for significant debt relief under the enhanced HIPC framework established by the international donor community in Cologne in June 1999. Receipt of this relief is conditioned on the formulation of an effective poverty reduction strategy and fulfillment of the conditions of the 1999 IMF ESAF.

5. Aid

As a result of the devastation caused by Hurricane Mitch, Honduras has been receiving an unprecedented increase in foreign assistance. At the May 1999 Stockholm consultative meeting, donors pledged US$ 2.7 billion. As of October 1999, the Honduran government reported receiving or negotiating US$ 603.8 million in grants and US$ 885 million in loans, primarily from the Inter-American Development Bank and the World Bank.

The U.S. has provided the single largest amount of aid to Honduras. According to Embassy calculations, the U.S. has spent or obligated US$ 555 million in FY 99, US$ 55 million of which was spent on immediate emergency relief and the rest in reconstruction assistance. U.S. government agencies involved in assistance to Honduras include USAID (overall coordinator), DOD, USDA, USDOC, DOT, USGS, HUD, OPIC, and Ex-Im Bank. Other countries have provided significant aid as well, including Japan, Sweden, Spain, Italy, Canada, and Germany.

6. Significant Barriers to U.S. Exporters

Import Policy: While reforms have gone far to open up Honduras to U.S. exports and investment, some protectionist policies remain. Import restrictions are imposed on firearms and ammunitions, toxic chemicals, pornographic material and narcotics. Other import restrictions are applied to chicken meat and cosmetics. Import restrictions are mainly based on phyto-sanitary, public health, public morale, and national security grounds.

Services Barriers : In certain services industries (e.g., local transportation, insurance, radio and TV stations, and distributorships), majority control must be in the hands of Honduran nationals. Special government authorization must be obtained to invest in the tourism, hotel and banking service sectors. Foreigners may not hold a seat in Honduras' two stock exchanges or provide direct brokerage services in these exchanges. Honduran professional bodies heavily regulate the licensing of foreigners to practice law, medicine, engineering, accounting, and other professions.

Labeling and Registration of Processed Foods: Honduran law requires that all processed food products be labeled in Spanish and registered with the Ministry of Public Health. The law is usually not enforced for U.S. products in recognition of U.S. health inspection procedures.

Investment Barriers: The 1992 Investment Law removed foreign ownership restrictions in most sectors. Companies that wish to take advantage of the Agrarian Reform Law, or engage in commercial fishing, forestry, or local transportation, however, must be majority owned by Hondurans.

In addition, special government authorization is required for foreign investment in the following sectors: forestry, telecommunications, basic health, air transport, fishing and aquaculture, mining, insurance and financial services, private education, and agricultural and agro-industrial activities exceeding land tenancy limits established by law.

Foreigners are barred from ownership of small businesses with equity less than 150,000 lempiras (about US$ 11,000). Foreign ownership of land within 40 km of the coastlines and national boundaries is constitutionally prohibited, though tourism investment laws allow for certain exceptions. A proposed constitutional amendment to modify the prohibition was dropped due to opposition by minority groups living along the Caribbean Coast. In all investments, at least 90 percent of a company's labor force must be Honduran, and at least 80 percent of the payroll must be paid to Hondurans. Inadequate land titling procedures have led to numerous investment disputes involving U.S.-citizen landowners. The U.S. government has worked extensively to assist these citizens, most of whose case are being litigated in Honduran courts.

On July 1, 1995 Honduras and the U.S. signed the Bilateral Investment Treaty (BIT) at the Hemispheric Trade Ministerial in Denver, Colorado. This treaty has been ratified by the Honduran Congress; ratification by the U.S. senate is still pending.

Government Procurement Practices: Foreign firms are given national treatment for public bids, although in practice, U.S. firms complain about the mismanagement and lack of transparency of government bid processes. To participate in public tenders, foreign firms are required to act through a local agent. Local agency firms must be at least 51 percent Honduran-owned, unless the procurement is classified as a national emergency.

Customs Procedures: Customs administrative procedures are burdensome. There are extensive documentary requirements and other red tape involving the payment of numerous import duties, customs surcharges, selective consumption taxes, and warehouse levies. Honduras agreed in November 1999 to implement eight Free Trade Area of the Americas customs related business facilitation measures. Honduras is also committed to implementing the majority of provisions of the World Trade Organization's Custom Valuation Agreement by January 2000.

7. Export Subsidies Policies

Almost all export subsidies have been eliminated. Under the Temporary Import Law (RIT), exporters are allowed to introduce raw materials, parts, and capital equipment into Honduras exempt from surcharges and customs duties if the product is to be exported outside Central America. Export Processing Zones (ZIPS) are exempt from paying import duties and other charges on goods and capital equipment. In addition, the production and sale of goods within the ZIPS are exempt from state and municipal taxes. Firms operating in ZIPS are exempt from income taxes for twenty years, and municipal taxes for ten years. Foreigners exporting to Honduras are not required by law to sell through an agent or distributor, except when selling to the government.

8. Protection of U.S. Intellectual Property

In December 1999, the Honduran government passed reforms to its Intellectual Property Rights (IPR) laws to comply with the World Trade Organization's Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement's January 1, 2000 deadline. The U.S. and Honduras initialed a Bilateral IPR Agreement in March 1999. Signing of this agreement is still pending.

Despite the reforms, enforcement of IPR laws remains problematic due to insufficient resources. Although some progress have been made, there is still widespread piracy of many forms of copyrighted works, including books, sound and video recordings, compact discs, computer software and television programs. The illegitimate registration of well-known trademarks is still a problem as well.

9. Worker Rights

a. *The Right of Association:* Union officials remain critical of what they perceive as inadequate enforcement of worker rights by the Ministry of Labor (MOL), particularly the right to form a union. Nonetheless, in November 1995, the MOL signed a memorandum of understanding with the U.S. Trade Representative's Office to implement 11 recommendations for enforcement of the Honduran labor code and the resolution of disputes. The MOL has made positive changes implementing several of these recommendations, particularly as they relate to inspection and monitoring of maquilas (primarily, garment assembly plants). Through cooperation within the Tripartite Commission (unions, MOL, maquila associations) the number of unannounced and repeat visits to maquila plants by inspectors from the MOL has increased, improving the MOL's effectiveness in enforcing worker rights and child labor laws.

b. *The Right to Organize and Bargain Collectively:* The law protects worker rights to organize and to bargain collectively; collective bargaining agreements are the norm for companies in which workers are organized. Three large peasant organizations are affiliated directly with the labor movement. Only about fourteen percent of the work force is unionized, therefore, the economic and political influence of organized labor has diminished in recent years. Although the labor code prohibits retribution by employers for trade union activity, it is a common occurrence. Employers actually dismiss relatively few workers for union activity once a union is recognized; such cases, however, serve to discourage workers elsewhere from attempting to organize. Workers in both unionized and non-unionized companies are under the protection of the labor code, which gives them the right to seek redress from the Ministry of Labor. Over the past year, the Ministry of Labor took action in several cases, pressuring employers to observe the code. Labor or civil courts can require employers to rehire employees fired for union activity, but such rulings are uncommon. Labor leaders criticize the Ministry for not enforcing the labor code, for taking too long to make decisions, and for being timid and indifferent to workers' needs. The Ministry has increased inspections and the training of its inspectors; it needs to do more, however, to improve observance of international labor standards.

c. *Prohibition of Forced or Compulsory Labor:* The constitution and the law prohibit forced or compulsory labor. Over the past year there were no official reports of such practices in the area of child labor.

d. *Minimum Age for Employment of Children:* According to government and human rights groups, an estimated 350,000 children work illegally. The constitution and the labor code prohibit the employment of minors under the age of sixteen, except that a child who is fifteen years of age is allowed to work with the permission of his parents and the Ministry of Labor. The Children's Code prohibits a child of fourteen years of age or less from working, even with parental permission, and establishes prison sentences of three to five years for individuals who allow children to work illegally. An employer who legally hires a fifteen-year-old must certify that the child has finished or is finishing his compulsory schooling. The Ministry of Labor grants a number of work permits to fifteen-year-olds each year. It is common, however, for younger children to obtain these documents or to purchase forged permits. The Ministry of Labor cannot effectively enforce child labor laws, except in the maquila sector, and violations of the labor code occur frequently in rural areas and in small companies. Many children work on small family farms, as street vendors, or in small workshops to supplement the family income. In September 1998, the government created the National Commission for the Gradual and Progressive Eradication of Child Labor.

e. *Acceptable Conditions of Work:* In the aftermath of the disastrous Hurricane Mitch, which struck Honduras in late October 1998, labor leaders agreed to forego the usual January (1999) pay increase in return for business leaders' pledge to control price increases for basic goods and services. When labor and business reached an impasse on wage negotiations in June 1999, the Catholic Church arbitrated a 25 percent increase in the minimum wage, which was decreed by the government in July. It was also agreed that as of January 1, 2000, an increase of 8 percent will be effective for all workers and that the base for both increases will be the minimum wage effective before the salary increase in July. There will not be another raise in the minimum wage throughout 2000, as long as inflation (according to central bank statistics) does not exceed 12 percent during the first six months of the year, which it appears unlikely to do.

Daily pay rates vary by geographic zone and the sector of the economy; urban workers earn slightly more than workers in the countryside. The lowest minimum wage occurs in the non-export agricultural sector, where it ranges from US$ 2.27 to US$ 2.89 (33.00 to 42.00 lempiras) per day, depending on whether the employer has more than 15 employees. The highest minimum wage is US$ 3.79 (55.00 lempiras) per day in the export sector, though most workers typically earn more. All workers are entitled to an additional month's salary in June and December of each year. The constitution and the labor code stipulate that all workers must be paid a minimum wage, but the Ministry of labor lacks the personnel and other resources for effective enforcement. The minimum wage is insufficient to provide a standard of living above the poverty line for a worker and his family.

f. *Rights in Sectors with U.S. Investment:* The worker rights enumerated above are respected more fully in sectors with sizable U.S. investment than in sectors of the economy lacking substantive U.S. participation. For example, in a number of U.S.-owned maquila plants, workers have shown little enthusiasm for unionizing, since they consider their treatment, salary, and working conditions to be as good as, or better than, those in unionized plants. In establishing new investments in Honduras, U.S. businesses in recent years consciously have constructed their plants to meet more stringent U.S. government laws and regulations.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		190
Food & Kindred Products	184	
Chemicals & Allied Products	2	
Primary & Fabricated Metals	(2)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	3	
Wholesale Trade		2
Banking		5
Finance/Insurance/Real Estate		29
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		186

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).

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

JAMAICA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	6,198.9	6,318.9	6332.1
Real GDP Growth Rate [2]	-2.1	-0.7	-0.5
GDP (at Current Prices) by Sector:			
Agriculture, Forestry, and Fishing	495.5	505.3	N/A
Mining and Quarrying	344.7	309.2	N/A
Manufacturing	994.2	954.6	N/A
Construction and Installation	717.2	717.6	N/A
Electricity and Water	136.4	145.1	N/A
Transportation, Storage and Communication	687.8	746.7	N/A
Retail Trade	1,418.3	1,454.0	N/A
Real Estate Services	314.1	338.2	N/A
Government Services	750.5	799.5	N/A
Finance	39.7	29.7	N/A
Other	299.6	319.0	N/A
GDP Per Capita (US$)	2,440.2	2,468.4	2,465.0
Labor Force (000's)	1,133.8	1,128.6	N/A
Unemployment Rate (pct)	16.5	15.5	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) Dec-Dec	12.5	7.2	[3] 9.0
Consumer Price Inflation	9.2	7.9	5.9
Exchange Rate (J$/US$)	35.58	36.68	39.0
Balance of Payments and Trade:			
Total Exports FOB	1,387.3	1,316.3	1,245.8
Exports to U.S.	462.9	520.4	468.5
Total Imports CIF	3,127.8	2,991.7	2,728.0
Imports from U.S.	1,504.4	1,523.3	1,364.0
Trade Balance	-1,740.5	-1,675.4	-1,482.2
Balance with U.S.	-1,041.5	-1,002.9	-895.5
External Public Debt [4]	3,277.6	3,306.4	3,030.1
Fiscal Balance/GDP (pct) [5]	-8.3	-7.5	-4.6
Current Account Deficit/GDP	6.0	4.7	N/A
Debt Service Payments/GDP	28.7	39.4	N/A
Net Official Reserves [6]	540.0	579.4	526.2
Aid from U.S. [7]	24.7	22.0	15.8
Aid from Other Countries [8]	149.7	143.0	N/A

[1] 1999 figures are all estimates based on available monthly data as of October.
[2] Growth rate is based on Jamaican Dollars, whereas nominal GDP is shown in U.S. Dollars.
[3] January-July 1999.
[4] Figure as of August 1999.
[5] Jamaican Fiscal Year (April-March) deficit.
[6] Figure as of August 1999.
[7] Estimates include Development, Food, and Military Assistance for FY 97, FY 98 and FY 99.
[8] Estimated commitments for development assistance from Jamaica's Cooperation Partners.

1. General Policy Framework

Jamaica is an import-oriented economy. Imports of goods and services totaled USD 3.83 billion or 56 percent of GDP in 1998. Of this total, raw materials amounted to USD 1,507 million, while consumer goods and capital goods amounted to USD 924 million and USD 560 million respectively. Tourism (estimated at 15 Percent of GDP), bauxite/alumina (10 percent of GDP), and manufacturing exports (such as apparel, processing of sugar, beverages and tobacco, etc.—17 percent of GDP) are the major pillars sustaining the economy. In 1998, these three sectors accounted for 80.5 percent (U.S. dollars 2.35 billion) of the country's foreign exchange earnings. Remittances from Jamaicans living abroad are also a significant source of income and bring in over USD 600 million annually. Both GDP and Foreign exchange inflows are sensitive to changes in the global economy, particularly with respect to commodity prices and the services/tourism sector.

Jamaica has a work force of 1.13 million, representing 64 percent of total population (14 years and over). Women account for 46 percent of the total labor force.

Sixty percent of Jamaica's work force is employed in the services sector, contributing about 77 percent of GDP (in constant 1986 dollars). Agriculture accounts for 7 percent of GDP and employs 21 percent of the workforce. The primary products are sugar, bananas, coffee and cocoa. The small size of the Jamaican economy, relatively high production costs (e.g., domestic interest rates) and cheap imports have reduced the contribution of the manufacturing sector over the last several years to about 17.3 percent of GDP in 1998. The once fast growing apparel industry (1980's) began to contract about five years ago. Four factories closed in 1999, five in 1998, and seven in 1997, following more than a dozen factory closures in 1996. Consequently, current employment in the apparel industry is down to approximately 20,000, a decline of 42 percent from its peak in 1994.

The Jamaican economy suffered its third consecutive year of negative growth (0.7 percent) in 1998, Following a contraction of 2.1 percent in 1997 and 1.8 percent in 1996. All sectors excepting bauxite/alumina, energy, and tourism, shrank in 1998. This reduction in aggregate demand and output is the result of the government's continued tight macro-economic policies. In part, these policies have been successful. Inflation has fallen from 25 percent in 1995 to 7.9 percent in 1998. Through periodic intervention in the market, the central bank also has prevented any abrupt drop in the exchange rate. The Jamaican dollar declined from an average of 35.58 in 1997 to 36.68 to the U.S. dollar in 1998. However, The exchange rate has been slipping since the beginning of 1999, resulting in an average exchange Rate of Jdols 40.25 to USD 1.00 in November 1999.

Sustained high real-interest rates (commercial interest rates averaged almost 38 percent in the first nine months of 1999), along with increasing uncertainty about the stability of the exchange rate, weakness in the financial sector and lower levels of investment, continue to erode confidence in the productive sector. Unemployment/underemployment has been growing as a result of lower exports, falling domestic demand, and the restructuring of companies. Major cash crops (e.g. sugar and bananas) have been affected by both the high cost of production and prolonged, adverse weather conditions.

The economic recession continued into the first three quarters of 1999. Tourism, and certain service sectors such as electricity and telecommunications are expected to show modest growth, but most other sectors continue to experience difficulties. The GOJ continues to encourage a more open economy by privatizing publicly-owned companies (now including some financial companies and real estate acquired in the last three years via financial-sector restructuring) and through slightly lower interest rates. The government continues its efforts to raise new sovereign debt in international and local financial markets in order to meet its U.S. dollar debt obligations, to mop up liquidity to maintain the exchange rate and to help fund the current budget deficit.

The GOJ hopes to encourage economic activity during 1999/2000 through a combination of privatization, financial sector restructuring, reduced interest rates, and by boosting tourism and related productive activities. However, the path to recovery will depend upon external developments in international markets and the government's ability to restore confidence that has been severely undermined by recent economic challenges and by social unrest.

According to the recent Jamaica survey of living conditions, the poverty rate in Jamaica has been dropping since 1995, from 37.5 percent of households to 15.9 percent in 1998. This is due primarily to the decline in inflation from 25.6 percent in 1995 to 7.9 percent in 1998 and the implementation of the National Poverty Eradication Policy and Program (NPEP). However, despite the drop in poverty rate, access to opportunities for education and health care remain inequitable.

In March 1996, the government of Jamaica adopted the National Industrial Policy (NIP), a long term strategy to achieve sustained economic growth and development. During the first year, the nip's target was to achieve macro-economic stability by maintaining a stable exchange rate and reducing inflation and interest rates. These were substantially achieved. In its second phase, a three-year period beginning in 1997, the NIP aims at achieving stable growth by stimulating investment and export diversification. However, in 1998 most of the NIP targeted sector strategies lagged, mainly because of economic and financial instability in the global economy which dampened domestic prices, and reduced both the volume of investment funds available from the domestic financial sector and the level of foreign direct investment.

The banking and insurance sector is now being restructured by the GOJ. That sector has experienced serious difficulties since the end of 1995, caused by a mismatch of assets and liabilities. The Financial Sector Adjustment Company (FINSAC), a government agency established in February 1997 to provide funding and to reorganize illiquid financial institutions, is now in the second and third phases of restructuring and divesting the assets of these institutions. FINSAC's interventions have amounted to approximately USD 2.3 billion. FINSAC is now in the process of aggressively marketing the assets it acquired, in order to lower the burden of debt servicing. Recent reports indicate that the market value of the assets that FINSAC acquired is now estimated at less than a quarter of the value that FINSAC originally paid.

The Jamaican fiscal year (JFY) April 1999/March 2000 Budget calls for Jdols 160.1 billion in outlays. This is a 25.7 percent increase over the revised 1998/99 Budget. For JFY 1999/00, recurrent expenditure is Estimated at Jdols 87.2 billion and capital Expenditure at Jdols 72.9 billion. Debt servicing is by far the largest expenditure category, accounting for 62 percent of the total budget, followed by: social and community services (17.9 percent); general government services (7 percent); economic development (5.7 percent); defense affairs, public order and safety (5.5 percent); and with the balance applied to unallocated expenditures (2 percent).

The GOJ expects to finance 62 percent of the Jdols 160.1 billion budget with an expected total revenue of Jdols 88.1 billion which includes: tax and non-tax recurrent revenue, capital revenue (royalties, land sales, loan repayments, divestments); and transfers from the capital development fund (including the bauxite levy). The government will fund the balance from debt. The government plans to borrow Jdols 68.2 billion to balance the budget. Of this, 26.3 percent will be obtained through external loans, including institutional project loans (multilateral and bilateral, amounting to Jdols 2.6 billion), and through other international capital markets (Jdols 15.4 billion). The balance of Jdols 50.2 billion will be raised from the domestic market through local registered stock (LRS-Jdols 40 billion) and other (Jdols 10.2 billion). Although the government pledges to raise revenue through a rigorous program of enhanced tax compliance, reduce recurrent expenditure and better manage its fiscal deficit, loss of investor confidence and high levels of under employment will greatly hamper its efforts. Recent civil unrest over increases in fuel prices is tragic testimony to the hardships faced by ordinary Jamaicans and the government's failure to build popular support for greater sacrifices.

The government continues to reduce excess liquidity by issuing "repos", reverse repurchase of treasury bills, (i.e. sale of securities with an agreement to buy back on a later date at a given rate). The Bank of Jamaica's open market operations are one means by which the Government of Jamaica funds its fiscal Deficit.

The Bank of Jamaica (BOJ) continued its tight monetary policy to absorb excess liquidity by issuing long term securities (local registered stock) and short-term treasury bills. In order to stabilize the Jamaican dollar the GOJ continues to accumulate foreign exchange reserves resulting in high borrowing, and sustained high real-interest rates on government securities.

The bank of Jamaica has lowered its cash reserve requirement for commercial banks from 25 percent in August 1998 to 16 percent in October 1999. However, commercial banks have not responded by lowering their lending rates to an appreciable degree. The banks attribute this failure to the number of nonperforming loans carried on their books.

Unable to float a bond issue in the international money markets, the GOJ turned to local markets, issuing U.S. dollar-denominated bonds in August (USD 40 million for five years at 12 percent and USD 10 million for seven years at 11 percent) and in October 1999 (USD 50 million for five years at 11.75 percent). Reportedly, only the USD 40 million issue at 12 percent was fully subscribed.

The bank of Jamaica achieved a positive stock of net international reserves (NIR) in 1993 for the first time since the mid 1970's. The NIR has remained positive, peaking at USD 715.6 million in January 1997. As of September 1999, due to central bank interventions to maintain the exchange rate, the NIR stands at approximately USD 526.24 million, the equivalent of 12.1 weeks of imports.

2. Exchange Rate Policy

On September 26, 1991, exchange controls were eliminated to allow for free competition in the foreign exchange market. The principal remaining restriction is that foreign exchange transactions must be done through an authorized dealer. Licenses are regulated. Any company or person required to make payments to the government by agreement or law (such as the levy and royalty due on bauxite) will continue to make such payments directly to the bank of Jamaica. authorized dealers (commercial banks and cambios) are required to sell five percent of their foreign exchange purchases directly to the boj. In addition, under an agreement between the Petroleum Company of Jamaica (Petrojam) and the commercial banks, a further ten percent of foreign exchange purchases are sold to Petrojam.

In 1994, cambios were designated as authorized dealers to promote an increase in the official inflows of foreign exchange. Cambios account for over a third of total foreign exchange purchases by authorized dealers. Reportedly, cambio dealers have been lobbying for increased flexibility in doing business in order to increase their market share and be viable. In 1998, total foreign exchange inflows through commercial banks and cambios increased by 2.1 percent to USD 3.6 billion. From January to September 1999, foreign exchange inflows into the official market declined by 1.6 percent over the corresponding period in 1998 to U.S. dollars 2.65 billion. The average weighted selling rate has been slipping. On November 5, 1998, the rate was Jdols 40.42 to USD 1.00. This decline is the result of uncertainty and speculation arising from unfavorable economic conditions, the postponement of a bond issue by the GOJ in the international market which was expected to help fund the current budget deficit and attractive returns on U.S. dollar bonds issued locally. There is a broad perception in the market that the present exchange rate is not sustainable. However, the GOJ is committed to defending the exchange rate within a targeted band through the bank of Jamaica's intervention.

3. Structural Policies

The fair competition act was adopted in 1993 to create an environment of free and fair competition and to provide consumer protection. Free-market forces generally determine prices. However, certain public utility charges such as bus fares, water, electricity, and telecommunications remain subject to price controls and can be changed only with government approval.

Taxation accounts for 87 percent of total recurrent and capital revenue. Major sources of tax revenue include: personal income tax (38.1 percent of tax revenue), value added tax (29.7 percent) and import duties (10.8 percent). The budget continues to stress a tight monetary policy, intended to curb inflation. The government proposes covering the growing budget deficit by a combination of increased taxes (cigarettes), higher fees (on passports, among other items) for consumers, and by borrowing.

The Common External Tariff (CET) has been gradually reduced over the years. The rate structure was scheduled to be revised downward in four phases. In January 1999, the last phase of CET reduction was implemented in Jamaica with import or customs duty rates reduced for most items by 5 percentage points to a maximum of 20 percent. This figure refers to import duties only. In order to protect local producers, import duties on items such as certain agricultural products (such as chicken, beef and milk) and certain consumer goods carry higher duty rates. In addition to import duties, certain items such as beverages and tobacco, motor vehicles and some agricultural products carry an additional stamp duty (ranging from 25-56 percent) and special consumption tax (ranging from 5-39.9 percent). Additionally, most imported items are subject to the 15 percent general consumption tax (GCT). Goods originating from CARICOM countries are not subject to import duties.

All monopoly rights of the Jamaica Commodity Trading Company (JCTC) ceased December 31, 1991, but it retains responsibility for the procurement of commodities under government to government agreements such as the P.L. 480 program. This administrative function is now transferred to the trade board effective FY 2000. The U.S. embassy is unaware of any government regulatory policy that would have a significant discriminatory or adverse impact on U.S. exports.

4. Debt Management Policies

Jamaica's stock of external (foreign) debt grew marginally by one percent, to Jdols 3.3 billion in 1998. About 45 percent of the external debt is owed to bilateral donors (the United States is the largest bilateral creditor), 33 percent to multilateral institutions (down, due to a policy decision to reduce dependence on the IMF), and 23 percent to commercial banks and others. In 1998, for the third consecutive year, no official-bilateral obligations were forgiven, as took place from 1990-1995. According to the bank of Jamaica, the British government recently granted debt relief under the UK/Jamaica commonwealth debt initiative arrangement covering the period April 1, 1999 to march 31, 2000 (amounting to 5.4 million pounds sterling). External debt is likely to increase only marginally or even decline as the government continues to raise more debt denominated in foreign currency on the domestic market. Further, although the bulk of the external debt consists of flows from multilateral and bilateral sources, there has been a growing shift to debt owed to private creditors—largely bond holders.

Actual external debt-servicing during 1998 accounted for 19.86 percent of exports of goods and services. The ratio of total outstanding external debt to exports of goods and services decreased from 177.6 percent in 1990, to 100.3 percent in 1996 as a result of debt reduction efforts and improvements in exports, but has since climbed to 103.3 percent in 1998. Debt-servicing continues to be a major burden on the government budget, accounting for some 62 percent of total outlays. In 1995 Jamaica ended its borrowing relationship with the IMF, but it continues to repay that institution, in order to reduce its overall debt burden. In 1995 Jamaica also completed a Multi-Year Rescheduling Arrangement (MYRA) with the Paris club, negotiated in 1992. The MYRA rescheduled U.S. dollars 281.2 million of principal and interest for the period October 1992 to September 1995.

Jamaica's internal (domestic) debt has ballooned in recent years, from Jdols 23.4 billion in 1993 to Jdols 121 billion in 1998. As of August 1999, the internal debt stood at Jdols 154.4 billion. The main factors contributing to the increased internal debt were: (a) neutralizing increased domestic liquidity resulting from the BOJ's interventions in the foreign exchange market; (b) budgetary financing; (c) liquidity support to commercial banks; and (d) intervening to absorb excess liquidity to maintain a stable exchange rate of the Jamaican dollar. Domestic debt is composed of government securities such as: t-bills (9.1 percent), local registered stock (76.4 percent), bonds (9.5 percent), and loans from commercial banks and other entities (5 percent).

As a part of its debt management strategy, the GOJ plans to borrow from international capital markets in order to take advantage of competitive market rates and to substitute lower-cost external debt for higher-cost domestic debt. However, in mid-1999 as the result of unfavorable market conditions, the GOJ accepted the advice of its lead banker and postponed a ten-year bond offering that was expected to raise as much as USD 300 million in the international market to finance the budget deficit.

5. Aid

In 1998, Jamaica received USD 165 million of official development assistance from multilateral agencies and other countries on a bilateral basis reflecting a decline of 5.4 percent over 1997. Bilateral sources contributed USD 64.1 million, while multilateral financial institutions contributed loans and grants valued at USD 97.4 million.

The United States is a major aid donor. In FY 1999, USD 9.9 million was disbursed as development assistance, USD 5 million was provided under the P.L. 480 program, and another USD 945,000 as military aid. In addition, there were 100 Peace Corps personnel who provided technical assistance in the areas of health, education, environment and small business development.

6. Significant Barriers to U.S. Exports

Import licenses: although Jamaica has made considerable headway in trade liberalization, some items still require an import license, including: milk powder, plants and parts of plants for perfume or pharmaceutical purposes, gum-resins, vegetable saps and extracts, certain chemicals, motor vehicles, arms and ammunition, certain toys, such as water pistols, and gaming machines.

Services barriers: foreign investors are now encouraged to invest in almost any area of the economy. On September 30, 1999, the GOJ and cable and wireless of Jamaica, ltd. Signed the 'new connections' agreement that will end the monopoly rights granted until 2013 and will help phase-out C and W's telecoms monopoly over the course of three years. All existing telecom licenses are to be terminated and all new licenses will have to comply with a new telecommunications act, which parliament is expected to adopt by April 2000. The GOJ has announced the auction of two cellular phone licenses in 2000. However, there are still certain restrictions in the communications field: under the new cable TV policy, licenses are granted preferentially to companies that are incorporated in Jamaica and in which majority ownership and controlling interest are held by Jamaican or CARICOM nationals. In most other areas, there do not appear to be any economic or industrial strategies that have discriminatory effects on foreign-owned investments.

Standards, testing, labeling, and certification: the Jamaican bureau of standards administers the Standards act, the processed food act and the weights and measures act. Products imported into Jamaica must meet the requirements of these acts. These include requirements for labeling. Items sold in Jamaica must conform to recognized international quality specifications. In most cases, Jamaica follows U.S. standards. In recent years, the bureau has become increasingly vigilant in terms of monitoring the quality of products sold on the local market. The quarantine division inspects and determines standards in the case of live animals. The ministry of health may inspect meat imports. In 1995, an amendment to the weights and measures act was passed aimed at enforcing compliance with the metric system of measurement. Imported goods are expected to conform to the metric system.

Investment barriers: the government of Jamaica welcomes foreign investment and there are no policies or regulations reserving areas exclusively to Jamaicans. Foreigners are not excluded from participation in privatization/divestment activities.

While each investment proposal is assessed on its own merits, investments are preferred in areas which may increase productive output, use domestic raw materials, earn or save foreign exchange, generate employment, or introduce new technology. The screening mechanisms are standard and nondiscriminatory. The main criterion is the credit-worthiness of the company. Environmental impact assessments are required for new developments. Although both foreign and domestic companies have complained that "red tape" is a hindrance in doing business, foreign investors are treated the same as domestic investors before and after investment.

Government procurement practices: government procurement is generally done through open tenders. U.S. firms are eligible to bid. The range of manufactured goods produced locally is relatively small, so instances of competition between foreign goods and domestic manufacturers are very few. According to recent reports, a National Contracts Commission (NCC) was set up on October 8 to oversee the award and evaluation of government contracts. The NCC, which replaces the government's Contracts Commission, will be the central body responsible for awarding government contracts. On November 5 the Corruption prevention bill was passed in the senate, indicating that the country was making progress in opening up the government to greater scrutiny.

Customs procedures: the customs department has recently been computerized. As of September 1999, all customs entries are being processed electronically in order to facilitate brokers and other customers. However, some of the local brokers are still finding it difficult to adjust to the new system. As a result businesses are likely to face some difficulties until the customs brokers are properly trained.

Anti-dumping laws: on July 1, 1999, the GOJ implemented the new upgraded anti-dumping law. Among other things the act provides for the establishment of an anti-dumping and subsidies commission, the imposition of anti-dumping and countervailing duties on goods which are found to have been dumped or subsidized and the exemption of goods from the application of the act.

7. *Export Subsidies Policies*

The export industry encouragement act allows approved export manufacturers access to duty-free imported raw materials and capital goods for a maximum of ten years. Other benefits are available from the Jamaican government's export-import bank, including access to preferential financing through the discounting of export receivables (up to 80 percent of export value at 12 percent), lines of credit, medium term modernization fund (at 18-21 percent interest) and export credit insurance. The export-import bank (EX-IM) and the Jamaica Exporters Association (JEA) recently introduced a new joint venture loan program targeting small exporters. The project, called ex-bed, is being financed by the EX-IM bank to the tune of Jdols 10 million at an interest rate of 12 percent per annum to be repaid within 90 days, 120 days and 180 days respectively. JEA will provide technical and financial support through its small business export development project.

In December 1996, the government of Jamaica launched phase one of a Special Assistance Program (SAP) for the export apparel industry. The objective is to improve competitiveness by encouraging companies to make structural changes and implement operational efficiencies. The sap targets the reduction of operational costs, specifically in the areas of rent, security and financing. During phase one of the program, a grant of Jdols 40 million (USD 1.1 million) was made available to cover 5 percent of the companies' costs. Phase two of the program (August 1997-March 1998), which has now been extended to March 2000, provides an additional Jdols 160 million (USD 4.4 million) to encourage the broader development of the industry, particularly in those areas which will enhance long-term competitiveness. Benefits include loan financing (working capital) through the Ex-Im bank at 12 percent, debt restructuring for local companies through the national investment bank of Jamaica at 18 percent, and finance for the retooling of factories for expansion through the National Development Bank at 13 percent (Jdols loans) and 12 percent (USD loans).

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

Jamaica is a member of the World Intellectual Property Organization (WIPO) and of the Bern Convention (copyright protection). The Jamaican constitution guarantees property rights and has enacted legislation to protect and facilitate the acquisition and disposition of all property rights, including intellectual property. Jamaica and the United States signed a bilateral intellectual property rights agreement in March 1994. In addition, a Bilateral Investment Treaty (BIT) came into force in March 1997 that also contains obligations to respect intellectual property.

Jamaican laws address major areas of intellectual property rights (IPR) protection. Amendments to laws on copyrights and trademarks were made recently.

Amendments to the copyright act include the conferment of protection on compilation works such as databases, and would also grant protection to individuals having rights in encrypted transmissions or in broadcasting or cable program services, and a right of action against persons who knowingly infringe those rights for commercial gain. Works already in the public domain in Jamaica would not be accorded protection. Remedies available include injunctions, damages, seizure and disposal/destruction of infringing goods. Penalties may include fines or imprisonment. Licensing for broadcasts is required for subscription TV. To date there are 37 subscriber TV licensees island wide. However, there are reports of unlicensed cable operators conducting business illegally. The broadcasting commission states that it has begun taking steps to halt this illegal activity. All licensees are required to receive permission from program providers before re-broadcasting.

A draft bill on patents has been reviewed and corrections are being made in consultation with WIPO. The office of the parliamentary counsel is completing the revised law, which the government expects to be passed by the end of this year.

Levels of IPR enforcement are limited by overall demands on police and overburdened courts. The government is making efforts to raise public awareness by seminars and publications.

Litigation is a viable option in protecting intellectual property. In 1997, in individual lawsuits in Jamaican courts, U.S. corporations McDonald's and k-mart successfully defended their names and service marks against trademark infringement. In September 1999, the American company Costco International sued a local trading company for carrying out business under their name.

9. Worker Rights

a. *The Right of Association:* The Jamaican constitution guarantees the rights of assembly and association, freedom of speech, and protection of private property. These rights are widely observed.

b. *The Right to Organize and Bargain Collectively:* Article 23 of the Jamaican constitution guarantees the right to form, join and belong to trade unions. This right is freely exercised. Collective bargaining is widely used as a means of settling disputes. Industrial actions (generally brief strikes) are frequently employed in both private and public sector disputes. The Labor Relations and Industrial Disputes Act (LRIDA) codifies regulations on worker rights. About 15 percent of the work force is unionized, and unions have historically played an important economic and political role in Jamaican affairs. The public sector is highly unionized. Throughout 1997, the Ministry of Finance has been negotiating new two-year agreements covering tens of thousands of public sector employees. Reduced levels of inflation have enabled government negotiators to avoid budget-busting public sector salary increases.

No free zone factory is unionized. Jamaica's largest unions claim this is because unionization is discouraged in the free zones. The ongoing contraction of the apparel industry and a lack of alternatives for its workforce (largely female heads of household, with minimal qualifications for other employment) are additional disincentives for unionization at the present time. However, in tourist areas, workers are often drawn away by more attractive employment opportunities in the local tourism sector.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not practiced. Jamaica is a party to the relevant ILO conventions.

d. *Minimum Age for Employment of Children:* The Juvenile Act prohibits child labor, defined as the employment of children under the age of twelve, except by parents or guardians in domestic, agricultural, or horticultural work. While children are observed peddling goods and services, child labor is not institutionalized. Both government and societal views are intolerant of the practice and the use of child labor in formal industries such as textiles/apparel is virtually non-existent.

e. *Acceptable Conditions of Work:* A 40-hour week with 8-hour days is standard, with overtime and holiday pay at time-and-a-half and double time, respectively. The minimum wage is Jdols 800 for a 40-hour week or Jdols 20 per hour. There are frequently additional allowances (e.g. for transportation, meals, clothing, etc.). Unemployment compensation or "redundancy pay" is included in the negotiation of specific wage and benefit packages. Jamaican law requires all factories to be registered, inspected and approved by the Ministry of Labor. Inspections are limited by scarce resources and a narrow legal definition of "factory."

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Jamaica is concentrated in the bauxite/alumina industry, petroleum products marketing, food and related products, light manufacturing (mainly in-bond apparel assembly), banking, tourism, data processing, and office machine sales and distribution. Worker rights are respected in these sectors and most of the firms involved are unionized, with the important exception of the garment assembly firms. No garment assembly firms in the free zones are unionized; some outside the free zones are unionized. There have been no reports of U.S.-related firms abridging standards of acceptable working conditions. Wages in U.S.-owned companies generally exceed the industry average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		144
Food & Kindred Products	-5	
Chemicals & Allied Products	141	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	9	
Wholesale Trade		(1)
Banking		11
Finance/Insurance/Real Estate		6
Services		39
Other Industries		1,660
TOTAL ALL INDUSTRIES		2,105

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

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

MEXICO

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	402.0	415.0	448.0
Real GDP Growth (pct) [3]	7.0	4.8	3.4
GDP by Sector:			
Agriculture	21.42	20.51	21.74
Manufacturing	80.20	83.26	89.35
Services	253.24	258.75	277.95
Per Capita GDP (US$)	4,232	4,294	4,565
Labor Force (Millions)	36.6	37.5	38.7
Unemployment Rate (pct)	3.7	3.2	2.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.1	23.3	19.0
Consumer Price Inflation	15.7	18.6	12.9
Exchange Rate (Peso/US$)	7.9	9.1	9.6
Balance of Payments and Trade:			
Total Exports FOB [4]	110.4	117.5	131.0
Exports to U.S.[4]	94.3	103.1	112.0
Total Imports FOB [4]	109.8	125.2	136.0
Imports from U.S.[4]	82.0	93.1	101.0
Trade Balance [4]	0.6	-7.7	-5.0
Balance with U.S.[4]	12.3	10.0	11.0
External Public Debt	88.3	92.3	91.1
Fiscal Deficit/GDP (Pct)	1.0	1.4	1.2
Current Account Deficit/GDP (pct)	1.8	3.5	2.8
Debt Service Payments/GDP (pct)	22.5	23.0	23.0
Gold and Foreign Exchange Reserves	28.0	30.1	31.0

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999 [1]
Aid from U.S.	N/A	N/A	N/A
Aid from All Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data in November.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade, Mexican data.

1. General Policy Framework

The strong recovery that the Mexican economy experienced in 1996 and 1997 tapered off in 1998, as the economy experienced a significant slowdown in the last quarter of the year. Nevertheless, Mexico's Gross Domestic Product (GDP) grew a healthy 4.8 percent in 1998. GDP acceleration resumed in the second quarter of 1999, and the economy is set to grow by about 3.4 percent for the entire year.

Exports, led by the maquiladora industry, have remained the main engine of economic growth, and could surpass $131 billion in 1999. The country's aggressive market opening through bilateral and multilateral trade agreements has continued to create new markets for Mexican products, while allowing more foreign competition. Since recovering from the 1994-95 economic crisis, imports have increased at a faster rate than exports, resulting in a reversal of Mexico's trade surplus of the previous years. The slowdown that began late 1998 temporarily reversed that trend, however, and Mexico's trade deficit for 1999—about $5 billion—will be lower than next year. Two-way trade with the United States has also continued to grow and (by Mexican figures) could surpass $210 dollars.

The central bank's tight monetary policy, coupled with quiet international financial markets, led to a strong real and nominal appreciation of the peso. The currency appreciation helped the central bank regain its credibility and attain its inflation target of 13 percent for 1999. The central bank's announced target of 10 percent inflation for next year portends a tight monetary policy throughout 2000.

2. Exchange Rate Policy

In December 1994, Mexico abandoned its exchange band mechanism, which had been in place since 1991, in favor of a free-floating exchange rate. The peso has floated freely since then with only infrequent interventions by the Bank of Mexico (Mexico's central bank). After losing more than half its value against the dollar in 1995, the peso was remarkably stable in 1996 and through most of 1997. The peso appreciated by roughly 18 percent in real terms from September 1998 to November 1999. To accumulate foreign reserves and weaken the peso to support exporters, the bank offered credit institutions monthly options to sell dollars to the central bank. The Bank of Mexico has purchased up to $600 to $800 million of these options from banks in a single month. The amount of these options, however, is still felt to be too small to have an appreciable impact on the exchange rate.

3. Structural Policies

Mexico has reduced significantly regulation of the Mexican economy over the past decade. The government introduced legislation in 1993 to promote greater competition, limit monopolistic behavior, and prohibit practices that restrain trade. The Mexican Federal Competition Commission, established in that legislation, now has functioned successfully for more than four years. A 1993 Foreign Trade Law eliminated most nontariff trade restrictions and established remedies for unfair trade practices, such as export subsidies and dumping. The Mexican Customs Service also was modernized and automated. Customs Law reforms, implemented in 1996, have greatly assisted in the effort to weed out corruption. A project to examine all government regulations and to reduce them continues moving forward, with several federal ministries and the federal district having completed their work. State and local deregulation is also planned for the future.

The government rarely publishes draft regulations for comment, although in most cases it informally circulates draft copies to major chambers and associations. This allows a few large organizations with a local presence to influence the regulation-making process. However, it does not provide the transparency that comes from publication, and can limit the ability of small and foreign entities to participate in the consultation process. In addition, final regulations routinely take effect the day after publication, increasing compliance burdens for unsuspecting foreign entities and sometimes causing confusion and delays at border crossing points.

The government has privatized or eliminated more than 1000 parastatal companies since 1986. State enterprises thus far privatized include commercial banks, the telephone company, a television network, airlines, steel production, most railroads and ports, warehouses, and several major industrial facilities. President Zedillo continued the privatization trend. In 1997 and 1998, multiple contracts were let for private sector construction of power plants and for distribution of natural gas to strategically chosen communities. The government continues working to privatize management and some facilities at the remaining government-operated ports, and has shed all railroads. A proposed constitutional amendment that would allow more private sector participation in the generation and distribution of electricity, however, has lingered in Congress.

Airport privatization in mid November 1999 continues. Mexico's airports have been divided into five geographic areas. Each area will be managed by a group of investors. While some airport groups are fully operational, Pacifico and SouthEast for example, the privatization process for the remaining groups should near completion toward the end of 2000. The Mexican government will maintain control of a limited number of smaller airports in the interest of the public served by these regional facilities. The government announced plans to sell up to 49 percent of its secondary petrochemical plants, despite opposition party resistance. There is now competition in most of Mexico for the provision of long-distance telephone service. However, legal struggles between Telmex and the new market entrants have somewhat complicated the development of competition in this sector.

4. Debt Management Policies

Mexico has largely achieved the objectives laid out in the emergency economic program developed to cope with the 1995 peso crisis. During 1997 and the first three quarters of 1998, public sector debt continued to decline in real terms. The maturity of public debt was extended, the debt profile was reconfigured, the composition of external debt altered dramatically, and Mexico successfully returned to international capital markets. Among the most telling indicators of the success of Mexicos debt strategy were early repayment to the U.S. Treasury of all of the economic support funds extended to Mexico during the 1995 crisis, and Mexico's relative ease in weathering the effects of other-country financial crises in the fall of 1998.

At the end of the first half of 1998, Mexico's net public sector external debt was $88.2 billion, a slight decrease from 1997. The Bank of Mexico auctions $250 million of dollar put options at the end of each month, which purchasers may exercise any time during the following month, subject to certain limitations. In 1998 total amortization of public external debt will be $22.1 billion, compared to $32.3 billion in 1997.

5. Significant Barriers to U.S. Exports

Import Licenses: The Secretariat of Trade and Industrial Development (SECOFI) requires import licenses for a number of commercially sensitive products. In 1998, SECOFI expanded the import licensing system by establishing an "automatic" import license for certain Asian and European products because of concerns about dumping and under-invoicing. While NAFTA originated goods are exempt from these requirements, U.S. companies that obtain goods from covered countries may be affected by the requirements. The Secretariat of Agriculture requires a prior import authorization for fresh/chilled and frozen meat. In 1998, the Secretariat of Health announced new import license rules for certain food products. These rules call for either an "advance sanitary import authorization" or "notification of sanitary import" prior to the product crossing the border. Obtaining these permits requires extensive documentation and certification by the exporter. In addition, Mexico maintains import licenses for sensitive products such as endangered species and weapons.

Insurance: Until 1990, the Mexican insurance market was closed to foreigners. With the introduction of NAFTA, U.S. and Canadian insurers that had joint venture operations in Mexico were allowed to increase their ownership share from 30 percent in 1994 to 51 percent in 1996 and 100 percent by the year 2000. Companies not already in Mexico could set up joint ventures and obtain majority control during 1998. U.S. insurers may also establish wholly owned subsidiaries in Mexico, subject to aggregate market share limits which will be eliminated in 2000. Some third-country firms have entered through affiliates or subsidiaries in the United States or Canada under the NAFTA arrangement.

Telecommunications: The main restriction in the telecommunications sector is a limitation on foreign investment in telephone and value-added services to a 49 percent equity position. However, in cellular telephony, foreign investors may participate up to 100 percent, subject to approval by the national foreign investment commission. Nevertheless, foreign investors may only participate through a Mexican corporation. Mexico modified its constitution in 1995 to allow for private participation and equity in Mexican telecommunication satellites, including ownership of transponders. The government's satellite firm was privatized in early 1998. Foreign investment is limited to a 49 percent equity position.

The Telmex legal monopoly on long distance and international telephone service ended in August 1996 and competition was introduced in January 1997. There currently is competition in all major cities and much of the rest of Mexico. Eight firms are currently authorized to provide long distance service, five of which have U.S. partners. USTR cited Mexico in its March 1998 annual "1377" review for failure to meet its WTO Basic Telecom Agreement commitments, including a discriminatory 58 percent surcharge on inbound international long distance traffic and failure to allow International Simple Resale (ISR). In December 1998, the government eliminated the 58 percent surcharge, but has yet to permit ISR. Local, basic telephone service is already technically open to competition, but practical competition in this area has not yet been fully developed.

Since July 1999, Telmex has refused to provide any new private local lines when they are order by the competitive long distance carriers, Alestra and Avantel. Customers of Telmex, however, can still get comparable line orders filled. This raises questions about WTO commitments by Mexico to assure competitors access to and use of the Telmex network.

Financial Services: The financial services sector is generally open and liberalized. Mexico continued during 1995 to promote competition and diversification in the financial sector by encouraging foreign investment. New rules adopted in 1995 allow foreign banks to acquire up to 100 percent ownership in existing banks that have less than six percent of the total capital in the banking system (effectively excluding Mexico's three largest banks). Legislation passed in December 1998 removed the six percent cap, allowing 100 percent ownership of any bank. Foreigners may now own up to 25 percent of the total net capital of the banking system. Also, a single Mexican or foreign individual may own up to 20 percent of a given Mexican financial institution. As a group, foreigners can, in most cases, own up to 49 percent of a bank, stock brokerage house, or financial group.

Standards, Testing, and Certification: The extensive use of mandatory standards, testing and labeling has the potential of acting as a barrier to trade and can raise the cost of exporting to Mexico. However, the government has displayed an increased willingness to work with U.S. industry to address U.S. concerns.

The government has been the primary actor in determining product standards, labeling and certification policy, with input from the private sector. Mexican law requires that Mexican standards be based on "international standards," but Mexican standards sometimes will incorporate U.S. and Canadian standards when those differ from the international benchmark.

With a view to increasing transparency, among other things, the government of Mexico revised its federal law on metrology and standardization in May 1997. While these changes provided for the privatization of its accreditation program and greater transparency, certain Mexican ministries deem that particular regulations are executive orders and therefore not required to be published for comment. In some cases the GOM refused to provide copies of the regulations for U.S. industry to review as was the case in recently revised regulations to Mexico's Health Law. U.S. exporters of vitamins have raised concerns that these revised regulations may impede their supply to the Mexican market. Low-dosage vitamins will be governed as medicines or pharmaceuticals which require inspection and approval of manufacturing facilities by the Mexican Ministry of Health in order to obtain a sanitary license. Mexican government officials have advised U.S. industry and government officials that it does not plan to conduct the inspections and approvals required for factories outside Mexico.

Additionally, while the Federal Law on Metrology and Standardization provides for the adoption of emergency mandatory standards to deal with exceptional and unforeseen circumstances which might result in irreversible situations, the legitimacy of the emergency nature of some of these mandatory standards remains questionable. In certain instances, Mexico has been less than diligent in providing opportunity for comment by its trading partners.

U.S. exporters have complained that since Mexican customs enforces standards for goods entering the country at the border and domestically produced products are inspected randomly at the retail level, enforcement of compliance with mandatory standards appears to be more stringent in the case of imports. U.S. exporters have also complained about inconsistencies at different ports of entry.

Only Mexican producers or importers are allowed to obtain a NOM certificate (official document certifying that a particular good complies with an applicable standard). This poses a problem for U.S. exporters, if they use multiple importers. Each importer has to pay to have the same product tested at a Mexican lab every year, requiring costly redundant testing. In September, 1999, SECOFI published a proposal to revise its certification regulations. If adopted, the proposal would allows companies from countries with which Mexico has a free trade agreement (e.g., the United States) to obtain a NOM certificate. This would appear to address many of industry's concerns regarding the importer problem. However, industry is in the process of reviewing the revised procedures and is in the process of submitting comments.

On January 1, 1998, Mexico was obligated to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those granted in Mexico. The requirement that there be a need for additional certification bodies and verification units before laboratories can be accredited remains questionable.

Problems remain with restrictions on U.S. beef exports to three Mexican states that fail to recognize U.S. meat grades. In late 1998, Mexico suspended testing for heavy metals residues in imported meats based on national treatment differences between its standards for domestic and imported products. These standards, among the most restrictive in the world, were not based on international or NAFTA consensus, and had questionable scientific basis. Other new standards for imported grain and poultry, published in late 1998, are interrupting—or may interrupt—U.S. exports. Again, there are questions regarding conformity with international standards and sound scientific justification.

Investment Barriers: The national foreign investment commission decides questions of foreign investment in Mexico. The country's constitution and Foreign Investment Law of 1992 reserve certain sectors to the state, such as oil and gas extraction and the transmission of electrical power, and a range of activities to Mexican nationals (for example, forestry exploitation, domestic air and maritime transportation.) Despite remaining restrictions, the Foreign Investment Law greatly liberalized foreign investment, eliminating the requirement for government approval in around 95 percent of foreign investments. The constitution was amended in 1995 to allow foreign investment in railroads, telecommunications and satellite transmission. An initiative to privatize the country's secondary petrochemical complexes did not succeed because it would have limited foreign investors to only 49 percent ownership of existing facilities. Newly built petrochemical plants may have up to 100 percent foreign investment.

Provisions contained in NAFTA opened Mexico to greater U.S. and Canadian investment by assuring U.S. and Canadian companies' national treatment, the right to international arbitration and the right to transfer funds without restrictions. NAFTA also eliminated some barriers to investment in Mexico such as trade balancing and domestic content requirements. These barriers are also being phased out in some sectors, such as automobile manufacturing. Mexico additionally has implemented its commitment under NAFTA to allow the private ownership and operation of electric generating plants for self-generation, co-generation, and independent power production. In 1995, Mexico issued regulations for the first time allowing private sector participation in the transportation, distribution and storage of natural gas. Contracts let in 1997 and 1998 under the new regulations constitute one of the major success stories in Mexico's ongoing infrastructure development. In 1999, Mexico eliminated a four percent tariff on imports of natural gas, further liberalizing the sector.

Investment restrictions still prohibit foreigners from acquiring title to residential real estate within 50 kilometers of the nation's coasts and 100 kilometers of the borders. However, foreigners may acquire the effective use of residential property in the restricted zones via a trust through a Mexican bank. At this time, only Mexican nationals may own gasoline stations, whose gasoline is supplied by PEMEX, the state-owned petroleum monopoly. These gasoline stations also only carry PEMEX lubricants, although other lubricants are manufactured and sold in Mexico. Both foreigners and Mexican citizens themselves encounter problems with enforcement of property rights.

Government Procurement Practices: There is no central government procurement office in Mexico. Government agencies and public enterprises use their own purchasing offices to buy from qualified domestic or foreign suppliers, subject to guidelines issued by the comptroller's secretariat. In 1991, Mexico abandoned the rule that state-owned enterprises give preference in procurement to national suppliers. Suppliers from all countries may bid on most government tenders, and requirements for participation are the same for foreign and domestic suppliers. Because NAFTA allows some smaller contracts for goods, services or construction to be let without requiring them to be open to suppliers from all NAFTA countries, the Procurement

Law enacted in 1994 distinguishes between procurement contests open to national versus international suppliers. The law, however, acknowledges Mexico's procurement obligations under NAFTA and other international trade agreements. Some companies have complained that Mexican government agencies do not always follow the procedural procurement requirements established by NAFTA. For example, a number of bid requests require tender submission in less than the 40 days established by NAFTA.

A specific preferential treatment in public procurement is granted to domestic drug suppliers (which includes foreign companies established in Mexico). NAFTA gradually increases U.S. suppliers' access to the Mexican government procurement market, including PEMEX and the Federal Electricity Commission (CFE), which are the two largest purchasing entities in the Mexican Government. Under NAFTA, Mexico immediately opened 50 percent of PEMEX and CFE bids to competition by suppliers from NAFTA Parties. Each year, that percentage will increase until all PEMEX and CFE bids which are above the NAFTA value threshold will be open to goods and suppliers from NAFTA Parties. PEMEX and CFE procurement will be open by 2004.

Customs Procedures: In 1996 Mexico enacted a new Customs Law that simplified a number of procedures. The law transfers a number of obligations to private sector customs brokers who are subject to sanctions if they violate customs procedures. As a result, some brokers have been very restrictive in their interpretation of Mexican regulations and standards. In an attempt to combat under-invoicing and other forms of customs fraud, Mexican customs also maintains (and in some cases has significantly expanded) measures that can impede legitimate imports, including an industry sector registry and reference prices. Importers of more than 400 different agricultural, textile, electronic, automotive, and other products from the United States and elsewhere currently must demonstrate payment of taxes and formally register with the Secretariat of Finance every twelve months. The registration process can be burdensome and time consuming, and no grace period is granted when new products become subject to the requirement. Mexico's reference pricing practice obligates importers of many of the same items to post a bond covering the difference in duties and taxes if the declared customs value of the good is below an official "estimated" or "reference" price. Unless the government initiates an investigation, bonds generally are returned after six months. Importers can obtain expedited release of their guarantees if the exporting company provides a certified invoice authenticated by its local chamber of commerce. Reference prices are set in a non-transparent and apparently arbitrary manner, and the practice may increase the cost of shipping certain U.S. products across the border and effectively restore tariffs on goods that would otherwise enter duty-free under the NAFTA. The Secretariat of Finance intended to replace the current bond system with a potentially more onerous cash deposit requirement in 1999, but has postponed the measure until April 2000. The United States believes this policy is inconsistent with Mexico's international obligations.

6. Export Subsidies Policies

The government has not had an export subsidy program. Provisions for promoting exports in the Foreign Trade Law have been limited to training and assistance in finding foreign sales leads, project financing (at market rates) for export oriented business ventures, and special tax treatment for companies that have significant export sales.

7. Protection of U.S. Intellectual Property

Mexico is a member of the major international organizations regulating the protection of Intellectual Property Rights (IPR): the World Intellectual Property Organization (WIPO), the Geneva Convention for the Protection of Phonograms against Unauthorized Duplication of their Phonograms; the Berne Convention for the Protection of Literary and Artistic Works (1971); the Paris Convention for the Protection of Industrial Property (1967); the International Convention for the Protection of New Varieties of Plants; the Universal Copyright Convention, and the Brussels Satellite Convention.

Mexico has implemented NAFTA obligations providing for nondiscriminatory national treatment of IPR matters, establishing certain minimum standards for protection of sound recordings, computer programs and proprietary data, and by providing express protection for trade secrets and proprietary information. The term of patent protection is 20 years from the date of filing. Trademarks are granted for 10-year renewable periods. The government continues to strengthen its domestic legal framework for protecting intellectual property. In 1997 it implemented a new Copyright Law and amended its penal code to strengthen penalties against copyright piracy. In 1999 it again modified its penal code for copyright and trademark piracy, classifying them as felonies and increasing penalties. Mexico passed a law in 1996 providing protection to plant species, and in 1998 provided protection for integrated circuits.

In spite of the legal protection, the level of piracy and counterfeiting remains high in Mexico. Although federal authorities conduct investigations and carry out raids against pirates, there have been few criminal convictions stemming from these actions. Of the hundreds of raids carried out on behalf of the motion picture, recording, and software industries in 1998, the U.S. Government is only aware of one conviction for piracy. The government launched an anti-piracy campaign in November 1998, including increased raids, stronger penalties for piracy, and a public awareness campaign. By classifying IPR piracy as a felony, individuals indicted for piracy cannot qualify for bail. As a result, a number of indicted pirates have been incarcerated while awaiting trail. It remains to be seen whether the campaign will increase the number of convictions. U.S. industry remains skeptical of the efforts made by the Mexican Government, particularly since the Attorney General's office (PGR), which carries out these criminal investigations, did not receive increased funding in the legislative package. Mexico has not been in full compliance with NAFTA or with the TRIPs Agreement in a number of areas, including copyright, protection of test data, plant varieties, and enforcement. As a result, Mexico was placed on the "Special 301" Watch List in 1999, particularly because of the high level of piracy.

8. Worker Rights

a. *The Right of Association:* The constitution and the Federal Labor Law (FLL) give workers the right to form and join trade unions of their own choosing. Mexican trade unionism is well developed with about 25 percent of the work force members in thousands of unions. Although no prior approval is required to form unions, they must register with the Federal Labor Secretariat or state labor boards to gain legal status. Federal or state authorities reportedly sometimes use this administrative procedure to withhold registration from groups considered disruptive to government policies, employers, or unions. Union registration was the subject of follow-up activities in 1996, 1997, 1998, and 1999, pursuant to a 1995 agreement reached in ministerial consultations under the North American Agreement on Labor Cooperation (the NAFTA labor side agreement).

Unions, federations, and labor centrals freely affiliate with international trade union organizations. The FLL protects labor organizations from government interference in their internal affairs. The law permits closed shop and exclusion clauses, allowing union leaders to vet and veto new hires and force dismissal of individuals the union expels. Such clauses are common in collective bargaining agreements. Again in 1998, the committee of experts of the International Labor Organization (ILO) found that such restrictions violate freedom of association, and asked the Mexican Government to amend these provisions. A 1996 Mexican supreme court decision invalidated similar restrictions in the laws of two states, and in 1999 the same court ruled that public sector entities could not require that only one union represent workers.

Most labor confederations, federations and separate national unions are allied with the governing Institutional Revolutionary Party (PRI). Union officers help select, run as, and campaign for PRI candidates in federal and state elections, and support PRI government policies at crucial moments. This gives the unions some influence on government policies, but limits their freedom of action. Rivalries within and between PRI-allied organizations are strong. A smaller number of labor federations and independent unions are not allied to the PRI.

b. *The Right to Organize and Bargain Collectively:* The FLL strongly upholds this right. The public sector is almost totally organized. Industrial areas are also heavily organized. The law protects workers from antiunion discrimination but enforcement is uneven. Industry or sectoral agreements carry the weight of law in some sectors and apply to all sector firms, unionized or not, though this practice is becoming less common. The FLL guarantees the right to strike. On the basis of interest by a few employees, or a strike notice by a union, an employer must negotiate a collective bargaining agreement or request a union recognition election. In 1995, at union insistence, annual national pacts negotiated by the government and major trade union, employer and rural organizations ceased to limit free collective bargaining, which had been done for the past decade. The government, major employers, and unions meet periodically to discuss labor relations under the "new labor culture" mechanism. The government remains committed to free collective bargaining without guidelines or interference.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced labor and none has been reported in many years.

d. *Minimum Age for Employment of Children:* The FLL sets 14 as the minimum age for employment, but those under 16 may work only six hours a day, with prohibitions against overtime, night labor, and performing hazardous tasks. Enforcement is reasonably good at large and medium-sized companies but is inadequate at small companies and in agriculture and is nearly absent in the informal sector. The ILO reports 18 percent of children aged 12 to 14 work, often for parents or relatives. Most child labor takes place in the informal sector (including myriad street vendors and in thousands of family workshops), and in agriculture. Although enforcement is spotty, the government formally requires that children attend a minimum of nine years of school and has the ability to hold parents legally liable for their children's nonattendance. The government has a cooperative program with UNICEF to increase educational opportunities for youth.

e. *Acceptable Conditions of Work:* The FLL provides for a daily minimum wage set annually, usually effective January 1 by the tripartite (government/labor/employers) National Minimum Wage Commission. Any party may ask the commission to reconvene to consider a special increase. In December 1998 the commission adopted a 14 percent increase. In Mexico City and nearby industrial areas, Acapulco, southeast Veracruz state's refining and petrochemical zone and most border areas, the daily minimum wage has been 34.45 pesos ($4.00 in early November 1998). However, daily minimum wage earners actually are paid 39.27 pesos due to a 14 percent supplemental fiscal subsidy (tax credit to employers). Approximately 47.4 percent of the labor force earns the daily minimum wage or less. Industrial workers, under collective bargaining contracts, tend to average three to four times the daily minimum wage.

The law and collective agreements also provide extensive additional benefits. Those benefits which are legally required include social security (IMSS), medical care and pensions, individual worker housing and retirement accounts, substantial Christmas bonuses, paid vacations, profit sharing, maternity leave, and generous severance packages. Employer costs for these benefits run from 27 percent of payroll at small enterprises to over 100 percent at major firms with strong union contracts. Eight hours is the legal workday and six days the legal workweek, with pay for seven. Workers who are asked to exceed three hours of overtime per day or work overtime on three consecutive days receive triple the normal wage for that overtime. For most industrial workers, especially under union contract, the true workweek is 42 hours with seven day's pay. This is why unions jealously defend the legal ban on hiring and paying wages by the hour.

Mexico's Occupational Safety and Health (OSH) laws and rules are relatively advanced. Completely revised regulations were published in 1997. Employers must observe "general regulations on safety and health in the work place" (which reflects close NAFTA consultation and cooperation) issued jointly by the Labor Secretariat (STPS) and the Social Security Institute (IMSS). FLL-mandated joint labor-management OSH committees at each plant and office meet at least monthly to review workplace safety and health needs. Individual employees or unions may complain directly to STPS/OSH officials; workers may remove themselves from hazardous situations without reprisal and bring complaints before the Federal Labor Board at no cost. STPS and IMSS officials report compliance is reasonably good at most large companies, though federal inspectors are stretched too thin for effective comprehensive enforcement. There are special problems in construction, where unskilled, untrained, and poorly educated transient labor is common.

f. *Rights in Sectors with U.S. Investment:* Conditions do not differ from those in other industrialized sectors of the Mexican economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		235
Total Manufacturing		14.267
Food & Kindred Products	4,744	
Chemicals & Allied Products	2,203	
Primary & Fabricated Metals	438	
Industrial Machinery and Equipment	831	
Electric & Electronic Equipment	569	
Transportation Equipment	2,066	
Other Manufacturing	3,415	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
Wholesale Trade	1,092
Banking	591
Finance/Insurance/Real Estate	4,206
Services	1,108
Other Industries	4,378
TOTAL ALL INDUSTRIES	25,877

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

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

NICARAGUA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment			
Nominal GDP [2]	2,018.3	2,099.0	2,231.2
Real GDP Growth (pct) [2 3 4]	5.0	4.0	6.3
GDP by Sector: [2]			
Agriculture [4]	575.0	632.5	663.5
Manufacturing	418.9	431.2	479.9
Services [5]	865.6	887.2	941.3
Government	158.2	148.2	145.1
Per Capita GDP (US$)	436.0	431	453.7
Labor Force (000's)	1,567.5	1,630.1	1,695.4
Unemployment Rate (pct)	14.3	12.3	11.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	50.1	20.0	21.9
Consumer Price Inflation (pct)D7.3	18.5	10.5	
Exchange Rate (Cordobas/US$-annual average)			
Official	9.5	10.5	11.6
Parallel	9.5	10.6	11.7
Balance of Payments and Trade			
Total Exports FOB [6]	703.6	573.2	573.7
Exports to U.S. [7]	439	453.0	486.0
Total Imports CIF [6]	–1,371.4	–1,383.6	–1,593.1
Imports from U.S. [7]	–290	–337.0	–370
Trade Balance [6]	–667.8	–810.4	–1,019.4
Balance with U.S. [7]	49	16	16
External Public Debt (US$ bns)	6.1	6.2	6.5
Fiscal Deficit/GDP (pct)	7.5	2.2	3.0
Current Account Deficit/GDP (pct)	40.3	39.0	38.0
Debt Service Payments/GDP (pct)	19.4	15.6	16.0
Gold and Foreign Exchange Reserves	387.0	356.0	400.0
Aid from U.S. [8]	27.0	70.0	N/A
Aid from All Other Sources	292.0	N/A	N/A

[1] All 1999 figures are Central Bank projections based on data available in October 1999.
[2] 1997 and 1998 GDP data revised by Central Bank in October 1999.
[3] Percentage changes calculated in local currency.
[4] Includes livestock, fisheries, and forestry.
[5] Includes construction and mining.
[6] Merchandise trade.
[7] Source: U.S. Department of Commerce; 1999 figures are estimates based on trade data through August 1999.
[8] Source: Embassy estimate of assistance from AID, USDA, and U.S. military for Hurricane Mitch relief.

1. General Policy Framework

Nicaragua has made considerable progress since 1990 in moving from a centralized to a market-oriented economy. The country has liberalized its foreign trade regime, brought inflation under control, and eliminated foreign exchange controls. With the inauguration of President Arnoldo Aleman in January 1997, Nicaragua began to quicken the pace of its opening to foreign trade. The economy grew by 4 percent in 1998. To foster macroeconomic stability, the Aleman administration signed an Economic Structural Adjustment Facility (ESAF) program with the IMF in January 1998. Growth in 1999 is projected at 6.3 percent.

At the end of its third year in office, the Aleman administration faced important economic challenges including: meeting the targets of an Enhanced Structural Adjustment Facility (ESAF) with the International Monetary Fund; reconstructing infrastructure devastated by Hurricane Mitch; making progress on the resolution of thousands of Sandinista-era property confiscation cases; and reducing unemployment and poverty in the hemisphere's second-poorest nation. Nicaragua's large current account deficit and fiscal deficit are counterbalanced by strong inflows of foreign assistance and private capital.

Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most non-tariff barriers. Private investment, from both domestic and foreign sources, is rising and the private banking sector continues to expand. Agriculture, construction, and the export sector have led Nicaragua's recent economic growth. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily. The GON reduced the devaluation rate at 9 percent in July 1999 and planned to reduce it further to 6 percent by the end of the year. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was under one half-percent in 1999. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The Nicaraguan government maintains price controls only on sugar, domestically produced soft drinks, certain petroleum products, and pharmaceuticals. However, in the past, the government has negotiated voluntary price restraints with domestic producers of important consumer goods. During the aftermath of Hurricane Mitch, the government instructed distributors of basic food products to maintain stable food prices. However, that control no longer exists.

Tax Policies: Nicaragua is in the process of implementing progressive import tax reductions through the year 2002. Since January 1998, Nicaragua has imposed regular import duties (DAI) of 15 percent on final consumption goods and 10 percent on intermediate goods (there is no DAI on raw materials and capital goods produced outside of Central America, but raw materials and capital goods imported form any Central American country carries a 5 percent DAI). Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent. The maximum rate of the combined DAI and ATP is 25 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items that generally is lower than 15 percent. DAI, ATP and IEC are based on CIF value. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic be~~verages)~~ ~~are~~ particularly high. Importers of many items face a total import tax burden of 15 to 45 percent. In November 1999, Nicaragua raised tariffs on corn, sorghum, and rice in response to low world prices. This increase was done as a presidential decree, which must be renewed every thirty days.

Nicaragua's 1997 tax reform law marked an important step by the Aleman administration towards fostering Nicaragua's insertion into the global economy. The reform: a) banned almost all non-tariff barriers on imports; b) eliminated the discretion of government officials to exonerate tariffs; c) repealed the restrictive Law on Agents, Representatives or Distributors of Foreign Firms; d) established a "rebate" of 1.5 percent of FOB value for all exports; e) eliminated IGV on several activities; g) reduced municipal taxes from 2 to 1.5 percent in 1998 and to 1 percent in 2000; h) eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange; and i) set a schedule of progressive import tax reductions through the year 2002.

In March 1999, the National Assembly passed a new package of reforms that situated Nicaragua ahead of the rest of the Central American countries in lowering tariffs and reducing exemptions. The reform established: a) tax exemptions for NGOs (non-governmental organizations) as long as they perform non-profit activities; b) exemptions on import taxes (DAI), luxury taxes (IEC), and sales taxes (IGV) for hospital investments; c) simplified taxes on vehicles based on engine size (this reform helped alleviate the discriminatory tariff treatment on some U.S. vehicles that have bigger engines than their Japanese competitors); exemption of DAI, ATP and IGV on crude or partially-refined petroleum, as well as on liquid gas and other petroleum derivatives; e) intermediate goods, and raw materials destined for the agricultural sector, small handicraft industry, fishing and aquaculture. In December 1999, Nicaragua instituted a 35 percent tariff on all goods from Honduras as a retaliatory measure for Honduras signing a maritime border delineation agreement with Colombia.

4. Debt Management Policies

The previous administration of Violeta Chamorro inherited a $10.7 billion debt from the Sandinista regime in 1990. Over the next eight years, Nicaragua negotiated a series of deals that reduced its stock of debt to $6.2 billion. Despite this progress, Nicaragua's debt, at almost three times GDP, remains high. Accordingly, the Aleman government has made debt reduction a top priority. In April 1998, the Paris Club creditors and the Nicaraguan government reached an agreement on the terms and conditions for reducing and rescheduling Nicaragua's official debt. In response to damage caused by Hurricane Mitch, the Paris Club agreed in December 1998 to defer all debt service payments through February 2001. Another promising avenue for debt reduction of multilateral debt is through the Heavily Indebted Poor Countries (HIPC) Initiative. Largely because of its strong economic performance, Nicaragua was admitted in the HIPC program in late 1999. However, the HIPC decision point (conclusion of negotiations over HIPC progress indicators) had not been reached by year's end.

5. Aid

Nicaragua is highly dependent on foreign aid to cover its trade and fiscal deficits. More than half of its assistance is provided by multilateral financial institutions like the Inter-American Development Bank and World Bank. European countries, Japan, Taiwan, and the United States are also major donors. Since 1990, the United States has provided more than $1 billion in assistance and debt-relief to Nicaragua. That money has funded such projects as balance of payments support for economic stabilization, primary education, health care reform, employment generation, food donations, and the strengthening of democratic institutions. In May 1999 as part of relief for damage caused by Hurricane Mitch, donor countries in Stockholm for a Consultative Group meeting agreed to provide Nicaragua with nearly $3 billion in assistance and concessionary loans; this figure included funds already disbursed immediately following Hurricane Mitch. The U.S. commitment totaled nearly $100 million. Nicaragua is not believed to receive extensive amounts of military equipment from any third country, although Spain, Mexico, Taiwan, and France, among others, do provide training.

6. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms and explosives. U.S. exporters of food products must meet some phytosanitary requirements.

Services Barriers: Although 11 private banks are now operating, no U.S. bank has yet re-entered the Nicaraguan financial market. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed. No U.S. insurance company has entered the Nicaraguan market, either.

Investment Barriers: Remittance of 100 percent of profits and original capital three years after investment is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, but the government will not guarantee that foreign exchange will be available. The U.S. Embassy is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews, and a requirement for domestic processing of the catch. Expropriation still remains a problem, as the government has failed to set up property courts as promised to resolve the expropriations that occurred under the Sandinista government.

Customs Procedures: Importers complain of steep secondary customs costs, including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding further costs. Nicaragua has committed itself to implement WTO customs valuation procedures by September 2000, which will end the use of reference prices to determine import tax valuations.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996, Nicaragua ratified the United States-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has not yet been submitted to the U.S. Senate for ratification.

7. Export Subsidy Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Foreign inputs for Nicaraguan export goods from the country's free trade zones enter duty-free and are exempt from value-added tax.

8. Protection of U.S. Intellectual Property

Nicaragua belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is signatory to the Paris Convention, Mexico Convention, Buenos Aires Convention, Inter-American Copyrights Convention, Universal Copyright Convention, and the Satellites Convention.

The government has indicated a firm commitment to providing adequate and effective intellectual property rights protection. However, current levels of protection still do not meet international standards. Although unable to dedicate extensive resources to protecting intellectual property rights, Nicaragua is working to modernize its intellectual property rights regime. In January 1998, Nicaragua and the United States signed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits, and encrypted satellite signals. In 1999, the National Assembly approved a new copyright law, a plant variety protection law, and a law on the protection of satellite signals. Draft laws on integrated circuit design and patents still require a vote in the National Assembly. The Presidency is reviewing draft laws on trademarks.

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights: Pirated videos are readily available in video rental stores nationwide, as are pirated audiocassettes and software. In addition, cable television operators are known to intercept and retransmit U.S. satellite signals, a practice that continues despite a trend of negotiating contracts with U.S. sports and news satellite programmers. According to estimates by the International Intellectual Property Alliance (IIPA), U.S. copyright-based industries' losses in Nicaragua due to piracy were $5.7 million in 1998. On August 21, 1999, the new copyright law went into effect; however, criminal penalties are delayed for 6-12 months. The U.S. Government and the industry hope to work with the Nicaraguan Government to provide training for effective enforcement.

9. Worker Rights

a. *The Right of Association:* The Constitution provides for the right of workers to organize voluntarily in unions. The 1996 labor code reaffirmed this right. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The Constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. *The Right to organize and Bargain Collectively:* The Constitution provides for the right to bargain collectively. According to the 1996 labor code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. *Minimum Age for Employment of Children:* The Constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 labor code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for 15 and 16 year-olds. The law limits the workday for such children to 6 hours and prohibits work at night. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the small, formal sector of the economy.

e. *Acceptable Conditions of Work:* The 1996 labor code maintains the constitutionally mandated 8-hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay shall be from one to five months' duration, depending on the length of employment and the circumstances of termination. The code also seeks to bring the country into compliance with international standards of workplace hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, but the majority of urban workers earn well above the minimum rates.

f. *Rights in Sectors with U.S. Investment:* Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing:		4
Food & Kindred Products	0	
Chemicals & Allied Products	4	
Metals, Primary & Fabricated	(2)	
Machinery, except Electrical	0	
Electric & Electronic	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		(1)
Banking		0
Finance/Insurance/Real Estate		0
Services		0
Other Industries		(1)
TOTAL ALL INDUSTRIES		153

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

PANAMA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	8,700	9,143	9,608
Real GDP (1982 prices)	6,657	6,932	7,126
Real GDP Growth (pct)	4.5	4.1	3.1
Real GDP by Sector (1982 prices):			
Agriculture	429	445	457
Manufacturing	1,231	1,290	1,368
Services	3,964	4,185	3,935
Government	961	970	1,005
Real Per Capita GDP (US$)	2,454	2,509	2,545
Labor Force (000's)	1,049	1,083	1,089
Unemployment Rate (pct)	13.4	13.6	11.6
Money and Prices (annual percentage growth):			
Money Supply (M2) Growth (pct) [2]	0.8	-0.1	N/A
Consumer Price Inflation	1.2	0.6	1
Exchange Rate (Balboa/US$ annual average)	1	1	[3] 1

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Balance of Payments and Trade:			
Total Exports FOB [4]	648	705	810
Exports to U.S.	293	282	296
Total Imports CIF [4]	2,992	3,398	3,440
Imports from U.S.	1,103	1,350	1,230
Trade Balance [4]	–2,344	–2,510	–2,630
Balance with U.S.	–810	1,068	–934
Colon Free Zone [5]			
Exports	6,268	6,001	5,160
Imports	5,513	5,318	4,230
External Public Debt	5,051	5,179	[6] 5,580
Fiscal Deficit (–)/GDP (pct)± [7]	–0.3	–4.4	–1.6
Current Account Deficit (–)/GDP (pct)	–6.6	13.5	N/A
Debt Service Ratio (pct)	12.2	13.4	13.5
Gold and Foreign Exchange Reserves [8]	1,148	954	N/A
Aid from U.S.	9.3	7.1	5.5
Aid from All Other Sources	226	N/A	N/A

[1] Figures for 1999 are estimated unless otherwise indicated.
[2] Figure is based on IMF 9/99 International Financial Statistics. M2 = Deposit Money + Quasi Money.
[3] The balboa/dollar exchange rate is fixed at 1:1. The legal tender is the U.S. Dollar, so there is no parallel exchange rate.
[4] Trade statistics do not include the Colon Free Zone.
[5] The Colon Free Zone (CFZ) is the largest free trading area in the hemisphere.
[6] External debt balance on 6/30/99.
[7] Figures indicate deficit of the non-financial public sector as percent of GDP.
[8] Figure is based on IMF 9/98 International Financial Statistics. Panama reports no gold holdings.

1. General Policy Framework

Panama's economy is based on a well-developed services sector that accounts for well over 50 percent of GDP. Services include the Panama Canal, container port activities, flagship registry, banking, insurance, government, and wholesaling and distribution out of the Colon Free Zone. The industrial sector, which accounts for 19 percent of GDP, is made up of manufacturing, mining, utilities, and construction. Agriculture, forestry and fisheries account for 8 percent of GDP.

The previous Government of Panama (GOP) implemented various economic policy reforms, including liberalization of Panama's trade regime, privatization of some state-owned enterprises, and restructuring of a government pension program. A Banking Reform Law was enacted in 1998, and in July 1999 a new law regulating securities markets was approved. Implementing regulations for the Bank Reform and Securities Laws have yet to be enacted. The incoming administration of Mireya Moscoso (September 1999) reversed some of the tariff reductions of the previous government. Until then, Panama, a newcomer to the World Trade Organization (WTO), had the lowest tariffs in Latin America. The Moscoso hike took agricultural goods' tariffs to the top limits of Panama's WTO accession binding, with some levies reaching 300 percent. It is as yet unclear what the current GOP's plan is to achieve its main priority of alleviating poverty and improving social services. Privatization of the few remaining inefficient government enterprises has been put on hold while the GOP explores options to finance social spending, possibly with the fund established with the proceeds of previous privatizations and the sale of properties ceded by the departure of the U.S. military.

The economy grew 4.1 percent in real terms in 1998, down from 4.5 percent in 1997. The GOP estimates growth in 1999 of slightly above 3 percent. Economic growth has been hindered by the continued slump of the Colon Free Zone, which has seen a sales decline of over 20 percent in 1999. The main culprit for this is recession in the economies of the Free Zone's principal customers Venezuela, Colombia and Ecuador. Severe rains and flooding hurt Panamanian agricultural production, which had managed to expand by over 6 percent in the first half of the year. Construction and consumer spending have maintained a vigorous pace, fueled mainly by easy bank credit.

The use of the U.S. Dollar as Panama's currency means fiscal policy is the government's only macroeconomic policy instrument. Therefore, government spending and investment are strictly bound by tax and non-tax revenues, as well as by the government's ability to borrow. The latter may be reaching its upper limits, as Panama's overall debt exceeds 70% of GDP.

2. Exchange Rate Policy

Panama's official currency, the balboa, is pegged to the dollar at a 1:1 ratio. The balboa circulates in coins only. All paper currency in circulation is U.S. currency. The fixed parity means the competitiveness of U.S. products in Panama depends on transportation costs as well as tariff and non-tariff barriers to entry. U.S. exports have no risk of foreign exchange losses on sales in Panama.

3. Structural Policies

The government of President Mireya Moscoso has not yet adequately articulated an economic plan. In her election campaign, Moscoso promised to repeal the drastic reduction of agricultural tariffs by her predecessor, and to improve the lot of Panama's poor, specially the rural poor. The GOP has not undertaken any further initiatives toward trade liberalization nor reduction of structural economic distortions. Privatization of the state-run water and sewage company (IDAAN) is off the table, and similar plans for the international airport and a convention center are on hold. Progress to attract investment to the reverted areas has been stalled due to the government transition and, subsequently, a personal feud between Moscoso and the head of the agency in charge of this task. Panama was close to completing a free trade agreement with Mexico and with Chile, but talks bogged down over differences in the financial services sector and over Panama's agricultural tariff hike. Panama recently imposed draconian restrictions on Nicaraguan meat, prompting Nicaragua tc retaliate. Its seizure of a large shipment of Canadian evaporated milk under a specious pretext will likely land Panama before a WTO dispute resolution panel.

Foreign investment, much of it American, flowed into Panama at a steady pace under the former Perez-Balladarez administration. American energy, telecommunications and port/cargo companies invested significant amounts in newly deregulated and/or privatized sectors and companies. American products and services are widely available in Panama. However, the current government has done little to court new investors. Inter-GOP bickering has discouraged investor groups interested in developing the recently reverted Howard Air Force Base. And groundbreaking for construction of the $75 million Panama Canal Railway (a joint venture of two US firms) has been delayed by red tape and a lack of cooperation by GOP authorities. Several disputes between the GOP and American companies remain unresolved.

The restrictive Panamanian Labor Code was revised in 1995, though strong opposition allowed only marginal reform. Unions continue to oppose reform initiatives, on occasion violently. In 1996, a special labor regime for export processing zones was created by executive decree. The constitutionality of the decree was challenged and the question is presently pending before the Supreme Court. Notwithstanding several health and housing programs, the government estimates that over 40 percent of Panamanians live in poverty. Considering the relatively high per capita income level of over $3,550 (current dollars), Panama's historically skewed income distribution does not appear to be abating. Panama's Constitution requires that the minimum wage be reviewed every three years, due in 2000. The new GOP has sought to accelerate the review, although it has not called forcefully for a specific increase.

4. Debt Management Policies

Panama's public external debt totaled $5.58 billion dollars at mid-1999 and carried a rating from various independent agencies of "medium—below investment grade". Panama's outstanding domestic debt was $1.7 billion at mid-year. The newly installed government has stated publicly its reluctance to take on more foreign debt, and its first government budget seems consistent with this premise. Debt service (principal and interest) exceeds $1 billion per year. The current GOP is studying mechanisms for paying down some of its debt, possibly with proceeds from the sale of the GOP's investment in the private telephone monopoly run by Cable and Wireless (UK).

5. Aid

Development assistance from the United States through October 1999 totaled $4.8 million. In addition, the United States Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) operates a screw worm eradication program in Panama. In 1999 it spent approximately $15 million in this effort. APHIS plans to build a sterile screw worm fly plant in Panama at a cost of roughly $80 million, for entry into service in 2003.

Development aid from other sources came primarily from the Inter American Development Bank (IDB), with a projected $1 billion loan program over the next several years, and a standby facility from the International Monetary Fund (IMF). The World Bank funds various development and infrastructure projects in Panama.

6. Significant Barriers to U.S. Exports

Panama's accession to the WTO transformed for the better a tariff regime that just a few years ago was one of the highest in the region. However, the new Moscoso government's primary trade initiative has been to dramatically increase tariffs on various agricultural imports. The period between publication of its decree to that effect and its entry into force (4 days) was entirely inadequate. Through its Ministry of Agricultural Development, Panama has adopted a de facto, arbitrary import licensing regime for goods that are subject to sanitary and phyto-sanitary permits under Panamanian law. Officials of the Health Ministry have hinted they may require that all foreign food-processing plants supplying Panama undergo inspections by Panamanian officials, an ominous development.

The Panamanian judicial system presents another potential obstacle to investors and traders. There is a large backlog of criminal and civil cases, increasing at approximately 20,000 per year. Many investors have expressed concerns over the potential for corruption in the judicial process.

The combination of relatively high costs for both utilities and labor makes unit production costs higher than average for the region. Also, investors complain of burdensome and excessive product registration requirements.

As a WTO member, Panama's customs valuation system conforms to international standards. The processing of customs documents for imports is reasonably quick, efficient, and reliable. However, some importers have complained of product misclassification and, in isolated cases, demands for excessive duties. Importers of agricultural goods continue to face sudden and arbitrary changes in procedures and practices.

In the financial services sector, restrictions on foreign ownership are minimal except in the case of non-bank finance companies. U.S. banks, insurance companies and brokerages are welcome and in some cases are leaders in the local market.

7. Export Subsidies Policies

A law enacted in June 1995 allows any company to import raw materials or semi-processed goods at a duty of 3 percent for domestic consumption or production, or duty free for export production. The GOP is considering eliminating this duty altogether in 2000. Companies not receiving benefits under the "Special Incentives Law" of 1986 will be allowed a tax deduction of up to 10 percent on their profits from export operations through 2002.

The Tax Credit Certificate (CAT) program, which subsidizes production of non-traditional exports, is being phased out. Through the year 2002, the program allows exporters to receive CATs worth 15 percent of value added.

8. Protection of U.S. Intellectual Property

Panama is a member of the World Intellectual Property Organization (WIPO), the Geneva Phonograms Convention, the Brussels Satellite Convention, the Universal Copyright Convention, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Convention for the Protection of Plant Varieties. In November 1998, Panama also ratified the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty.

Protection of intellectual property rights in Panama has improved significantly over the past several years, but serious concerns remain. Representatives of some U.S. firms allege that Panama provides inadequate copyright and trademark protection. For example, Nintendo of America and associated video game manufacturers petitioned the U.S. Trade Representative (USTR) in 1995 to remove Panama's benefits under the Generalized System of Preferences (GSP) program. However, in October 1998, USTR dismissed the petition, citing improvement in Panama's IPR regime.

In 1998 Panama was placed in the "Other Observations" category of the USTR's "Special 301" review of IPR policies and practices, but was removed following the April 1999 review. USTR remains concerned about inadequate border measures to combat transshipment of counterfeit goods through Panama and about enforcement deficiencies in the Colon Free Zone (CFZ). In March 1998, an Intellectual Property Department was created in the CFZ. This is a positive step demonstrating Panama's will to improve enforcement. The new Department has enjoyed some success, but needs to do more to fully address this problem.

In August 1994, the Legislative Assembly passed a new Copyright Law (Law 15) to help modernize copyright protection. A new Industrial Property Law (Law 35) went into force in November 1996. These laws are generally consistent with the standards specified in the WTO TRIPs Agreement. They explicitly protect foreign works. Although enforcement has improved in recent years, piracy and counterfeiting continue, particularly in the CFZ.

The Government also passed an Anti-Monopoly Law in early 1996 mandating the creation of four commercial courts to hear anti-trust, patent, trademark, and copyright cases exclusively. Two courts and one superior tribunal began to operate in mid-1997, but establishment of the other courts has been delayed. Some U.S. intellectual property owners have experienced significant delays when they have sought infringement remedies in the Panamanian judicial system.

Over the past several years, Panamanian authorities have conducted numerous raids against large video piracy operations, and several cases are pending in the courts. In a series of raids in September 1998, authorities seized more than 5 million pirated compact discs being transshipped through Tocumen International Airport. This is believed to be the largest seizure ever in Latin America. Over the past year, the CFZ's new IP Department conducted more than 20 raids against CFZ companies accused of trafficking in counterfeit trademarked goods. The operating permits of some CFZ companies have been suspended as a result, but transshipment of such goods remains a serious problem.

Patents: Panama's Industrial Property law provides 20 years of patent protection, improving on the former period of 5 to 15 years for foreigners and 5 to 20 years for Panamanians. The law grants patent protection from the date of filing. Pharmaceutical patents are granted for only 15 years, but can be renewed for an additional ten years, if the patent owner licenses a national company (minimum of 30 percent Panamanian ownership) to exploit the patent. The Industrial Property Law provides specific protection for trade secrets.

Trademarks: The Industrial Property Law also provides for protection of trademarks. It simplifies trademark registration and gives protection for 10 years, renewable for an unlimited number of additional 10-year periods. While the law provides adequate protection, enforcement is another matter. Counterfeit merchandise, particularly apparel and footwear, watches, perfume, and sunglasses, are available in Panamanian stores. Trademark-infringing merchandise is also transshipped through the CFZ for distribution in Latin American markets. In implementing the Industrial Property Law, the CFZ administration created an Intellectual Property Department in March 1998. The new IP Department and the CFZ Customs Office conducted various raids and seizures in 1999.

Copyrights: The National Assembly in 1994 passed a comprehensive copyright bill, based on a World Intellectual Property Organization model. The law modernizes copyright protection in Panama, provides for payment of royalties, facilitates the prosecution of copyright violators, protects computer software, and makes copyright infringement a felony.

Although the Attorney General's Office has taken a vigorous enforcement stance, the Copyright Office has been ineffective, and Panama's judicial system has not provided speedy and effective remedies for private civil litigants under the law. Panama is in the process of modernizing its copyright registration and patent and trademark registration capabilities. The Government had plans to consolidate copyright, patent, and trademark functions into a single autonomous entity, but these plans were delayed by the government transition. An initiative to create a specialized Prosecutor's Office for IPR was also delayed due to resource constraints.

9. Worker Rights

a. *The Right of Association:* Private sector workers have the right to form and join unions of their choice, subject to registration by the government. The government does not control nor financially support unions, but most unions are closely affiliated to political parties. There are over 250 active unions, grouped under 6 confederations and 48 federations, representing approximately 10 percent of the employed labor force. Civil service workers are permitted to form public employee associations and federations, though not unions. Union organizations at every level may and do affiliate with international bodies.

b. *The Right to Organize and Bargain Collectively:* The Labor Code provides most workers with the right to organize and bargain collectively. The law protects union workers from anti-union discrimination and requires employers to reinstate workers fired for union activities. The Labor Code also establishes a conciliation board in the Ministry of Labor to resolve complaints and it provides a procedure for arbitration. The Civil Service Law allows most public employees to organize and bargain collectively and grants them a limited right to strike.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code prohibits forced or compulsory labor, and neither practice has been reported.

d. *Minimum Age for Employment of Children:* The Labor Code prohibits the employment of children under 14 years of age as well as those under 15 if the child has not completed primary school. Children under age 16 cannot work overtime; those under 18 cannot work at night. Children between the ages of 12 and 15 may perform light farm work that does not interfere with their education. The Ministry of Labor enforces these provisions in response to complaints and may order the termination of unauthorized employment. However, it has not enforced child labor provisions in rural areas due to insufficient staff.

e. *Acceptable Conditions at Work:* The Labor Code establishes a standard workweek of 48 hours and provides for at least one 24-hour rest period weekly. It also establishes minimum wage rates, though in the relatively high cost urban areas, the minimum wage is not sufficient to support a worker and family above the poverty level. The Ministry of Labor does not adequately enforce the minimum wage law due to insufficient personnel and financial resources. Panamanian businesses routinely evade Social Security payroll contributions. The government sets and enforces occupational health and safety standards. It conducts periodic inspections of particularly hazardous employment sites as well as doing so in response to complaints. Workers may remove themselves from situations that present an immediate health or safety hazard without jeopardizing their employment. Health and safety standards generally emphasize safety rather than long-term health hazards, but training and workplace enforcement of safety regulations or on the use of safety equipment is lax. Complaints of health and safety problems continue in the construction, banana, cement, and milling industries.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment generally mirror those in other sectors. As mentioned above, the banana industry, which has significant U.S. investment, continues to produce complaints of health hazards largely due to workers' exposure to pesticides. The Panama Canal has operated under separate labor regulations. It is unclear whether special arrangements will continue under the Panama Canal Authority post-1999.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		681
Total Manufacturing		137
Food & Kindred Products	32	
Chemicals & Allied Products	28	
Primary & Fabricated Metals	10	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	68	
Wholesale Trade		[1]
Banking		118
Finance/Insurance/Real Estate		25,145
Services		501
Other Industries		[1]
TOTAL ALL INDUSTRIES		26,957

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

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

PARAGUAY

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production, and Employment:			
Nominal GDP [2]	9,607	8,594	7,854
Real GDP Growth (pct)	2.6	–0.5	–1.0

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
GDP by Sector (pct):			
Agriculture	27	27	28
Manufacturing	14	14	14
Services	37	37	36
Government	6.0	6.0	5.0
Per Capita GDP (1982 US$)	1,634	1,585	1,553
Labor Force (000's)	N/A	N/A	N/A
Unemployment Rate (pct)	6.9	7.2	7.2
Underemployment Rate (pct)	18.1	21.4	22
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	7.7	–4.7	12.1
Consumer Price Inflation (pct)	6.2	14.6	7.0
Exchange Rate (GS/US$ Year End)	2,294	2,830	3,310
Official	N/A	N/A	N/A
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [3]	3,980	3,824	2,714
Exports to U.S.[3]	40.6	38.7	(1)
Total Imports CIF [3]	4,186	3,938	2,801
Imports from U.S.[3]	913	734	(1)
Trade Balance [3]	–207	–114	–87
Balance with U.S.[3]	–872	–695	(1)
External Public Debt	1,437	1,475	2,108
Fiscal Deficit/GDP (pct)	–0.8	–1.2	N/D
Current Account Deficit/GDP (pct)	–5.0	–2.7	–0.9
Debt Service Payments/GDP (pct)	17	19	3.8
Gold and Foreign Exchange Reserves	846	875	1,006
Aid from U.S.	4.8	2.2	3.0
Aid from All Other Sources	36.2	33.5	44

[1] 1999 figures are central bank preliminary data except for U.S. imports and exports, which are taken from U.S. Department of Commerce Trade Statistics.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.
[4] External and internal public debt only. Private external debt to GDP share not yet available.

1. General Policy Framework

Over the last decade, Paraguay's economic policy framework has encouraged the re-export trade to Brazil and Argentina and provided tax and regulatory advantages as well as soft loans to non-competitive local industries. In agriculture, the government has continued non-transparent state-run cotton programs for small farmers and kept hands off large-scale private sector oil seed production, the leading source of hard currency from exports. Government investment has shrunk as spending on debt service and government salaries to provide political patronage drain government revenue.

Paraguay's economy is currently in recession, and growth has been weak since 1995. The GDP contracted 0.5 (one half) percent in 1998 and will likely contract at least an additional one percent in 1999. Until the mid-1990s, Paraguay largely avoided deficit spending and kept foreign debt at a manageable level. Government spending as a percentage of GDP began to increase earlier in the decade, but deficits were avoided due to revenue windfalls from taxes and tariffs on imports from the re-export trade. This windfall was not productively invested, but rather spent to swell already bloated government payrolls.

The Central Bank under the Cubas administration (August 1998-March 1999) kept interest rates high on guarani-based bonds sold to private banks, limiting liquidity and keeping exchange rate pressures off the guarani. In an effort to stimulate the economy, the Gonzalez Macchi government has lowered interest rates from 29 to 13.5 percent between May and November of 1999. A series of banking failures and political instability over the last several years has led investors to move to dollar-based deposits and loans. A higher than expected five percent increase in guarani-based deposits between August and September of 1999 may indicate that the central bank is printing money as a response to growing revenue shortfalls, which stem from a deepening recession and a moribund re-export trade. The Paraguayan government is heavily dependent on tariff revenue, which will continue to shrink in the near future as Mercosur adjusts its common external tariff rate down from an average of 23 percent in 1999 to 15 percent in 2006.

Paraguay's membership in Mercosur offers important opportunities. Efforts to improve weak infrastructure, especially in power transmission and distribution, telecommunications, road, river, and civil aviation systems, potable water, and sewage treatment, provide potential markets for United States' goods and services.

2. Exchange Rate Policy

All foreign exchange transactions are settled at the daily free market rate. The central bank practices a dirty float, with periodic interventions aimed at stabilizing the guarani. These interventions have become more frequent, with the central bank selling $295 million in the first seven months of 1999. In the twelve months leading up to November, the guarani depreciated by 17 percent against the dollar. On November 15, the market rate stood at 3,330 guaranies to the dollar. Historically, the central bank accelerates the devaluation of the guarani in June and July by slowing the sale of dollars or purchasing dollars on the open market to help trigger the repatriation of foreign reserves from international sales of the cotton and soybean harvested in the first half of the year. It is legal to hold savings accounts in foreign currency, and in October 1994 a decree was promulgated that legalized contractual obligations in foreign currencies. With a lingering recession, the failure of many local banks, and exchange rate uncertainty, the dollar has become the preferred unit for large purchases, savings, and virtually all international transactions. Sixty-four percent of all funds in Paraguayan savings accounts are in dollar-based accounts as of September, 1999.

3. Structural Policies

Consumer prices are generally determined by supply and demand, except for public sector utility rates (water, electricity, telephone), petroleum products, pharmaceutical products and public transportation fares. The Ministry of Finance oversees all tax matters. Under current law, corporate incomes are subject to a 30 percent tax rate. There is no personal income tax. As an incentive to investment, the tax rate on reinvested profits is 10 percent. The existing Investment Promotion Law (law 60/90) includes complete exemption from start-up taxes and customs duties on imports of capital goods. There is a 95 percent corporate income tax exemption for five years on the income generated directly from the GOP approved investment. The Ministry of Finance, at the urging of the IMF, is currently studying the elimination a variety of tax breaks, including law 60/90, to help balance the budget. The government implemented a value-added tax (IVA) in 1992. Some analysts have estimated that IVA compliance hovers around 30 percent. Charges of corruption among tax officials are endemic. Nearly half of all tax revenues are collected at customs on imported merchandise. Agriculture makes up nearly 25 percent of GDP, but contributes less than one percent of government revenue. Even though land taxes are low, chaotic land title records makes land tax evasion the norm.

4. Debt Management Policies

In 1992, the government reduced external debt with both official and commercial creditors through a drawdown of foreign reserves. Since that time, however, increasingly large public deficits have nudged public debt back upward. Foreign reserves dwindled to $652 million by the end of June 1999. A $400 million loan from Taiwan in July temporarily bolstered reserves, which at the end of September stood at $1.004 billion. The government's debt at the end of September 1999 totaled $2.044 billion. Paraguay owes $1.044 billion to multilateral lending institutions, $987 million to foreign governments and $13 million to private foreign banks. Last year, a visiting representative from the World Bank announced that no new World Bank loans would be available to Paraguay until it allocated and properly accounted for existing loans. Paraguay continues to meet its obligations to foreign creditors in a timely fashion.

5. Aid

Direct U.S. aid to Paraguay in fiscal year 1999 included roughly $918,000 in military assistance administered at post, such as international military education and training, information exchange visits and seminars; $228,000 in counter-narcotics assistance; and $6 million in USAID disbursements for democracy, reproductive health and biodiversity protection. Indirect U.S. contributions via the Inter-American Development Bank, World Bank and United Nations programs totaled tens of millions of dollars more.

6. Significant Barriers to U.S. Exports

Paraguay is a member of the World Trade Organization (WTO) and has a relatively open market that does not require import licenses, except for used clothing (see below), guns and ammunition. However, the United States prohibits the export of U.S. guns and ammunition to Paraguay. U.S. companies have not fared well in non-transparent government procurement tenders. Paraguayan regulations require country of origin designation on domestic and imported products. Expiration dates are required for medical products and some consumer goods. As of January 1998, imported beer is required to display detailed manufacture and content information, labeled in Spanish at the point of bottling. A similar regulation was put in place for shoes, clothing, packaged food, and other consumer products. However, labeling of imported goods at distribution centers within Paraguay is still commonplace. MERCOSUR-wide labeling requirements are currently being developed.

Law 194/93 established the legal regime between foreign companies and their Paraguayan representatives and has been described by executives of U.S. companies represented by local firms as increasing the risk of doing business here. This law requires that to break a contractual relation with its Paraguayan distributor, the foreign company must prove just cause in a Paraguayan court. If the relationship is ended without just cause, the foreign company must pay an indemnity. The rights under this law cannot be waived as part of the contractual relationship between both parties. Foreign companies have paid large sums when ending distributor relationships in Paraguay to avoid lengthy court cases or have maintained relationships with underperforming representatives to avoid such payments.

Decree 11.459/95 requires importers of used clothing to obtain an import permit from the Ministry of Industry and Commerce. Importers must obtain a certification notarized in place of origin showing that the used clothing has been sanitized. In 1999, the Ministry of Industry and Commerce had refused to take action on applications to import used clothing, in effect prohibiting its importation.

Decree 235/98, later modified by decree 26?/8/99, created a multiplier increasing the base value on imported cigarettes and beer prior to calculating excise tax. The same multiplier was not applied to domestic products. Income tax must be pre-paid on presumed profit margins of ten percent for imported cigarettes and thirty percent for imported beer prior to removal from customs. Local manufacturers of cigarettes and beer pay income taxes only on reported profit margins and at year-end.

7. Export Subsidies Policies

There are no discriminatory or preferential export policies. Paraguay does not subsidize its exports. However, Paraguay exports 90 percent of its cotton crop, and government-subsidized credit to small-scale producers signifies an indirect export subsidy. Government subsidized financing for the 1997-98 crop was provided to the producers of 80 percent of the cotton harvest. Due to high default rates, subsidized credit for the 1998-99 crop was reduced to cover only 30 percent of production. The government will provide small-scale farmers with subsidized inputs, such as seed and pest control products.

8. Protection of U.S. Intellectual Property

Paraguay belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, and the Phonograms Convention. In January 1998, the U.S. Trade Representative designated Paraguay as a "Special 301" Priority Foreign Country. On February 17, 1998, the U.S. Government initiated a 301 investigation of Paraguay as a result of its inadequate enforcement of intellectual property rights, its failure to enact adequate and effective IP legislation, as well as its status as a distribution and assembly center for pirate and counterfeit merchandise and the large illicit re-export trade to other MERCOSUR countries.

On November 17, USTR concluded a bilateral Memorandum of Understanding (MOU) and Enforcement Action Plan that contain specific near-term and longer-term obligations to improve the intellectual property regime in Paraguay. The Agreement contains commitments by Paraguay to take action against known centers of piracy and counterfeiting; pursue amendments to its laws to facilitate effective prosecution of piracy and counterfeiting; coordinate the anti-piracy efforts of its customs, police, prosecutorial, and tax authorities; implement institutional reforms to strengthen enforcement at its borders; and ensure that its government ministries use only authorized software.

As a result of this agreement, the U.S. Government has revoked Paraguay's designation as a Priority Foreign Country and terminated the Special 301 investigation. Implementation of the MOU is being monitored under Section 306 of the U.S. Trade Act.

Patents: Congress is currently considering comprehensive patent legislation. Domestic industry has lobbied heavily to weaken the law. In its IPR MOU with the U.S., Paraguay agreed to do everything possible to pass TRIPS consistent patent legislation during the first three months of the 1999 legislative session. Paraguay also has patent obligations as a member of the WTO.

Trademarks: On August 6, 1998, a new Trademark Law was promulgated that includes a broader definition of trademarks. The law prohibits the registration of a trademark by parties with no legitimate interests. Provisions provide specific protection for well-known trademarks. The law also includes stronger enforcement measures and penalties for infractions. In practical terms, trademark violation is still rampant in Paraguay, and resolution in the courts is slow and non-transparent. The new law provides an important first step, but must be followed by increased enforcement and modernization of the judicial system to become fully effective.

Copyrights: On October 15, 1998, then-President Cubas Grau signed a new Copyright Law, which follows international conventions to protect all classes of creative works. Software programs receive the same treatment as literary works under the law. The law contains norms that regulate contracts related to copyrights. Law 1444, passed on June 25, 1999, made copyright violations "public actions," allowing public prosecutors to take legal action without requiring the offended party to seek redress. Practical application of copyright protection suffers the same systemic challenges as trademark protection.

9. Worker Rights

In October 1993 the Paraguayan Congress approved a new Labor Code that met International Labor Organization standards.

a. *The Right of Association:* The Constitution allows both private and public sector workers, except the armed forces and police, to form and join unions without government interference. It also protects the right to strike and bans binding arbitration. Strikers and leaders are protected by the Constitution against retribution. Unions are free to maintain contact with regional and international labor organizations.

b. *The Right to Organize and Bargain Collectively:* The law protects collective bargaining. When wages are not set in free negotiations between unions and employers, they are made a condition of individual employment offered to employees. Collective contracts are still the exception rather than the norm in labor/management relations.

c. *Prohibition of Forced or Compulsory Labor:* The law prohibits forced labor. Domestics, children, and foreign workers are not forced to remain in situations amounting to coerced or bonded labor.

d. *Minimum Age for Employment of Children:* Minors from 15 to 18 years of age can be employed only with parental authorization and cannot be employed under dangerous or unhealthy conditions. Children between 12 and 15 years of age may be employed only in family enterprises, apprenticeships, or in agriculture. The Labor Code prohibits work by children under 12 years of age, and all children are required to attend elementary school. In practice, however, many thousands of children, many under the age of 12, work in urban streets in informal employment.

e. *Acceptable Conditions of Work:* The Labor Code allows for a standard legal work week of 48 hours, 42 hours for night work, with one day of rest. The law also provides for a minimum wage, an annual bonus of one month's salary, and a minimum of six vacation days a year. It also requires overtime payment for hours in excess of the standard. Conditions of safety, hygiene, and comfort are stipulated.

f. *Rights in Sectors with U.S. Investment:* Conditions are generally the same as in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		14
Total Manufacturing		22
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Other Manufacturing	22	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		2
TOTAL ALL INDUSTRIES		204

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

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

PERU

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production, and Employment:			
Nominal GDP [2]	65,207	62,968	59,300
Real GDP Growth (pct) [3]	6.9	0.3	3.5
GDP Growth by Sector:			
Agriculture	4.9	3.6	14.5
Manufacturing	6.6	–2.8	3.0
Services	6.9	1.0	–0.3
Government [included in "Services"]			
Per Capita GDP (nominal US$) [2]	2,675	2,534	2,350
Labor Force (000's)	6,592	7,309	N/A
Unemployment Rate (pct) [4]	7.7	7.7	10
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.2	10.4	14
Consumer Price Inflation	6.5	6.0	5
Average Exchange Rate (Sol/US$)			
Inter-bank	2.66	2.93	3.37
Parallel	2.66	2.93	3.37
Balance of Payments and Trade:			
Total Exports FOB	6,832	5,735	6,200
Exports to the U.S. [5]	1,579	1,808	1,835
Total Imports FOB	8,553	8,200	7,400
Imports from U.S. [5]	2,001	2,003	1,635
Trade Balance	–1,721	–2,645	–1,200
Balance with U.S.	–422	–195	200
External Public Debt	18,787	19,562	19,200
Fiscal Deficit/GDP	0.1	–0.7	–2.5
Current Account Deficit/GDP	5.0	6.0	4.5
Debt Service Payments/GDP	1.3	1.4	1.0
Net International Reserves	10,169	9,183	8,700
Aid from U.S.	97	105	123
Total Aid	285.1	288.9	626.2

[1] 1999 figures are estimates based on data available as of October.
[2] GDP data calculated using nominal soles figures at average exchange rates. The Peruvian Government is well behind its target to release re-calculated GDP figures, with 1994 as the new base year (which will replace the current 1979 base year).
[3] Percentage changes calculated from GDP data in local currency at 1979 prices.
[4] Urban, at the Third Quarter.
[5] Estimates based on annualized official data for August 1999.
[6] Inflation at year-end.

Source: Central Reserve Bank of Peru, National Institute of Statistics, Ministry of Labor, Presidency of the Council of Ministers, and Embassy estimates.

1. General Policy Framework

Peru is a free market economy which provides significant trade and investment opportunities for U.S. companies. Over the past nine years, the government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, lowered tariffs, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: The economy achieved a modest recovery in 1999; real GDP will grow an estimated 3.5 percent after a flat 0.3 percent in 1998. Economic performance in 1998 and 1999 was affected by several factors, including the "El Nino" weather phenomenon, which led to sharp declines in fish exports; worsening terms of trade (as prices for minerals—Peru's primary exports—dropped); and dramatic outflows of short-term capital after the financial turmoil in Russia. The current account deficit contracted in 1999, to about 4.5 percent of GDP. Inflation remained low by Peru's historical standards, hitting 5 percent for the year. The government's overall budget was slightly out of balance in 1999, as a result of sharply lower than expected revenues. Peru's macroeconomic stability has reduced underemployment from 74 percent during the 1980's to 43 percent for the 1995-1998 period. The percentage of Peruvians living in poverty fell from 55.3 percent in 1991 to just under 40 percent in 1997, according to government indicators.

Trade Policy: Peru's economy is largely open to imports. As Peru's largest trading partner, the U.S. exported about $1.6 billion to Peru in 1999, well below the level of 1998. Peru's average tariff rate fell from 66 percent in 1990 to 13 percent in 1998. Some countries (not including the U.S.), however, avoid tariffs on a number of their exports to Peru because of preferential trade agreements. As a member of the Andean Community and of the Latin American Integration Association (ALADI), Peru grants duty-free access to many products originating in those countries. In June 1998, Peru signed a Free Trade Agreement with Chile, which will be phased in over a number of years. In April 1998, the Andean Community signed a framework agreement with MERCOSUR to establish a free trade area after the year 2000; further negotiations in 1999 must still take place on implementation of the agreement. Peru also plans to complete a Free Trade Agreement with Mexico by the year 2000. Peru officially became a member of APEC in November 1998.

Monetary Policy: The central bank manages the money supply and affects interest and exchange rates through open-market operations, rediscounts and reserve requirements on foreign currency and local currency deposits. United States dollars account for two thirds of total liquidity (the legacy of hyperinflation), which complicates the government's efforts to manage monetary policy. Net foreign reserves have grown to about $9 billion (they were negative in mid-1990). Peru reached an agreement in July 1996 to reschedule its official debt (Paris Club), and closed a deal with its commercial creditors (Brady Plan) in March 1997.

2. Exchange Rate Policy

The exchange rate for the Peruvian New Sol is determined by market forces, with some intervention by the central bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition of foreign currency. There are no restrictions on the purchase, use or remittance of foreign exchange. Exporters conduct transactions freely on the open market and are not required to channel their foreign exchange transactions through the central bank. U.S. exports are generally price competitive in Peru.

3. Structural Policies

Peru is a liberal economy largely dominated by the private sector and market forces. The government dramatically reduced its role in the economy after it began a privatization program in 1992. Since that time, most major state-owned businesses, including the telephone company, electric utilities and mining companies, have been sold. The government backtracked from its original plan to sell off substantially all its companies by 1995, and it intends to keep, for the foreseeable future, the remaining parts of the petroleum company (Petro Peru), some electrical utilities, and the Lima water company. In early 1997, the government announced that it would begin a new phase of the privatization program by selling concessions to build and/or operate public facilities such as airports, roads, railroads, and ports. U.S. companies have participated heavily in the privatization program, particularly in the mining, energy, and petroleum sectors.

Price controls, direct subsidies, and restrictions on foreign investment have been eliminated. A major revision of the tax code was enacted at the end of 1992, and the tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to over 14 percent by late 1998. Customs collections have more than tripled since the early 1990s, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies heavily on its 18 percent Value-Added Tax (VAT). There are also several high excise taxes on certain items, such as automobiles and fuels.

4. Debt Management

Peru's long and medium-term public external debt at the end of June 1999 totaled about $19.2 billion—less than one third of GDP. Total service payments due on the debt for 1999 are estimated at $1.0 billion. Peru has reduced the burden of external public debt steadily since 1993. The ratio of the debt service to exports of goods and services, which peaked at 76 percent in 1988, fell to 22 percent in 1997. That ratio increased to 25 percent in 1998 and may stay there in 1999. Although the external debt burden appears high when compared with similar countries, the Peruvian government has practically no domestic debt. Moreover, in recent years Peru has maintained a high level of international reserves, while about two thirds of deposits in the banking system are in dollars.

Peru cleared its arrears with the Inter-American Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank, and negotiated an Extended Fund Facility (EFF) with the IMF for 1993-95. The government negotiated a follow-on EFF for 1996-1998 and an unprecedented third EFF for 1999-2001. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993-March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996, under which the Club creditors agreed to reschedule approximately $1 billion in "official debt" payments coming due between 1996 and 1999, and to reschedule some debt originally rescheduled in 1991 in order to smooth out Peru's debt service profile.

Peru closed out a $10.5 billion Brady Plan commercial debt restructuring in March 1997. The government estimates annual obligations under the deal at about $300 million. With the Brady closing and the Paris Club rescheduling, Peru is now current with nearly all its international creditors.

5. Significant Barriers to U.S. Exports

Almost all non-tariff barriers to U.S. exports and obstacles to direct investment have been eliminated over the past nine years. Peru became a founding member of the World Trade Organization in January 1995.

Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in illegal narcotics production); ammonium nitrate fertilizer (which has been used as a blast enhancer for terrorist car bombs), wild plant and animal species, and some radio and communication equipment. The following imports are banned: several insecticides, fireworks, used clothing, used shoes, used tires, radioactive waste, and cars over five years old and trucks over eight years old.

Tariffs apply to virtually all goods exported from the U.S. to Peru, although rates have been lowered over the past few years. A new tariff structure that went into effect in April 1997, for example, lowered the average tariff rate from 16 to 13 percent. At the same time, the government did raise some tariffs on agricultural products and imposed an additional "temporary" tariff on agricultural goods, in a move to try to promote domestic investment in the sector. Under the new system, a 12 percent tariff applies to more than 95 percent (by value) of the products imported into Peru; a 20 percent tariff applies to most of the rest, while a few products are assessed rates (because of the additional "temporary" tariffs) of up to 25 percent. Another set of import surcharges also applies to four basic commodities: rice, corn, sugar and milk products. (The surcharge on wheat was eliminated in July 1998). Imports are also assessed an 18 percent value-added tax on top of any tariffs; domestically-produced goods pay the same tax as well. Some non-U.S. exporters have preferential access to the Peruvian market because of Peru's bilateral and multilateral trade agreements.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, in an effort to preclude competition from foreign investors in recent privatizations of electrical utilities, COPRI, the Privatization Agency, has interpreted that a foreign company or individual is an investor only when the company or individual has actually invested, not when it is considering investing. Furthermore, a conflicting provision of law restricts the majority ownership of broadcast media to Peruvian citizens. Foreigners are also restricted from owning land within 50 kilometers from a border, but can operate within those areas through special authorization. There are no prohibitions on the repatriation of capital or profits. Under current law, foreign employees may not make up more than 20 percent of the total number of employees of a local company (whether owned by foreign or national interests) or more than 30 percent of the total company payroll, although some exemptions apply.

Customs procedures have been simplified and the customs administration made more efficient in recent years. As part of the customs service reform, Peru implemented a system of pre-shipment inspections, through which private inspection firms evaluate most incoming shipments worth more than $5,000. (Exceptions include cotton and heavy machinery). The importer must pay up to one percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays and conflicts over valuation.

6. Export Subsidies Policies

The Peruvian Government provides no direct export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies). Exporters can receive rebates of the import duties and a portion of the value-added tax on their inputs. In June 1995, the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat 5-percent rebate, subject to certain restrictions. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will be used to generate exports and that will themselves be re-exported within 24 months. There are several small-scale export promotion zones where goods enter duty-free; they must pay duties if/when they enter the rest of the country.

7. Protection of U.S. Intellectual Property

Peru belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, Satellites Convention, Universal Copyright Convention, and the Film Register Treaty. In April 1999, the U.S. Trade Representative placed Peru on the "Special 301" Priority Watch List due primarily to concerns raised by the International Intellectual Property Alliance (IIPA) about the lack of deterrent-level decisions issued by Peru's intellectual property rights (IPR) tribunal. This tribunal has more recently sped up its decision making process and has reversed its earlier tendency to reduce IPR fines.

IIPA data show that piracy in the software and motion picture industries has declined sharply over the past four years. Software piracy fell from 83 percent in 1995 to 60 percent in 1998, while video piracy fell from 95 percent in 1995 to 50 percent in 1998. During the same period, piracy of sound recordings increased slightly from 83 percent to 85 percent. Peru's market for sound recordings grew so rapidly between 1995 and 1998 that estimated trade losses due to piracy increased from $16 million to $50 million. IIPA's estimates for trade losses in all other sectors remained the same or fell slightly during the 1995-98 period.

In April 1996, Peru passed two new laws to improve its intellectual property rights protection regime and bring its national laws into conformity with Andean Community decisions and other international obligations on intellectual property. Although the new laws are an improvement, they contain several deficiencies, and the government needs to bring its laws into conformity with the WTO TRIPs Agreement by the year 2000. Although enforcement efforts have increased, piracy remains widespread.

Patents and Trademarks: Peru's 1996 Industrial Property Rights Law provides an effective term of protection for patents and prohibits devices that decode encrypted satellite signals, along with other improvements. In June 1997, based on an agreement reached with the U.S. Government, the Government of Peru resolved several apparent inconsistencies with the TRIPs Agreement provisions on patent protection and most-favored nation treatment for patents. Peruvian law does not provide for pipeline protection for patents or protection from parallel imports. Although Peruvian law provides for effective trademark protection, counterfeiting of trademarks and imports of pirated merchandise are widespread. Peru, along with its Andean Community partners, has been working toward completion of revisions of the common Andean Community policy on Industrial Property by January 2000 to bring it into compliance with the TRIPs Agreement.

Copyrights: Peru's Copyright Law is generally consistent with the TRIPs Agreement. However, textbooks, books on technical subjects, audiocassettes, motion picture videos and software are widely pirated. While the government, in coordination with the private sector, has conducted numerous raids over the last few years on large-scale distributors and users of pirated goods and has increased other types of enforcement, piracy continues to be a significant problem for legitimate owners of copyrights in Peru. Insufficient customs, police, and judicial action have been a problem in such areas as sound recordings.

8. Worker Rights

Articles 28 and 42 of the Peruvian Constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of 10 million, only about five percent belong to unions. Close to one half the work force is employed in the informal sector, beyond government regulation and supervision.

a. *The Right of Association:* Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are not eligible for union membership. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal service contracts to prevent union affiliation. Labor experts assert that companies prefer this type of hiring because it affords them the chance to adapt their total payroll to the business cycle without the hassle of having to seek government approval to release workers. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. However, there is no provision in the law requiring employers to reinstate workers fired for union activities. Although some unions have been traditionally associated with political groups, law prohibits unions from engaging in explicitly political, religious or profit-making activities. The International Labor Organization (ILO) in June 1996 called on the Peruvian Government to enhance freedom of association.

b. *The Right to Organize and Bargain Collectively:* Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agreements for up to 90 days if required by force majeure or economic conditions, with 15 days notice to employees. The Peruvian Congress approved legislation in 1995 and 1996 amending the 1992 Employment Promotion Law, which union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this law with the ILO, and the ILO noted that the new legislation failed to effectively guarantee the protection of workers against acts of anti-union discrimination and to protect workers' organizations against acts of interference by employers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited, as is imprisonment for debt. In response to a complaint filed with the ILO, however, the government in 1994 acknowledged the existence of forced labor practices in remote areas of the country and said it had taken measures to end them. Although the constitution does not specifically prohibit forced or bonded labor by children, Peru has ratified ILO Convention 105 on the abolition of forced labor, including forced or bonded child labor. Nevertheless, there have been recent reports of forced or bonded child labor in a handful of small informal gold mining operations in a remote area of Peru.

d. *Minimum Age for Employment of Children:* The minimum legal age for employment is 12. In certain sectors, higher minimums are in force: 14 in agricultural work; 15 in industrial, commercial or mining work; and 16 in the fishing industry. Although education through the primary level is free and compulsory, many school-aged children must work to support their families. Child labor takes place in the informal economy out of the reach of government supervision of wages or conditions. In recent years, government surveys have variously estimated the number of child and adolescent workers to be anywhere from 500,000 to 1.9 million.

e. *Acceptable Conditions of Work:* The 1993 Constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal". No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector.

f. Rights in Sectors with U.S. Investment: U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors, and more recently in electrical generation. Labor conditions in those sectors compare very favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		117
Total Manufacturing		215
Food & Kindred Products	75	
Chemicals & Allied Products	83	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	(2)	
Electronic & Other Electric Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		96
Depository Institutions		(1)
Finance/Insurance/Real Estate [3]		322
Services		32
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,587

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).
[3] Finance excludes depository institutions.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

TRINIDAD AND TOBAGO

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	5,780	5,811	6,136
Real GDP Growth (pct)	3.4	3.2	5.6
GDP by Sector:			
Agriculture	124	119	126
Manufacturing	440	480	507
Services	3,503	3,841	4,056
Petroleum	1,638	1,242	1,312
Government	477	518	547
Per Capita GDP (US$)	4,537	4,531	4,785
Labor Force (000's)	541	559	564
Unemployment Rate (pct)	14.5	14.2	14.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [2]	11.6	12.3	–1.9
Consumer Price Inflation	3.8	5.6	3.7
Exchange Rate (TT$/US$)	6.29	6.30	6.30
Balance of Payments and Trade:			
Total Exports FOB	2,542	2,264	2,219
Exports to U.S.	998	830	681
Total Imports CIF	3,036	3,011	2,167
Imports from U.S.	1,563	1,341	1,006
Trade Balance	–494	–747	52
Balance with U.S. [3]	–565	–511	–325
External Public Debt	1,541	1,430	[4] 1,420

Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999[1]
Fiscal Deficit/GDP (pct)	0.1	-1.1	-1.3
Current Account Deficit/GDP (pct)	-6.6	-3.5	0.9
Debt Service Payments/GDP (pct)	8.0	5.0	4.6
Gold and Foreign Exchange Reserves	703	779	[4]706
Aid from U.S.[5]	3.0	3.5	3.7
Aid from Other Sources	N/A	N/A	N/A

[1] 1999 figures are all estimates based on 6 months of data, except as noted. 1997 and 1998 figures have been revised.

[2] Through July 1999.

[3] 1999 U.S. trade with Trinidad and Tobago are estimates based on 6 months of data.

[4] As of July 1999.

[5] Represents primarily security assistance and counter-narcotics program funding, training, equipment transfers, and in-kind contributions. Includes USIA and USDA exchanges.

Source: All statistics compiled by the Central Statistical Office (CSO), except BOP figures which are compiled by the central bank.

1. General Policy Framework

Trinidad and Tobago's substantial oil and natural gas reserves made it one of the richest countries in the Western Hemisphere during the oil booms of the seventies and early eighties. Much of the oil revenue windfall was used to subsidize state-owned companies and to fund social and infrastructure projects, which became a drain on government finances. A dramatic increase in domestic consumption contributed to overvaluation of the currency with a resulting decline in non-oil exports. The collapse of oil prices in the mid-1980's, and concurrent decrease in Trinidadian oil production caused a severe recession from which Trinidad and Tobago only recovered in 1994. Although structural reforms have begun to stimulate growth in non-hydrocarbon sectors, overall economic prospects remain closely tied to oil, gas and petrochemical prices and production.

Since 1992, the government has successfully turned the state-controlled economy into a market-driven one. In 1992, it began a large-scale divestment program and has since partially or fully privatized the majority of state-owned companies. The government has also dismantled most trade barriers, with only a small number of products remaining on a "negative list" (requiring import licenses) or subject to import surcharges.

Trinidad and Tobago aggressively courts foreign investors, and initialed a bilateral investment treaty with the United States in 1994, which came into force on December 26, 1996. Total U.S. direct investment flows have grown from US$475 million in 1995 to over US$1 billion per year in recent years.

The government uses a standard array of fiscal and monetary policies to influence the economy, including a 15 percent value-added tax (VAT) and corporate and personal income taxes of up to 35 percent. Improvements in revenue collection since 1993 have boosted VAT, income tax and customs duty revenues. This, together with additional revenues for the sale of offshore leases and tighter controls on spending, has contributed to slight fiscal surpluses since 1995. Simplification of the personal income tax regime in 1997, by eliminating many deductions in favor of a set standard deduction, and restructuring of the Board of Inland Revenue were designed to further boost revenue collection. Currently, tax collection systems are being modernized with the help of U.S. government advisors.

2. Exchange Rate Policy

In April 1993 the government removed exchange controls and floated the TT dollar. The Central Bank loosely manages the rate through currency market interventions and consultations with the commercial banks. In 1996 foreign exchange pressure mounted, and a decision by the Central Bank to allow a freer float led to a depreciation, which went as low as TT$6.23 to US$1.00 in December, 1996. Since early November 1997, the rate has hovered around TT$6.29 to US$1.00. Foreign exchange supply depends heavily on the quarterly tax payments and purchases of local goods and services by a small number of large multinational firms, of which the most prominent are U.S. owned. Foreign currency for imports, profit remittances, and repatriation of capital is freely available. Only a few reporting requirements have been retained to deter money laundering and tax evasion.

3. Structural Policies

Pricing Policies: Generally, the market determines prices. The government maintains domestic price controls only on sugar, schoolbooks, and pharmaceuticals.

Tax Policies: Imports are subject to the CARICOM Common External Tariff (CET). Since July 1, 1998, CARICOM tariff levels have been reduced to a targeted range of 0 to 20 percent. National stamp taxes and import surcharges on manufactured items were repealed as of January 1, 1995.

By the end of 1994, almost all non-oil manufactured products and most agricultural commodities were removed from the Import Negative List, which previously required licenses for certain imports. Initially, most agricultural products that had benefited from "negative list" protection were instead subject to supplementary import surcharges of 5 to 45 percent. The list of products subject to import surcharges has now been reduced to two items—poultry and sugar.

The standard rate of Value Added Tax (VAT) is 15 percent; however, many basic commodities are zero-rated. Excise tax is levied only on locally produced petroleum products, tobacco and alcoholic beverages. The corporate tax rate was lowered in 1994 from a maximum of 45 percent to 38 percent, and again in 1995 to 35 percent. While the tax code does not favor foreign investors over local investors, profits on sales to markets outside CARICOM are tax exempt, which benefits firms with non-CARICOM connections.

Income tax rates are from 28 percent on the first $50,000 of chargeable income and 35 percent thereafter. The taxpayer is entitled to an allowance of $20,000. Trinidad and Tobago and the United States have entered into a double taxation treaty.

Regulatory Policies: All imports of food and drugs must satisfy prescribed standards. Imports of meat, live animals and plants, many of which come from the United States, are subject to specific regulations. The import of firearms, ammunition and narcotics are rigidly controlled or prohibited.

4. Debt Management Policies

In the second quarter of 1998 Trinidad and Tobago completed repayment of a US$335 million International Monetary Fund loan and enjoys excellent relations with the international financial institutions. Its major lender is the Inter-American Development Bank (IDB).

Since 1997, Trinidad's external debt has declined each year as has its debt service ratio. There has, however, been a slight increase in domestic debt as the GOTT has increasingly looked internally for financing. The lower total debt burden has allowed the government more flexibility in lowering import duties and trade barriers, benefiting U.S. exports.

5. Aid

The majority of U.S. assistance to Trinidad and Tobago is in the form of support for justice and security and counter-narcotics programs. The Department of State has provided $400,000 in anti-narcotics assistance in 1997, $500,000 in 1998, and $700,000 in 19998. The United States has also transferred to Trinidad and Tobago four aircraft and two Coast Guard patrol craft to Trinidad and Tobago in the past year.

6. Significant Barriers to U.S. Exports

Trinidad and Tobago is highly import-dependent, with the United States supplying about 50 percent of total imports since 1997. Only a limited number of items remain on the "negative list" (requiring import licenses). These include poultry, fish, oils and fats, motor vehicles, cigarette papers, small ships and boats, and pesticides.

Foreign ownership of service companies is permitted. Trinidad and Tobago currently has one wholly U.S.-owned bank, several U.S.-owned air courier services, and one U.S. majority-owned insurance company.

The Trinidad and Tobago Bureau of Standards (TTBS) is responsible for all trade standards except those pertaining to food, drugs and cosmetic items, which the Chemistry, Food and Drug Division of the Ministry of Health monitors. The TTBS uses the ISO 9000 series of standards and is a member of ISONET. Standards, labeling, testing and certification rarely hinder U.S. exports.

Foreign direct investment is actively encouraged by the government, and there are few if any remaining restrictions. Investment is screened only for eligibility for government incentives and assessment of its environmental impact. Both tax and non-tax incentives may be negotiated. A bilateral investment treaty with the United States, granting national treatment and other benefits to U.S. investors came into force on December 26, 1996. The repatriation of capital, dividends, interest, and other distributions and gains on investment may be freely transacted. Several foreign firms have alleged that there are inconsistencies and a lack of clear rules and transparency in the granting of long-term work permits. These generally fall into two categories, either that a permit is not granted to an official of a company which is competing with a local firm, or that the authorities threaten not to renew a permit because a foreign firm has not done enough to train and promote a Trinidadian into the position.

Government procurement practices are generally open and fair; however, both local and foreign investors have called for greater transparency in the procurement process. Some government entities request pre-qualification applications from firms, then notify pre-qualified companies in a selective tender invitation. Trinidad and Tobago signed the Uruguay Round Final Act on April 15, 1994, and became a WTO member on April 1, 1995, but is not a party to the WTO Government Procurement Agreement.

Customs operations are being restructured and streamlined with the help of U.S. government advisors. UNCTAD's ASYCUDA trade facilitation system (automated system for customs data) was adopted on January 1, 1995. Customs clearance can be time consuming because of bureaucratic delays.

7. Export Subsidies Policies

The government does not directly subsidize exports. The state-run Trinidad and Tobago Export Credit Insurance Company insures up to 85 percent of export financing at competitive rates. The government also offers incentives to manufacturers operating in free zones (export processing zones) to encourage foreign and domestic investors. Free zone manufacturers are exempt from customs duties on capital goods, spare parts and raw materials, and all corporate taxes on profits from manufacturing and international sales.

8. Protection of U.S. Intellectual Property

Trinidad and Tobago signed an Intellectual Property Rights Agreement with the United States in 1994 which, along with Trinidad's commitments under the WTO TRIPs agreement, necessitated revisions of most IPR legislation. While the government's awareness of the need for IPR protection has improved, enforcement of existing regulations remains lax.

Trinidad and Tobago is a member of the World Intellectual Property Organization and the International Union for the Protection of Industrial Property. It is a signatory to the Universal Copyright Convention, the Berne Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty, the Classification Treaties, the Budapest Treaty, and the Brussels Convention. It has recently signed the 1978 UPOV Convention for the Protection of New Varieties of Plants and the Trademark Law Treaty. The former was proclaimed into law on January 30, 1998, and the latter came into force on April 18, 1998. As a member of the Caribbean Basin Initiative, the government is committed to prohibiting unauthorized broadcasts of U.S. programs.

The 1997 Copyright Act became effective as of October 1, 1997. The Act was written with the assistance of the World Intellectual Property Organization, and was forwarded to the United States for comment in compliance with the U.S./TT Bilateral Memorandum of Understanding on Intellectual Property Rights. The new Act offers protections equivalent to those available in the U.S. Enforcement of IPR laws remains a concern under the new Act. The Copyright Organization of Trinidad and Tobago has stepped up its enforcement activity since the new law came into effect, but has primarily targeted unauthorized use of locally produced music products. Video rental outlets in Trinidad and Tobago are replete with pirated videos, and pirated audiocassettes are sold openly in the street and in some stores. Local Cable TV operators feel that they will have to increase rates or eliminate some channel to comply with the new law.

The Patents Act of 1996 introduced internationally accepted criteria for registration of universal novelty, inventive step and industrial applicability, along with a full search and examination procedure. The Act extended the period of protection to 20 years with no possibility of extension.

The new Trademark Amendment Act came into effect in September 1997. Trademarks can be registered for a period of 10 years, with unlimited renewals. Counterfeiting of trademarks is not a widespread problem in Trinidad and Tobago.

New technologies: Larger firms in Trinidad and Tobago generally obtain legal computer software, but some smaller firms use wholly or partially pirated software or make multiple copies of legally purchased software. Licensed cable companies are faced with unlicensed cable operators and satellite owners who connect neighborhoods to private satellites for a fee. Licensed cable companies provide customers with some U.S. cable channels, for which they have not obtained rights, arguing that since these services are not officially for sale in Trinidad, they are not stealing them.

Given the popularity of U.S. movies and music, and the dominance of the United States in the software market, U.S. copyright holders are the most heavily affected by the lack of copyright enforcement. By signing the IPR agreement, the government has acknowledged that IPR infringement is a deterrent to investment and that it is committed to improving both legislation and enforcement.

9. Worker Rights

a. *The Right of Association:* The 1972 Industrial Relations Act provides that all workers, including those in state-owned enterprises, may form or join unions of their own choosing without prior authorization. Union membership has declined, with an estimated 20 to 28 percent of the work force organized in 14 active unions. Most unions are independent of the Government or political party control, although the Prime Minister was formerly president of the Sugar Workers Union. The Act prohibits anti-union activities before a union is legally registered, and the Labor Relations Act prohibits retribution against strikers. Both laws contain grievance procedures.

b. *The Right to Organize and Bargain Collectively:* The right of workers to bargain collectively is established in the Industrial Relations Act of 1972. Antiunion discrimination is prohibited by law. The same laws apply in the export processing zones.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is not explicitly prohibited by law, but there have been no reports of its practice.

d. *Minimum Age for Employment of Children:* The minimum legal age for workers is 12 years. Children from 12 to 14 years of age may only work in family businesses. Children under the age of 18 may legally work only during daylight hours, with the exception of 16 to 18 year olds, who may work at night in sugar factories. The probation service in the Ministry of Social Development and Family Services is responsible for enforcing child labor provisions, but enforcement is lax. There is no organized exploitation of child labor, but children are often seen begging or working as street vendors

e. *Acceptable Conditions of Work:* In June 1998 the government passed the Minimum Wages Act which established a minimum wage of TT$ 7 (US$ 1.10) per hour, a 40 hour work week, time and a half pay for the first four hours of overtime on a workday, double pay for the next four hours, and triple pay thereafter. For Sundays, holidays, and off days the Act also provides for double pay for the first eight hours and triple pay thereafter. The Maternity Protection Act of 1998 provides for maternity benefits. An Occupational Safety and Health Act is currently before Parliament.

The Factories and Ordinance Bill of 1948 sets occupational health and safety standards in certain industries and provides for inspections to monitor and enforce compliance. The Industrial Relations Act protects workers who file complaints with the Ministry of Labor regarding illegal or hazardous working conditions. Should it be determined upon inspection that hazardous conditions exist in the workplace, the worker is absolved for refusing to comply with an order that would have placed him or her in danger.

f. *Rights in Sectors with U.S. Investment:* Employee rights and labor laws in sectors with U.S. investment do not differ from those in other sectors.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		697
Total Manufacturing		49
Food & Kindred Products	(2)	
Chemicals & Allied Products	5	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	2	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		20
Banking		(1)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount
Finance/Insurance/Real Estate	20
Services	1
Other Industries	(1)
TOTAL ALL INDUSTRIES	1,054

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/-).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

URUGUAY

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated] [1 2]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP [3]	20.0	20.8	19.3
Real GDP Growth (pct)	5.1	4.5	-2.5
GDP Growth by Sector (pct):			
Agriculture	-1.4	5.8	8.0
Manufacturing	5.8	2.4	-5.0
Services	3.8	3.3	0.5-1
Government	2.8	N/A	N/A
Per Capita GDP (US$)	6,322	6,560	6,000
Labor Force (000's)	1,400/5	1,455	1,465
Unemployment Rate (pct)	11.5	10.1	10.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	21.3	18.4	9.0
Consumer Price Inflation	15.2	8.6	4.0
Exchange Rate [4]	9.45	10.47	11.4
Balance of Payments and Trade:			
Total Exports FOB [5]	2.7	2.8	2.0
Exports to U.S. (US$ millions)	162	158	142
Total Imports CIF [5]	3.7	3.8	3.2
Imports from U.S. (US$ millions)	432	460	380
Trade Balance [5]	-1.0	-1.0	-1.2
Balance with U.S. (US$ millions)	-270	-301	-238
External Public Debt	5.5	6.1	6.3
Fiscal Deficit/GDP (pct)	1.4	0.9	2.5-3.0
Current Account Deficit/GDP (pct)	1.6	1.9	2.5-3.0
Debt Service Payments/GDP (pct)	5.2	5.8	6.0
Gold and Foreign Exchange Reserves (net)	2.1	2.4	2.4
Aid from U.S. (US$ millions)	8.45	7.9	2.6
Aid from All Other Sources (US$ millions)	48.4/6	N/A	N/A

[1] Data in Uruguayan Pesos was converted into U.S. Dollars at the average interbank selling rate for each year.
[2] 1999 figures are all estimates based on available monthly data in November 1999.
[3] At producer prices.
[4] Annual average quotation of Uruguayan Pesos/US$.
[5] Estimate based on World Bank's World Development Indicators
Sources: Uruguayan Central Bank, Uruguayan National Institute of Statistics, World Bank, and U.S. Embassy Montevideo.

1. General Policy Framework

The historical basis of the Uruguayan economy has been agriculture, particularly livestock production. Agriculture remains important both directly (beef, wool and rice) and indirectly for inputs to other sectors (textiles, leather and meat). Industry has undergone a strong reconversion process fostered by MERCOSUR (the Southern

Cone Common Market) integration. Industrial production declined in the early nineties, but since 1994 it has resumed growth. At present industry accounts for 18 percent of Uruguay's GDP. The service sector, particularly tourism and financial services, dominates the economy, accounting for over 60 percent of GDP. Banking benefits from Uruguay's open financial system.

1999 per capita income of $6,000, although down from 1998's level, still puts Uruguay in the World Bank's upper-middle income grouping. The UNDP Human Development report places it amongst the countries with high human development.

Overall, the Uruguayan economy has performed relatively well in recent years with good rates of growth, low budget and current account deficits and declining inflation rates. The government has given the private sector access to many activities formerly reserved for the state.

But 1999 has been a tough economic year for Uruguay as the effects of the Real devaluation in Brazil, the recession in Argentina, and the uncertainty of an election year in Uruguay ripple through the economy. Uruguay's gross domestic product is expected to decline by two-and-a-half or three percent for the year as a whole. Exports have fallen and the current account deficit is expected to increase to 2.5 or 3.0 percent of GDP, given the increased foreign trade deficit and a poor tourist season. Analysts expect Uruguay to resume growth in 2000 under a strengthened economic environment in Argentina and Brazil.

Uruguay's risk rating for long-term debt issued in foreign currency improved in 1997 to BBB minus (by Standard & Poor's, Duff & Phelps and Europe's IBCA and, Baa3 by Moody's), reaching investment grade status and enabling U.S. Pension funds to invest in Uruguay's sovereign debt. Uruguay accesses funds in the international financial markets at the second lowest rate of any Latin American country.

MERCOSUR faced several problems in late 1998 and 1999 that have affected the trade flows amongst its partners. Problems include the devaluation of Brazil's Real, the international financial crisis, lack of effective macroeconomic coordination, and the imposition of trade-restrictive measures by Argentina and Brazil. But MERCOSUR has had a positive impact on Uruguay and, at present, trade with other MERCOSUR members accounts for more than forty percent of Uruguay's overall trade.

The United States is the fourth largest Uruguayan trading partner, after Argentina, Brazil and the European Union. Since 1991 the U.S. has enjoyed a rapidly growing trade surplus with Uruguay. The United States bought 5.6 percent of Uruguay's exports ($ 158 million) and provided 12.8 percent of the country's imports ($ 460 million) in 1998. Tariff rates will decline to zero percent for MERCOSUR products on January 1, 2000. A common external tariff (CET) entered into effect on January 1, 1995 for imports from non-MERCOSUR countries, ranging between zero to 20 percent. The 20 percent level was raised to 23 percent in late 1997 and is due to be reduced to 20 percent again in 2000. The MERCOSUR CET does not yet cover capital, informatic, and telecommunication goods.

2. Exchange Rate Policy

The Uruguayan government allows the peso to float against the dollar within a three-percent range. The band currently rises by 7.4 percent per year and the Central Bank may buy and sell dollars to keep the peso's value within the band. Depreciation outpaced inflation by 2 percent in 1998, and by 4 percent in the 12-month period to September 1999.

Uruguay's monetary policy is geared at keeping inflation under control, using the nominal exchange rate as the main instrument. Central Bank intervention to defend the currency entails a loss of control over the money supply, limiting the effectiveness of monetary policy that is carried out through the issuance of very short-term paper.

There are no restrictions on the purchase of foreign currency or remittance of profits abroad. Foreign exchange can be freely obtained. A vast part of the economy is dollarized.

3. Structural Policies

Uruguay has traditionally been a market-oriented economy. Economic liberalization is supported by the present administration and was supported by the previous one. Regional integration (MERCOSUR and FTAA), reduced deficit spending, downsized government and lowered inflation enjoy strong support from the two political parties which make up the ruling coalition.

A mild central administration reform has been implemented during this administration in order to eliminate redundant functions and divest non-essential activities. Many activities, formerly restricted to the state, have been transferred to the private sector under contract, concession or sale. The government ended its insurance and mortgage monopolies in 1995.

Social security reform was also implemented, lowering a structural government deficit in the long run (prior to the reform the social security deficit amounted to 6 percent of GDP.) The reform changed the social security program from a defined-benefit system to a defined-contribution system of individual accounts.

The public sector deficit was 0.9 percent of GDP in 1998, and as of 1999's first half, it was up to 2.4 percent (on a 12-month basis). The worsening of the deficit is the result of the decline in tax collection resulting from the slowdown in economic activity. The inflation rate decreased from 130 percent in 1990 to 8.6 percent in 1998, and the rate for the twelve-month period ending October 1999 had further decreased to 3.7 percent, the lowest rate in five decades. Three-percent inflation is expected for 2000. Price controls are limited to a small set of products and services for public consumption, such as bread, milk, passenger transportation, utilities and fuels. The government relies heavily on consumption taxes (value-added and excise) for its general revenue. Under a law of investment promotion, the government gives tax exemptions to investing firms. There are also incentives for companies which hire young people.

4. Debt Management Policies

As of 1999's first quarter, the Uruguayan net external debt was $2.9 billion, 92 percent of which is public. Since 1996, Uruguay has been extending the maturity of its debt. While all the private sector's debt is short-term (one year or less,) public sector's debt has a longer maturity (fifty-eight percent of the latter matures after the year 2002.) Debt service in 1998 was $ 1.2 billion, equivalent to 28 percent of combined merchandise and service exports, and to 5.8 percent of GDP.

Total net foreign exchange reserves amounted to $2.4 billion as of September 1999, equivalent to 9.1 months of imports. An IMF stand-by program is in place and a joint agreement with the IMF and the World Bank was signed to ensure the availability of funds that would help Uruguay deal with the regional crisis, or with any expectations generated by the presidential and parliamentary elections that took place in 1999.

5. Aid

Uruguay receives little non-military aid from the United States. During 1998 Uruguay received almost eight million dollars for U.S. peacekeeping, training and equipment assistance. Bilateral counter narcotics assistance totaled $ 150,000 in 1998 and will total $ 100,000 in 1999.

A Peace Corps program closed in 1997. Using 6 million dollars from a debt reduction program, the United States government and the Uruguayan government jointly manage the Fund of the Americas. This Fund is designed to use monies (which would otherwise be due to the United States) for local environmental and child welfare programs. According to the Uruguayan Presidency's Office of Budget and Planning, total estimated aid received from all other sources in 1996 and 1997 amounts to 125 million dollars (the government of Uruguay keeps aid statistics on a two-year basis).

6. Significant Barriers to U.S. Exports

Certain imports require special licenses or customs documents. Among these are pharmaceuticals, some types of medical equipment and chemicals, firearms, radioactive materials, fertilizers, vegetable products, frozen embryos, livestock, bull semen, anabolics, sugar, seeds, hormones, meat and vehicles. To protect Uruguay's important livestock industry, imports of bull semen and embryos also face certain numerical limitations and must comply with animal health requirements, a process that can take a long time. Bureaucratic delays also add to the cost of imports, although importers report that a "debureaucratization" commission has improved matters.

Few significant restrictions exist in services. U.S. banks continue to be very active. Restrictions on professional services such as law, medicine or accounting are similar to most countries. Persons with non-Uruguayan credentials who wish to practice their profession in Uruguay must prove equivalent credentials to those required of locals. Similarly, travel and ticketing services are unrestricted. A law allowing foreign companies to offer insurance (except work-related injury) coverage in Uruguay was passed in October 1993, although the former monopoly provider still maintains an overwhelming share of the market and regulation of the insurance sector is weak.

There have been significant limitations on foreign equity participation in certain sectors of the economy. Investment areas regarded as strategic require government authorization. These include electricity, hydrocarbons, banking and finance, railroads, strategic minerals, telecommunications and the press. Uruguay has long owned and operated state monopolies in petroleum, rail freight, telephone service and port administration. However, passage of port reform legislation in April 1992 allowed for privatization of various port services. The state-owned natural gas company was privatized in late 1994. Both private consortia and the state-owned phone company (ANTEL) provide cellular telecommunications. Legislation to privatize ANTEL was overturned by referendum in 1992. Several state-owned firms and even city municipalities however, grant the concession of specific services to privately-owned companies.

Government procurement practices are well defined, transparent and closely followed. Bid awards, however, often are drawn out and caught up in controversy. Tenders are generally open to all bidders, foreign and domestic. A government decree, however, establishes that local products or services of equal quality to, and no more than ten percent more expensive than foreign goods or services, shall be given preference. Among foreign bidders, preference will also be given to those who offer to purchase Uruguayan products. Uruguay has not signed the GATT/WTO government procurement code.

The only exemptions to tariff regulations in the context of anti-dumping legislation are minimum export prices, fixed in relation to international levels and in line with commitments assumed under the WTO. These are applied to neutralize unfair trade practices that threaten to damage national production activity or delay the development of such activities, and are primarily directed at Argentina and Brazil. Minimum export prices have been scheduled to be phased out, but a number are still in effect (textiles, clothing and sugar).

7. Export Subsidies Policies

The government provides a nine-percent subsidy to wool fabric and apparel producers using funds from a tax on greasy and washed wool exports. Uruguay is a signatory of the GATT/WTO subsidies code.

8. Protection of U.S. Intellectual Property

Uruguay's intellectual property (IP) regime does not yet meet international standards. Certain provisions of the recently-passed patent law appear to be TRIPs inconsistent and Uruguay's failure to pass a new copyright law is also a problem. Uruguay's copyright law dates to 1937; the extent to which it protects computer software is subject to judicial interpretation each time a case is presented. Enforcement of copyrights is still weak and piracy of business application software is estimated at 72 percent. Uruguay is a member of the World Intellectual Property Organization (WIPO) and a party to the Bern Convention, the Universal Copyright Convention (UCC) and the Paris Convention for the Protection of Industrial Property. Registering a foreign trademark without proving a legal commercial connection with the trademark is no longer a possibility; enforcement of trademark rights is excellent. (A trademark law was approved in 1998.) USTR placed Uruguay on its "Special 301 Watch List" in 1999 because of its failure to meet its international obligations for copyright and patent protection.

9. Worker Rights

a. *The Right of Association:* The constitution guarantees the right of workers to organize freely and encourages the formation of unions. Labor unions are independent of government or political party control.

b. *The Right to Organize and Bargain Collectively:* Collective bargaining takes place on a plant-wide or sector-wide basis, with or without government mediation, as the parties wish.

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

d. *Minimum Age for Employment of Children:* Children as young as 12 may be employed if they have a work permit. Children under the age of 18 may not perform dangerous, fatiguing, or night work, apart from domestic employment.

e. *Acceptable Conditions of Work:* There is a legislated minimum wage ($93/month as of September 1998). The standard workweek is 48 hours for six days, with overtime compensation. Workers are protected by health and safety standards, which appear to be adhered to in practice.

f. *Rights in Sectors with U.S. Investment:* Workers in sectors in which there is U.S. Investment are provided the same protection as other workers. In many cases, the wages and working conditions for those in U.S.-affiliated industries appear to be better than average.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		160
Food & Kindred Products	40	
Chemicals & Allied Products	43	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		51
Banking		203
Finance/Insurance/Real Estate		111
Services		12
Other Industries		(1)
TOTAL ALL INDUSTRIES		567

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

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

VENEZUELA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP [1]	88.4	95.0	95.1
Real GDP Growth (pct) [2]	5.9	–0.7	–5.0
GDP by Sector: [3]			
Agriculture	2.5	–0.7	1.7
Manufacturing	4.5	–4.7	–8.0
Services	3.7	0.5	–4.7
Government	–3.4	1.0	3.2
Per Capita GDP (US$) [4]	3,882	4,087	4,013
Labor Force (000's) [5]	9,507	9,907	10,259
Unemployment Rate (pct) [6]	10.6	11.0	18.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) [7]	62.5	18.6	3.7
Consumer Price Inflation [8]	37.6	29.9	20.0
Exchange Rate (BS/US$ annual average) [9]			
Official	488.6	547.6	628.9
Parallel	488.6	547.6	628.9
Balance of Payments and Trade:			
Total Exports FOB [10]	23.7	17.5	18.5
Exports to United States [11]	13.4	9.3	9.8
Total Imports FOB [10]	13.7	14.0	11.0
Imports from United States [11]	6.6	6.5	5.7
Trade Balance [10]	10.0	3.5	7.5
Balance with United States [11]	6.8	2.8	4.1
External Public Debt [12]	23.8	22.9	22.6
Fiscal Surplus (Deficit)/GDP (pct) [12]	1.7	–4.2	–3.1
Current Account Surplus (Deficit)/GDP (pct) [13]	4.4	–1.8	1.7
Foreign Debt Service Payments/GDP (pct) [14]	11.9	7.8	7.3
Gold and Foreign Exchange Reserves [15]	17.8	14.8	15.1
Aid from United States	N/A	N/A	N/A

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Aid from All Other Sources	N/A	N/A	N/A

[1] Embassy's estimate based on inflation (20%), GDP Growth (-5%), Exchange rate (Bs/628.91), and population (23,706,711).
[2] Embassy's estimate based on average of the official rate and most private estimates.
[3] BCV and Veneconomy.
[4] Calculation based on figures for no. 1 above.
[5] Central Statistical Office (OCEI) as of the first semester 1999.
[6] Ministry of Finance.
[7] BCV as of October 29, 1999.
[8] Embassy's estimate on the average for January-October, 1999.
[9] Embassy's estimate based on the monthly depreciation rate of 1.28 percent.
[10] Veneconomy.
[11] Department of Commerce, January-July, 1999. Embassy used average and derived projections therefrom.
[12] GOV Budget Office (OCEPRE).
[13] Embassy calculation.
[14] OCEPRE, BCV, and Embassy calculation.
[15] BCV as of November 18, 1999.

1. General Policy Framework

Venezuela has undergone significant political and institutional change in the last year. In December 1998, Hugo Chavez Frias was elected President of Venezuela in a landslide. Chavez promised fundamental reforms that would benefit Venezuela's impoverished majority. Upon assuming office in February, Chavez began work on the centerpiece of his political project, a National Constituent Assembly (ANC) that would re-write Venezuela's Constitution. Pro-Chavez candidates won more than ninety percent of the seats in this Assembly in the July 1999 elections, and completed their work on a new Constitution draft on November 19. On December 15, the Venezuelan public will decide whether they approve in a national referendum vote.

Despite the attention required by the constitutional debate, the Chavez administration and the Venezuelan Congress have passed numerous economic sectoral laws over the last year. In April 1999, Congress gave President Chavez temporary powers to rule by decree in the economic area with the passage of the "Enabling Law." This "fast track" capability resulted in legislation in several areas, including new laws governing the electric and mining sectors, government procurement, income taxes, agricultural credit, and soon-to-be expected legislation covering foreign investment and telecommunications. The Chavez Administration also raised taxes to help cover the Government's budget deficit, levying a new financial transactions tax and broadening the base of the value added tax (VAT) (even as it lowered VAT tax rates to 15.5 percent) soon after taking office. Congress approved a Bilateral Tax Treaty with the United States in August 1999.

Much of the new legislation represented a welcome updating of old statutes and the introduction of new legal frameworks. The private sector generally looked with favor upon the sectoral legislation, particularly in the area of electric power generation. The new income tax law established taxation on the incomes of Venezuelan citizens, regardless of where they reside, a long-overdue reform that puts Venezuela into closer conformity with U.S. practices and could facilitate implementation of the Bilateral Tax Treaty, when that enters into force. Although some new legislation recognizes the importance of the private sector, other sectoral laws, such as the mining law, preserve an extensive role for the state. Prior to completing the draft in November, the constitutional debates had been fast-paced and wide-ranging. The continued blizzard of political activity has caused uncertainty that has kept some investors on the sidelines. Nonetheless, Venezuela remains a country characterized by private enterprise, although those same enterprises operate under the shadow of potential heavy government oversight and regulation.

The need for dramatic political reform was highlighted by the sharp economic downturn caused by a deep recession in Asia in 1997-1998 and a consequent fall in oil prices in the winter of 1997 and spring of 1998. When President Chavez assumed office in February 1999, oil had fallen to USD 8.43 per barrel, official unemployment reached 11 percent and budget calculations said the Government's budget deficit threatened to reach 9.5 percent of GDP. Chavez responded with a series of budget cuts, a .05 percent tax on financial transactions, a broadening of the 15.5 percent VAT tax, and a reported tightening of customs collections. On the petroleum front, Venezuela joined OPEC and non-OPEC countries in a new round of production cutbacks in March 1999. Since that time, oil prices have rebounded strongly, easing the government's once-dire fiscal emergency. (On October 21, 1999, the price of Venezuela's basket of crudes and refined products reached a high of USD 20.25 per barrel, an increase of 140 percent over the low of the previous February.) Moreover, inflation fell due to restrained increases in public sector wages, a tight monetary policy, and the economic recession. (The inflation rate fell from 30 percent in 1998 to an estimated 20 percent for 1999.) Unemployment increased strongly. The official rate of unemployment now stands at 15 percent and observers outside the government say that the real rate is closer to 20 percent. Much foreign investment remains on hold pending improvement on the economic front and the outcome of constitutional debates.

Venezuela is rich in petroleum, natural gas, hydroelectric power, bauxite, iron ore, coal, gold, and diamonds. The petroleum industry dominates Venezuela's economy. In 1998, it accounted for roughly 27 percent of the country's GDP, 70 percent of export earnings, and 43 percent of central government revenues. It is estimated that in 1999 PDVSA's share of government revenues will increase with the rise in oil prices. The petroleum, petrochemicals and gas sectors will continue to play critical roles in the economy as these areas are further opened to foreign investment.

The government has begun efforts to address the country's economic emergency through a variety of measures designed to both jump-start and ultimately to diversify the economy. The Chavez administration merged the Ministry of Agriculture and the Ministry of Industry and Commerce in October 1999 in an attempt to consolidate ministries and reduce government expenditures. The new Ministry of Production and Commerce is also undertaking programs to promote small and medium-sized businesses. President Chavez has also created a People's Bank to give loans to family businesses and micro-enterprises. Finally, the new tax law contains important incentives for investment, especially in the agricultural and tourist sectors in an effort to diversify the heavily petroleum-dominated economy.

Overall, Venezuelan GDP fell 9.5 percent in the first semester of 1999, the worst economic performance in ten years. By the fall of 1999, there were indications that the recession had bottomed out and some outside observers predicted that the Venezuelan economy would soon begin to recover. The Venezuelan stock index responded to this optimism and rose 35 percent in September 1999. Nonetheless, the Chavez government still faced difficult challenges in the form of stubbornly high unemployment, insufficient investment and continuing fiscal difficulties.

2. Exchange Rate Policy

Since the elimination of exchange controls and the large devaluation of April 1996, the Central Bank of Venezuela (BCV) has maintained the bolivar within a gradually devaluing band. During this period, the bolivar's depreciation has not kept up with the rate of inflation. The bolivar depreciated 12 percent from January 1 to mid-November 1999. The inflation rate for the same period ran over 18 percent. Despite the negative impact that a strong bolivar has on domestic manufactures and non-oil exports, the government is expected to maintain its band system throughout at least the first quarter of the year 2000, if not longer. BCV reserves remain sufficient to support the bolivar, barring some unforeseen economic shock. President Chavez has spoken of moving to a fixed exchange rate, but as of this writing, the government has taken no action in this area.

3. Structural Policies

Pricing Policies: The government in recent years has lifted price controls on basic goods and services. Now only those pharmaceuticals with less than four competitive products and gasoline remain subject to price controls. The government eliminated the remaining subsidy on gasoline in 1997, bringing domestic retail prices up to export prices.

Tax Policies: The Venezuelan House of Deputies approved the U.S.-Venezuelan Bilateral Tax Treaty in August 1999. The U.S. Senate gave its advice and consent to the Treaty on November 5, and now the treaty awaits an exchange of notes and signature by the Chief Executives of Venezuela and the U.S. This treaty seeks to eliminate double withholding and to promote information sharing between the tax authorities of the two countries. Venezuela adopted a globally based tax system with the passage of a new income tax law in November 1999. This brings Venezuelan tax law into closer alignment with the U.S. and should facilitate implementation of the Bilateral Tax Treaty.

In Venezuela, the maximum income tax rate for individuals and corporations is 34 percent. Venezuelan law does not differentiate between foreign and Venezuelan-owned companies, except in the petroleum sector. PDVSA's hydrocarbon revenues are subject to a 67.7 percent income tax, in addition to a 16.7 percent royalty payment on production. In 1998, in a move criticized by some PDVSA executives, the government required PDVSA to pay a one-time "dividend" of $1.4 billion to help the

Venezuelan government fund its fiscal deficit. The Chavez administration has indicated that it may seek further PDVSA revenues to meet budgetary needs.

Most joint ventures with PDVSA are liable to the same level of income tax, except for those involved in the development and refining of heavy and extra heavy crudes and off shore natural gas, which are subject to a reduced rate of 34 percent. (Joint ventures did not have to pay the 1998 dividend.) The government announced in September 1996 that current and future projects involving extra heavy crude oil would also be entitled, on a case by case basis, to temporary reductions in the 16.7 percent royalty payment to as low as 1.5 percent. These reductions are granted for the construction phase of the projects.

Since 1993, the government has imposed a one-percent corporate assets tax, assessed on the gross value of assets (with no deduction for liabilities) after adjustment for depreciation. Venezuela also applies a luxury tax, at a rate of 10 or 20 percent, on certain items such as jewelry, yachts, and high-priced automobiles and cable television.

The Chavez administration began making important changes to the tax system in an effort to raise revenues under the auspices of the Enabling Law passed in April 1999. On May 14, 1999, the government imposed a 0.5 percent bank debit tax. On June 1, 1999, the government replaced its wholesale tax (ICVSM) with a value-added tax (IVA). The value-added tax rate is 15.5%, one percent lower than the rate of the wholesale tax it replaces. The new tax eliminates some exemptions, however, in an effort to broaden the tax base and raise revenues.

4. Debt Management Policies

Venezuela's public sector's external debt stood at $23.8 billion at the end of 1997 and is expected to fall slightly to 23 billion by the end of 1998. External debt represents about 23 percent of GDP. Venezuela's external debt service totaled about 7.3 percent of GDP in 1999, a fall from the previous year's level of 7.8 percent. Venezuela continues to carry a heavy domestic debt burden largely incurred during the 1994-95 banking crisis and as a result of the 1997 labor reforms.

5. Aid

In FY 1999, the U.S. provided an estimated $700,000 in counter-narcotics assistance to Venezuelan law enforcement agencies and the military from international narcotics control funds. The U.S. also gave the government $400,000 in aid under the International Military Education and Training Program (IMET) to strengthen the country's counter-narcotics capabilities.

6. Significant Barriers to U.S. Exports

After many years of following an economic policy based on import substitution, Venezuela began to liberalize its trade regime with its accession to the General Agreement on Tariffs and Trade (GATT) in 1990. Venezuela became a founding member of GATT's successor, the World Trade Organization (WTO) in 1995 following completion of the Uruguay Round negotiations. Venezuela implemented the Andean Community's Common External Tariff (CET) in 1995, along with Colombia and Ecuador. The CET has a five-tier tariff structure of 0, 5, 10, 15, and 20 percent. Venezuela's average import tariff on a trade-weighted basis is roughly 10 percent.

Under the Andean Community's Common Automotive Policy (CAP), assembled passenger vehicles constitute an exception to the 20 percent maximum tariff and are subject to 35 percent import duties. The knock-down kits from which such cars are assembled enter Venezuela with only a three percent duty. Imports of used automobiles, used clothing and used tires remain prohibited, even though Venezuela agreed to eliminate all GATT-inconsistent quantitative restrictions by the end of 1993 as part of its accession to the GATT. The CAP is scheduled for elimination by January 1, 2000, as part of Venezuela's commitment to conform to the World Trade Organization's prohibition on Trade Related Industrial Measures (TRIMS).

Venezuela implemented the Andean Community's price band system in 1995 for certain agricultural products, including feed grains, oilseeds, oilseed products, sugar, rice, wheat, milk, pork and poultry. Yellow corn was added to the price band system in 1996. Ad valorem rates for these products are adjusted according to the relationship between market commodity reference prices and established floor and ceiling prices. When the reference price for a particular market commodity falls below the established floor price, the compensatory tariff for that commodity and related products is adjusted upward. Conversely, when the reference price exceeds the established ceiling, the compensatory tariff is eliminated. Floor and ceiling prices are set once a year based on average CIF prices during the past five years. Normally, Venezuela publishes these prices on April 15. However, so far in 1999 Venezuela has not published its list of prices. This has upset several of the country's Andean Community (CAN) trading partners and has led both Colombia and Ecuador to sue Venezuela in the CAN.

Import Licenses: Venezuela requires that importers obtain sanitary and phytosanitary (SPS) certificates from the Ministries of Health and Agriculture for most pharmaceutical and agricultural imports. The government routinely uses this requirement to restrict agricultural and food imports. For example, Venezuelan authorities banned the import of U.S. poultry in 1993 because avian influenza (AI) exists in the United States. The restriction is not based on a scientific risk assessment indicating that U.S. poultry exports pose a risk to the Venezuelan poultry industry. The Ministry of Agriculture modified this import prohibition in its Official Gazette on March 13, 1997, allowing the import of pathogenic free (SPF) eggs from "avian influenza countries and the import of certain processed poultry products from AI countries."

In April 1997, the government lifted a ban on U.S. pork and swine imports imposed because of Porcine Reproductive and Respiratory Syndrome (PRRS). The Venezuelan Agricultural Health Service (SASA) and Ministry of Health officials also reviewed the U.S. meat processing system as overseen by the USDA and approved U.S. facilities for export to Venezuela. Venezuela now plans to invoke its WTO-negotiated Tariff Rate Quota (TRQ) for pork imports, again limiting market access below actual demand. The TRQ is 877 metric tons and is allocated once a year, mostly to members of the Venezuelan Association of Industrial Meat Producers (AICAR).

The Ministry of Agriculture implemented a yellow corn import licensing system in February 1997, under its WTO tariff rate quota for sorghum and yellow corn. This allowed enforcement of domestic sorghum absorption requirements. Under this system, feed manufacturers must purchase a government-assigned amount of domestic sorghum at the official (i.e. higher than world market) price in order to obtain import licenses for yellow corn. The Ministry of Agriculture has announced that it may establish similar import license requirements for white corn, rice, powdered milk, and oil seeds.

On November 1, 1999, the government established a new requirement for importers of agricultural goods. Importers must now register with the Ministry of Production and Commerce (MPC). They must provide the MPC with a list of their purchases, a list of the clients to whom they sell and copies of invoices for those sales. Ostensibly, this is to allow the MPC to investigate charges that imports harm the agricultural sector. Importers have complained that this practice establishes yet another bureaucratic barrier to imports.

Services Barriers: Professionals working in disciplines covered by national licensing legislation (e.g. law, architecture, engineering, medicine, veterinary practice, economics, business administration/management, accounting, and security services) must re-validate their qualifications at a Venezuelan University and pass the Associated Professional Exam. Foreign journalists who plan to work in the domestic Spanish language media face similar revalidation requirements.

Standards, Testing, Labeling and Certification: The Venezuelan Commission of Industrial Standards (COVENIN) requires certification from COVENIN-approved laboratories for imports of over 300 agricultural and industrial products. U.S. exporters have experienced difficulties in complying with the documentary requirements for the issuance of COVENIN certificates. Some Venezuelan importers of U.S. products have alleged that COVENIN applies these standards more strictly to imports than to domestic products.

The government started to require certificates of origin for imports in March 1996 that are "similar to goods which currently have anti-dumping or compensatory measures applied to them." Importers have complained that the new requirement, which primarily affects textiles and garments, is burdensome and time-consuming to fulfill. Tariff and non-tariff barriers also inhibit the importation of milk, some cereals and certain live animals.

Investment Barriers: Foreign investment is restricted in the petroleum sector, with the exploration, production, refining, transportation, storage, and foreign and domestic sale of hydrocarbons reserved to the government and its entities under the 1975 Hydrocarbon Law. However, private companies may engage in hydrocarbons-related activities through operating contracts or through equity joint ventures as long as the following conditions are met: 1) the joint ventures guarantee state control of the operation; 2) they are of limited duration; and 3) they have the prior authorization of Congress. PDVSA has opened the oil sector to increasing amounts of foreign investment since 1993 through both operating contracts and joint ventures.

During 1999,the GOV passed significant legislation under the Enabling Law in the mining, electric and gas sectors. It was also considering new telecommunications legislation. Finally, the President's Council of Ministers passed a new investment law under the auspices of the Enabling Law. All of these proposals were generally pro-investment, assuming good-faith implementation of their provisions and adequate enforcement legislation and regulation. Consequently, when they come into force, these laws should reduce barriers to foreign investment in specific sectors and in the economy as a whole. The exploitation of iron ore remains reserved to the state and therefore is not open to foreign investment. (Iron ore is not covered by the new Mining Law.)

Venezuela limits foreign equity participation (except that from other Andean Community countries) to 19.9 percent in enterprises engaged in television and radio broadcasting, in the Spanish-language press, and in professional services subject to national licensing legislation.

Venezuelan law incorporates performance requirements and quotas for certain industries. Under the Andean Community's Common Automotive Policy (CAP), all car assemblers in Venezuela must incorporate a minimum amount of regional content in their finished vehicles. The local content requirement for passenger vehicles was 34 percent in 1999 (though a revised auto regime is currently being developed.) The government enforces a "one for one" policy for performers giving concerts in Venezuela. This requires foreign artists featured in these events to give stage time to national performers. There is also an annual quota regarding the distribution and exhibition of Venezuelan films. At least half of the television programming must be dedicated to national programs. Finally, at least half of the FM radio broadcasting from 7 a.m. to 10 p.m. is dedicated to Venezuelan music.

Venezuela's Organic Labor Law places quantitative and financial restrictions on the employment decisions made by foreign investors. Article 20 of the law requires that industrial relations managers, personnel managers, captains of ships and airplanes, and foremen be Venezuelan. Article 27 limits foreign employment in companies with ten or more employees to 10 percent of the work force and restricts remuneration for foreign workers to 20 percent of the payroll. The shortage of skilled Venezuelan workers in the oil sector sometimes makes it difficult for foreign oil companies to meet this requirement. Article 28 allows temporary exceptions to Article 27 and outlines the requirements to hire technical experts when equivalent Venezuelan personnel are not available.

Government Procurement Practices: Venezuela's new Government Procurement Law, promulgated by the Executive under the auspices of the Enabling Law and published on October 11, 1999, provides details on required information for inclusion in an invitation to bid on a government contract and stipulates that there will be no discrimination against national bidders. The law grants the President and the Executive Branch enormous discretionary power in granting contracts. For example, the President may approve temporary measures to promote domestic production or offset unfavorable conditions for domestic industry and may set restrictions, criteria, and guidelines for preferences to Venezuelan nationals. Finally, in September 1999, the Ministry of Energy and Mines issued a directive to PDVSA instructing the company to favor national providers in its purchases of supplies.

Customs Procedures: In the private sector, both Venezuelan and foreign companies complain that Venezuelan customs is plagued by corruption and antiquated procedures, which frequently delay the clearance of incoming goods. The government took the first step in modernizing customs procedures in October 1996 by initiating a new computerized operation at La Guaria, one of the country's main ports.

The government passed a new Customs Law at the end of 1998 which made private customs agents criminally responsible for illegal shipments or undervalued shipments that enter the country. The government also instituted measures to assess customs charges for imported clothes according to minimum prices set by the bulk weight of a given shipment. Critics charged that the new regulations constitute an effort to protect manufacturers hard hit by the overvalued currency and the domestic recession. The government countered that the new customs regulations are temporary (they are renewable regulations set to last 180 days), and are designed to be stopgap measures to prevent the deliberate undervaluing of imports pending implementation of the new Customs Law. As of the fall of 1999, these temporary measures were still in effect, having been renewed twice.

7. Export Subsidies Policies

Venezuela has a duty drawback system that provides exporters with a customs rebate paid on imported inputs. Exporters can also get a rebate of the 16.5 percent wholesale tax levied on imported inputs. Foreign as well as domestic companies are eligible for these rebates. Exporters of selected agricultural products—including coffee, cocoa, some fruits and certain seafood products—receive a tax credit equal to 10 percent of the export's FOB value.

8. Protection of U.S. Intellectual Property

Venezuela belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Berne Convention, Rome Convention, Phonograms Convention, and the Universal Copyright Convention. In 1999, the U.S. Trade Representative maintained Venezuela on the "Special 301" Watch List because it does not yet provide adequate and effective protection of intellectual property rights (IPR).

Although Venezuela has improved its protection of intellectual property rights over the last few years and in the Constitution draft, U.S. companies continue to express concern about inadequacies in the enforcement of patents, trademarks, and copyrights. The Venezuelan court system has been an unreliable means for pursuing IPR claims.

In July 1996, the government took a significant step forward in improving enforcement by forming a special anti-piracy unit (COMANPI) to enforce copyright law, including efforts to counter the piracy of satellite signals and cable television. In 1998, COMANPI expanded its mandate to include enforcement of patents and trademarks. In March 1997, the government created a new Intellectual Property and Trademark Office (SAPI) by merging the existing Industrial Property Office (SARPI) with the National Copyright Office. SAPI became operational on May 1, 1998. In general, SAPI has been active in enforcing IPR standards. The organization remains overstretched, however, with significant technical limitations and a large backlog of cases. SAPI's most recent Director General, Thaimy Marquez, who was appointed in May 1999, has instituted an ambitious program to modernize the organization's computer database with a loan from the World Bank.

Patents: Andean Community Decisions 344 and 345, which took effect in 1994, are comprehensive and offer a significant improvement over the previous standards of protection for patents and trademarks provided by Venezuela's 1955 Industrial Property Law. However, the CAN Decisions are not yet fully TRIPS consistent. For example, they deny pharmaceutical patent protection for medicines registered on the World Health Organization's list of essential drugs. Furthermore, they lack provisions concerning transitional ("pipeline") protection and protection from parallel imports. The decisions also do not contain provisions for enforcing intellectual property rights.

This legislation is now being updated, both in Venezuela and in the CAN. In the fall of 1999, the Venezuelan Congress was working on a TRIPS-consistent draft law to replace the 1955 Industrial Property Law. If all goes according to plan, Congress will complete this work before the WTO's January 1, 2000, deadline. Venezuela has also been a leader among the Andean countries in the process to modify Decision 344 to make it consistent with the WTO TRIPs Agreement.

Trademarks: Decision 344 improves protection for famous trademarks, prohibits the coexistence of similar marks, and provides for the cancellation of trademark registrations based on "bad faith." However, problems remain with Venezuela's trademark application process. Current procedures enable local pirates to produce and sell counterfeit products even after the genuine owners of those trademarks have undertaken (often lengthy) legal proceedings against the pirates. Trademark piracy is common in the clothing, toy, and sporting goods sectors. Enforcement remains inadequate. U.S. food distributor Sysco Corporation, Reebok Shoes, and Home Depot are all examples of U.S. companies now engaged in litigation to gain exclusive rights to the use of their trademarks in Venezuela.

Copyrights: Andean Community Decision 351 and Venezuela's 1993 Copyright Law are modern and comprehensive and have substantially improved protection of copyrighted products in Venezuela. The Copyright Law extended protection to a wide range of creative works, including computer software, satellite signals, and cable television. Despite consistent action on the part of COMANPI, computer software and video piracy are still common.

New Technologies: Decision 351 and Venezuela's Copyright Law protect an array of creative activities in the computer and broadcasting fields. Nevertheless, Decision 344 excludes diagnostic procedures, animals, experiments with genetic material obtained from humans, and many natural products from patent protection. However, it does contain provisions for the protection of industrial secrets.

9. Worker Rights

a. *The Right of Association:* Both the 1961 Constitution and local labor law recognize and encourage the right of unions to organize. The comprehensive 1990 Labor Code extends to all private sector and public sector employees (except members of the armed forces) the right to form and join unions of their choosing. One major union umbrella organization, the Venezuelan Confederation of Workers (CTV), three smaller unions affiliated with CTV, and a number of independent unions all operate freely. About 25 percent of the national labor force is unionized.

b. *The Right to Organize and Bargain Collectively:* The Labor Code protects and encourages collective bargaining, which is freely practiced. Employers must negotiate a collective contract with the union that represents the majority of their workers in a given enterprise. The labor code also contains a provision stating that wages may be raised by administrative decree, provided that Congress approves the decree. The law prohibits employers from interfering with the formation of unions or with their activities and from stipulating as a condition of employment that new workers must abstain from union activity or that they must join a specified union.

c. *Prohibition of Forced or Compulsory Labor:* The Labor Code states that no one may "obligate others to work against their will."

d. *Minimum Age for Employment of Children:* The Labor Code allows children between the ages of 12 and 14 years to work only if the National Institute for Minors or the Labor Ministry grants special permission. However, children between the ages of 14 and 16 need only the permission of their legal guardians. Minors may not work in mines or smelters, in occupations "that risk life or health," in jobs that could damage their intellectual or moral development, or in "public spectacles." Those under 16 years of age cannot work more than six hours a day or 30 hours a week. Minors under the age of 18 years may work only between 6 a.m. and 7 p.m.

e. *Acceptable Conditions of Work:* Effective May 1999, the monthly minimum wage for the private sector is $190 (BS 120,000) for urban workers and $170 (BS 108,000) for rural workers. The law excludes only domestic workers and concierges from coverage under the minimum wage decrees. The Ministry of Labor enforces minimum wage rates effectively in the formal sector of the economy, but generally does not enforce them in the informal sector. The new Constitution (subject to approval by referendum on December 15, 1999) would reduce the standard workweek to a maximum of 40 hours and requiring "two complete days of rest each week." The code also states that employers are obligated to pay specific amounts (up to a maximum of 25 times the minimum monthly salary) to workers for accidents or occupational illnesses, regardless of who is responsible for the injury.

In a statute passed in 1998, employers with fifty or more employees must now provide workers who earn less than twice the minimum wage (about $350 a month) with a meal during each work shift. Employers can do this by providing their own canteen, contracting with a food service or distributing lunch tickets that workers can redeem at food establishments.

f. *Rights in Sectors with U.S. Investment:* People who work in sectors that receive high levels of U.S. investment receive the same protection as other workers. The wages and working conditions for those in U.S.-affiliated industries are better than average in the majority of cases.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,516
Total Manufacturing		1,856
Food & Kindred Products	536	
Chemicals & Allied Products	192	
Primary & Fabricated Metals	124	
Industrial Machinery and Equipment	26	
Electric & Electronic Equipment	81	
Transportation Equipment	369	
Other Manufacturing	529	
Wholesale Trade		230
Banking		(1)
Finance/Insurance/Real Estate		64
Services		153
Other Industries		(1)
TOTAL ALL INDUSTRIES		5,697

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

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

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NEAR EAST AND NORTH AFRICA

ALGERIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	47,100	48,300	51,400
Real GDP Growth [3]	1.1	5.1	4.0
GDP by Sector: [2]			
Agriculture	4,497	5,756	6,171
Manufacturing	4,405	4,765	5,129
Construction	4,616	4,731	5,028
Hydrocarbons	13,717	10,700	12,042
Services	10,771	11,794	12,707
Government	8,922	9,670	10,323
Real Per Capita GDP (US$)	1,596	1,610	1,620
Labor Force (millions)	8.07	8.10	8.3
Unemployment Rate (pct)	27.8	28.0	28.0
Fiscal Deficit/GDP (pct)	2.4	–3.50	–4.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	18.5	19.0	21.5
Consumer Price Index	5.7	5.0	3.5
Exchange Rate (dinar/US$, annual average)			
Official [4]	57.7	59.5	65
Parallel [5]	65.0	70.0	71
Balance of Payments and Trade:			
Total Exports	14,640	10,213	12,100
Oil/Gas	13,700	10,100	11,000
Exports to U.S. [6]	2,439	1,656	1,775
Total Imports CIF	10,190	9,403	9,900
Imports from U.S. [6]	695	713	905
Trade Balance	4,450	1,500	1,200
Balance with U.S.	1,744	953	870
Current Account Deficit/GDP (pct)	6.45	–1.00	–1.6
External Public Debt	31,050	30,261	28,960
Debt Service/GDP (pct)	8.9	11.1	11.3
Gold and Foreign Exchange Reserves	8,500	8,300	6,510
Aid from U.S. [7]	156	209	325
Aid from All Sources [8]	392	N/A	N/A

[1] Embassy estimates based on partial data furnished by Algeria's Central Bank.
[2] GDP at current market price.
[3] Percentage changes calculated in local currency.
[4] Bank of Algeria and embassy estimate.
[5] Embassy estimates.
[6] 1999 data, based upon 9 month statistics.
[7] In thousands of dollars, IMET and USIA exchanges.

1. General Policy Framework

The Algerian market offers significant commercial opportunities to U.S. exporters and investors. Algeria has large proven oil and gas reserves with the potential for additional discoveries. U.S. technology and expertise are highly prized as a means to explore and exploit these resources. The hydrocarbon sector is the largest market for U.S. exports. However, Algeria is the world's fifth largest importer of wheat and

Algeria is projected to import some $2.4 billion in foodstuffs in the year 2000. Other sectors where there is a strong potential demand for U.S. goods and services in Algeria include housing, consumer products, water projects, and telecommunications. Total Algerian imports in the year 2000 are expected to reach almost $10 billion. There are pressures for the government to deregulate the trade sector. According to the International Monetary Fund (IMF), total foreign exchange reserves peaked at $8.6 billion in March 1998. Current estimates are that reserves will fall to $5-6 billion by year-end 1999. However, with past debt rescheduling completed and steady energy exports, there is little danger of financial shortcomings. Algeria has a growing population, its infrastructure needs renovation, and there is a critical housing shortage. Over the medium and long term, Algeria should be a large, growing market for U.S. exports.

U.S. exports to Algeria rose about 7 percent in 1999 relative to the level of the year before. U.S. agricultural exports to will increase in 1999-2000 due to a drought which will require additional wheat imports. The Algerians have requested a program of agricultural credits for 1999-2000. The World Bank plans to offer loans for housing, water and sewage, and urban transport.

The 1998 government budget was the first one in four years not subject to the constraints of an IMF structural adjustment program. The government loosened the tight fiscal policy it has been pursuing in conjunction with the IMF-backed program. The drop in oil prices in early 1999 forced a revision of projected revenue and cuts in spending plans. The rebound of oil prices later in 1999 allowed some leeway in spending plans.

The instruments of monetary policy in Algeria are limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set weekly by a government board. In late 1999, the central bank rediscount rate stood at 8.5 percent and commercial bank lending rates ranged between 8.5 and 10 percent. To finance government deficit spending, the government sells bonds on the primary market to Algerian customers. In 1998, for the first time the central bank opened a secondary market for government debt.

Still, the lack of a modern financial services sector restricts growth of the private sector and is an impediment to foreign investment in Algeria. Reform efforts in the state-owned banking sector overall have progressed slowly. In the emerging private banking sector, private banks began operations in Algeria during 1998, including one U.S.-based bank. In late 1999 a major French financial institution announced plans to open an office in Algiers. The Algerian Government is also backing development of primary and secondary housing mortgage loan markets.

2. Exchange Rate Policy

With hydrocarbon exports making up well over 90 percent of exports earnings, the price of oil is the major determinant of the exchange rate. A government board implements a managed float system for the dinar, which is convertible for all current account transactions. Private and public importers may buy foreign exchange from five commercial banks for commercial transactions provided they can pay for hard currency in dinars. Although commercial banks may buy foreign exchange from the Bank of Algeria at regular weekly auctions, at which they set the dinar's exchange rate, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. However, since the central bank buys the foreign hydrocarbon export proceeds of the national oil company, SONATRACH, the bank plays the dominant role in the foreign exchange market. The primary objective of its intervention policy is to avoid sharp fluctuations in the exchange rate.

3. Structural Policy

The government has changed major aspects of its regulatory pricing, and tax policies as part of its overall structural adjustment program during the past five years. It has loosened its tight hold on state-owned company purchase, production, and pricing decisions in order to give their managers greater autonomy. During the late spring 1997, the government suspended its program of emergency financing for state-owned firms that had recourse to such funding to cover overdrafts and otherwise pay off outstanding debt. The government also pursued its policy of eliminating subsidies. Presently subsidies exist for basic food items (milk and wheat products), energy and public transportation. The government has privatized or liquidated 1000 state enterprises since 1996. In July, 1999 the Algiers Stock Exchange opened. There are plans for additional privatization as Algeria moves away from a socialist, centralized economy to one operating on market principles.

The government ran a budget surplus in 1997 because of increased revenues from hydrocarbon exports, which accounted for about 60 percent of fiscal revenues and

95 percent of export earnings during the last two years. In 1996, the government modified its import duty schedule so that eight different rates cover all foodstuffs, semi-finished, and finished products, with the top rate being 45 percent in 1997. The government reformed its tax code in 1998 to encourage business development, cutting rates in several categories as part of the 1999 budget. The new law will reduce corporate tax rates from 38 to 30 percent, decreasing again to 18 percent if profits are re-invested in the company. The law also excludes from taxation profits on stock and bond sales for five years.

Algeria is not a member of the World Trade Organization, but there is a movement to re-start stalled accession discussions. Algeria is hopes to begin formal negotiations in mid-2000 for an association agreement with the European Union.

4. Debt Management Policies

At the end of 1998 total medium and long-term debt stood at $30.26 billion. From 1994-1998 Algeria rescheduled some $10.48 billion of external debt. In May 1999, Algeria received a $300-million CCFF ("Compensatory and Contingency Financing Facility") credit from the IMF and balance of payments support from the Arab Monetary Fund to help offset any negative impact of the fall in oil prices. Payment in 1998 of principal and interest on the debt that had been rescheduled totaled $5.21 billion. The amounts for 1999-2001 are $5.81 billion, $4.20 billion, and $4.13 billion, respectively. The share of export earnings spent on debt service payments in 1999 remained around 47 percent, the same as 1998. The debt service/exports ratio is expected to drop to 42 percent in 2000.

In order to meet debt service and support an increase in the real output of goods and services, the government is counting both on hydrocarbon export revenues to recover and on a substantial rise in non-hydrocarbon export revenues in the coming years. On the former point, in 1999 the Algerian economy remained sensitive to fluctuations in oil prices. Exports of non-hydrocarbon exports are expected to rise in the coming years.

The central bank is estimating that the growth of Algeria's Gross Domestic Product (GDP) in volume terms will be about 5 percent per annum during the next three years (2000-2002). Based on the assumption that the average price of oil being $15 per barrel, the government assumes that Algeria's balance of payments will be such during this period that its stock of outstanding debt will decline by more than $3.82 billion between 1997 and 2003 (from $31.1 billion to $27.28 billion). Under these assumptions, outstanding debt as a proportion of GDP will decline from 66.4 percent to 45.6 percent by the end of the period.

5. Significant Barriers to U.S. Exports

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, narcotics, and pork products, which are prohibited for security or religious reasons. The government insists on particular testing, labeling, or certification requirements being met, however. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic. This regulation is enforced. It is helpful to label products in French. Food products when they arrive in Algeria must have at least 80 percent of their shelf life remaining. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming and the source of many complaints. The banking system is inefficient and the telecommunication system is not up to modern standards and capabilities. Licenses to offer Internet access have been granted to private firms, but overall access to the Internet and the use of e-commerce is weak.

The government has deregulated some service sectors, notably insurance and banking. Air couriers are allowed to operate in Algeria subject to approval of the Algerian Ministry of Post and Telecommunications (PTT). DHL offers service in several Algerian cities. Although the PTT has a monopoly on all telecommunications services, it permits the local production, importation, and distribution of telecommunications equipment. A second cellular license is expected to be offered in 2000.

There are no absolute barriers to or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law, revised in 1999 to permit majority foreign ownership of mining enterprises, govern investments in these two local sectors. Production sharing agreements are routine and comply with international oil business norms.

The Algerian Government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but no U.S. firms have been disadvantaged by Algeria's policy in this regard.

6. Export Subsidies Policies

About 95 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a non-hydrocarbon exports insurance and guarantee program in 1996, but it has had little effect. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. Algerian legislation protects intellectual property in principle but its enforcement is less than complete.

Patents are protected by the law of December 7, 1993 and administered by the Institut Algerien De Normalisation Et De Propriete Industrielle (INAPI). Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology.

The laws of March 19, 1966 and of July 16, 1976 afford trademark protection. In 1986, authority for the granting and enforcement of trademark protection was transferred from INAPI to the Centre National Du Registre Du Commerce (CNRC).

A 1973 law provides copyright protection for books, plays, musical compositions, films, paintings, sculpture, and photographs. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for (among other things) videos and radio programs.

Algeria's intellectual property practices have had a minimally adverse affect on U.S. trade.

8. Worker Rights

a. *The Right of Association:* Workers may form and be represented by trade unions of their choice. Government approval for the creation of a union is required. Unions may not affiliate with political parties or receive funds from abroad, and the government may suspend a union's activities if it violates the law. Unions may form and join federations or confederations, and they have affiliations with international labor bodies.

b. *The Right to Organize and Bargain Collectively:* A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. Unions may recruit members at the workplace.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor has not been practiced in Algeria and is incompatible with the constitution.

d. *Minimum Age for Employment of Children:* The minimum employment age is 16 years and inspectors can enforce the regulation. In practice, many children work part or full time in small private workshops and in informal trade.

e. *Acceptable Conditions of Work:* The 1990 law on work relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour work week. The government has set a guaranteed monthly minimum wage of 6,000 Algerian Dinars ($100). A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

f. *Worker Rights in Sectors with U.S. Investment:* Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy all the rights defined above. These workers at American firms enjoy better pay and safety than do most workers elsewhere in the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount
Petroleum	2,156
Total Manufacturing	0

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,372

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

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

BAHRAIN

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
GDP (current)	6,326	6,162	6,150
Nominal GDP Growth (pct)	4.1	−2.6	0
GDP by Sector:			
Agriculture	54	56	57
Manufacturing	1,177	1,035	1,050
Financial	1,337	1,412	1,500
Government	1,082	1,149	1,300
Per Capita GDP (US$) [2]	9,806	9,508	9,230
Labor Force (1,000's)	235	240	248
Unemployment Rate	15	16	17
Money and Prices (annual percentage growth):			
Money Supply (M2)	8.2	16.6	6.8
Exchange Rate (US$/BD)	2.65	2.65	2.65
Balance of Payments and Trade:			
Total Exports FOB [3]	4,310	3,263	3,450
Exports to U.S.	126	170	235
Total Imports CIF	3,857	3,554	3,000
Imports from U.S.	266	295	370
Trade Balance	453	−291	450
Trade Balance with U.S. [4]	−140	−125	−135
External Public Debt	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	0	0	0
Debt Service Payments/GDP (pct)	N/A	N/A	N/A
Gold and Foreign Exchange Reserves	1,035	1,015	1,020
Aid from U.S.	0	0	0
Aid from All Other Sources	50.0	50.0	50.0

[1] 1999 figures are all estimates based on data available in October 1999.
[2] Current prices, based on population projections.
[3] Exports include transshipment, which accounts for 14 percent of non-oil exports from Bahrain.
[4] Figures reflect merchandise trade.

Sources: Bahrain Monetary Agency, U.S. Department of Commerce, and Embassy estimates.

1. General Policy Framework

Although the Government of Bahrain has controlling interest in many of the island's major industrial establishments, its overall approach to economic policy, especially those policies that affect demand for U.S. exports, can best be described as laissez faire. Except for certain basic foodstuffs and petroleum products, the price of goods in Bahrain is determined by market forces, and the importation and distribution of foreign commodities and manufactured products is carried out by the private sector. Owing to its historical position as a regional trading center, Bahrain has a well developed and highly competitive mercantile sector in which products from the entire world are represented. Import duties are assessed at a five percent rate for foodstuffs and non-luxuries, and a ten percent rate on most products. Duties on automobiles, boats, alcohol, and tobacco products are considerably higher. The Bahraini Dinar is freely convertible, and there are no restrictions on the remittance of capital or profits. Bahrain does not tax either individual or corporate earnings. The only exception would be for petroleum revenues under a production-sharing agreement.

Over the past three decades, the government has encouraged economic diversification by investing directly in such basic industries as aluminum smelting, petrochemicals, and ship repair, and by creating a secure regulatory framework that has fostered Bahrain's development as a regional financial and commercial center. Despite diversification efforts, the oil and gas sector remains the cornerstone of the economy. Oil and gas revenues constitute approximately 50 percent of governmental revenues, and oil and related products account for about 80 percent of the island's exports. Bahrain's oil production amounts to about 40,000 barrels a day (b/d), and it markets and receives oil revenues from the 140,000 b/d produced from Saudi Arabia's Abu Sa'fa offshore oil field.

The budgetary accounts for the central government are prepared on a biennial basis. The budget for 1999 and 2000 was approved in December 1998. Budgetary revenues consist primarily of receipts from oil, gas, and refinery products, supplemented by fees and charges for services, customs duties, and investment income. Bahrain has no income taxes and thus does not use its tax system to implement social or investment policies. Although initial budget figures for 1999 projected a $424 million deficit—which was to be financed through the issuance of three-month and six-month treasury bills to domestic banks—sustained high global oil prices over the past nine months may help reduce the deficit, possibly halving it. The government also is considering financing its deficit through Islamic instruments.

The instruments of monetary policy available to the Bahrain Monetary Agency (BMA) are limited. Treasury bills are used to regulate dinar liquidity positions of the commercial banks. Liquidity to the banks is provided now through secondary operations in treasury bills, including: (a) discounting treasury bills; and (b) sales by banks of bills to the BMA with a simultaneous agreement to repurchase at a later date ("repos"). Starting in 1985, the BMA imposed a reserve requirement on commercial banks equal to five percent of dinar liabilities. Although the BMA has legal authority to fix interest rates, it has not yet exercised the authority. The BMA has, however, published recommended rates for Bahraini Dinar deposits since 1975. In 1982, the BMA instructed the commercial banks to observe a maximum margin of one percent over their cost of funds, as determined by the recommended deposit rates, for loans to prime customers. In August 1988, special interest rate ceilings for consumer loans were introduced. In May 1989 the maximum prime rate was abolished, and in February 1990, new guidelines permitting the issuance of dinar certificates of deposit (CDs) at freely negotiated rates for any maturity from six months to five years were published.

2. Exchange Rate Policies

Since December 1980, Bahrain has maintained a fixed relationship between the dinar and the dollar at the rate of one dollar equals 0.377 BD. Bahrain maintains a fully open exchange system free of restrictions on payments and transfers. There is no black market or parallel exchange rate.

3. Structural Policies

As a member of the six-nation Gulf Cooperation Council (GCC), Bahrain participates fully in GCC efforts to achieve greater economic integration among its member states (Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Bahrain). In addition to according duty-free treatment to imports from other GCC states, Bahrain has adopted GCC food product labeling and automobile standards. Efforts are underway within the GCC to enlarge the scope of cooperation in fields such as product standards and industrial investment coordination. In recent years, the GCC has focused its attention on negotiating a free trade agreement with the

European Union. If these negotiations are successfully concluded, such an agreement could have a long-term adverse impact on the competiti~~veness of~~ U.S. products within the GCC, including Bahrain.

Bahrain is an active participant in the ongoing U.S.-GCC economic dialogue. In addition, Bahrain signed a Bilateral Investment Treaty (BIT) with the United States in September 1999, the first Gulf state to do so. The inaugural meeting of the Joint Economic Dialogue (JED) between Bahrain and the United States also took place in September 1999. For the present, U.S. products and services compete on an equal footing with those of other non-GCC foreign suppliers. Bahrain still officially participates in the primary Arab League economic boycott against Israel, but does not observe secondary and tertiary boycott policies against third-country firms having economic relationships with Israel.

With the exception of a few basic foodstuffs and petroleum product prices, the government does not attempt to control prices on the local market. Because most manufactured products sold in Bahrain are imported, prices basically depend upon the source of supply, shipping costs, and agents' markups. Commissions are capped at five percent and are due to be phased out by 2003. Since the opening of the Saudi Arabia-Bahrain causeway in 1985, and the 1998 revision in the Agency Law that abolished sole agency requirements, local merchants have been less able to maintain excessive margins and, as a consequence, prices have tended to fall as competition has heated up somewhat. Consumer competition is likely to increase further as the full impact of the 1998 Agency Law revision takes effect.

Bahrain is essentially tax-free. The only corporate income tax in Bahrain potentially would be levied on oil, gas, and petroleum producers, all of which are state-owned at this time. There is no individual income tax, nor does the country have any value-added tax, property tax, production tax or withholding tax. Bahrain has customs duties and a few indirect and excise taxes, which include a tax on gasoline, a 10 percent levy on rents paid by residential tenants, a 12.5 percent tax on office rents, and a 15 percent tax on hotel room rates. Firms with 100 or more employees pay a training levy at the rate of 3 percent of the payroll for expatriates and one percent for Bahrainis.

4. Debt Management Policies

The government follows a policy of strictly limiting its official indebtedness to foreign financial institutions. To date, it has financed its budget deficit through local banks. In April 1998, Bahrain launched its first bond issue—worth approximately $107 million—which was well received. The government has no plans for a second issue at this time. Bahrain has no International Monetary Fund or World Bank programs.

5. Aid

Bahrain receives assistance in the form of project grants from Saudi Arabia, Kuwait, and the United Arab Emirates. On April 1, 1996, Bahrain began receiving 100 percent of the revenue from the 140,000 b/d of oil produced from Saudi Arabia's offshore Abu Sa'fa field. This has proved to be a major source of funding for the government's budget.

6. Significant Barriers to U.S. Exports

Standards: Processed food items imported into Bahrain are subject to strict shelf life and labeling requirements. Pharmaceutical products must be imported directly from a manufacturer that has a research department and must be licensed in at least two other GCC countries, one of which must be Saudi Arabia.

Investment: The government actively promotes foreign investment and permits 100 percent foreign ownership of new industrial enterprises and the establishment of representative offices or branches of foreign companies without local sponsors. Other commercial investments are made in partnership with a Bahraini national controlling 51 percent of the equity. Except for citizens of Kuwait, Saudi Arabia, and the United Arab Emirates, foreign nationals must lease rather than purchase land in Bahrain. There is, however, currently legislation under consideration that would allow all foreigners to own property in Bahrain. The government encourages the employment of local nationals by setting local national employment targets in each sector and by restricting the issuance of expatriate labor permits. Nevertheless, a sizable expatriate labor force continues to work in Bahrain.

Government Procurement Practices: The government makes major purchasing decisions through the tendering process. For major projects, the Ministries of Works and Agriculture, and of Power and Water, extend invitations to selected, pre-qualified firms. Smaller contracts are handled by individual ministries and departments and are not subject to pre-qualification.

Customs Procedures: The customs clearance process is used to enforce the primary boycott of Israel, insofar as it is enforced. While goods produced by formerly blacklisted firms may be subjected to minor delays, the secondary and tertiary boycotts are no longer used as the basis for denying customs clearance, and the process of removing firms from the blacklist has become routine, upon application by the subject firm. In addition, Bahraini customs protects against the import of pirated goods and enforces the Commercial Agencies Law. Goods manufactured by a firm with a registered agent in Bahrain may be imported by that firm's agents or, if by a third party, upon payment of a commission to the registered agent. This arrangement is being phased out (see above).

7. Export Subsidies Policies

The government provides indirect export subsidies in the form of preferential rates for electricity, water, and natural gas to selected industrial establishments. The government also permits the duty-free importation of raw material inputs for incorporation into products for export and the duty-free importation of equipment and machinery for newly established export industries. The government does not target subsidies to small businesses.

8. Protection of U.S. Intellectual Property

Bahrain is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and is obligated to bring its laws and enforcement efforts into TRIPs compliance by January 1, 2000. In February 1995, Bahrain joined the World Intellectual Property Organization (WIPO), and it signed the Berne Convention for the Protection of Literary and Artistic Works, and the Paris Convention for the Protection of Industrial Property on October 29, 1996.

In April 1999, Bahrain became the first country in the Middle East to be removed from the U.S. Special 301 "Watch List" in recognition of its significant progress in providing adequate and effective enforcement of IP laws and regulations relating to copyrighted and trademarked goods. The government's copyright, patent, and trademark laws are being amended to become fully TRIPs-compliant by January 1, 2000.

9. Worker Rights

a. *The Right of Association:* The partially suspended 1973 constitution recognizes the right of workers to organize, but western-style trade unions do not exist in Bahrain, and the government does not encourage their formation. Article 27 of Bahrain's Constitution states: "Freedom to form associations and trade unions on national bases and for lawful objectives and by peaceful means shall be guaranteed in accordance with the conditions and in the manner prescribed by the law. No person shall be compelled to join or remain in any association or union."

In response to labor unrest in the mid-1950's and in 1965 and 1974, the government passed a series of labor regulations that, among other things, allows the formation of elected workers' committees in larger Bahraini companies. Worker representation in Bahrain today is based on a system of Joint Labor-Management Committees (JLCs) established by ministerial decree. Between 1981 and 1984, 12 JLCs were established in the major state-owned industries. In 1994, four new JLCs were established in the private sector, including one in a major hotel. In September 1998, three more JLCs were created, bringing the total number in Bahrain to nineteen.

b. *The Right to Organize and Bargain Collectively:* Bahrain's Labor Law neither grants nor denies workers the right to organize and bargain collectively. While the JLCs described above are empowered to discuss labor disputes, organize workers' services, and discuss wages, working conditions, and productivity, the workers have no independent, recognized vehicle for representing their interests on these or other labor-related issues.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Bahrain, and the Labor Ministry is charged with enforcing the law. The press often performs an ombudsman function on labor problems, reporting instances in which private sector employers occasionally compelled foreign workers from developing countries to perform work not specified in their contracts, as well as Labor Ministry responses. Once a worker has lodged a complaint, the Labor Ministry opens an investigation and takes action.

d. *Minimum Age for Employment of Children:* The minimum age for employment is 14. Juveniles between the ages of 14 and 16 may not be employed in hazardous conditions or at night, and may not work over six hours per day or on a piecework basis. Child labor laws are effectively enforced by Labor Ministry inspectors in the industrial sector; child labor outside that sector is less well monitored, but it is not believed to be significant outside family-operated businesses.

e. *Acceptable Conditions of Work:* Minimum wage scales, set by government decree, exist for employees and generally afford a decent standard of living for workers and their families. The current minimum wage is $398 (150 BD) a month and may be increased, at least in select sectors such as tourism, to $451 (BD 170) a month. Wages in the private sector are determined on a contract basis. For foreign workers, employers consider benefits such as annual trips home, housing, and education bonuses part of the salary.

Bahrain's Labor Law mandates acceptable working conditions for all adult workers, including adequate standards regarding hours of work (maximum 48 hours per week) and occupational safety and health. Complaints brought before the Labor Ministry that cannot be settled through arbitration must, by law, be referred to the Fourth High Court (Labor) within 15 days. In practice, most employers prefer to settle such disputes through arbitration, particularly since the court and labor law are generally considered to favor the worker.

f. *Rights in Sectors with U.S. Investment:* The company law does not discriminate at all against foreign-owned companies and is in the process of being liberalized further. Workers at all companies with U.S. investment enjoy the same rights and conditions as other workers in Bahrain.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		–5
Food & Kindred Products	(1)	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	–4	
Wholesale Trade		(2)
Banking		–74
Finance/Insurance/Real Estate		(1)
Services		(2)
Other Industries		(2)
TOTAL ALL INDUSTRIES		–139

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).

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

EGYPT

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
GDP (Current Prices)	76.2	83.8	89.7
Real GDP Growth (pct) [2]	5.3	5.7	6.0
GDP by Sector:			
Agriculture	17.6	17.5	17.4
Manufacturing	31.8	32.2	31.5
Services	42.6	42.3	43.3
Government	7.8	7.8	7.9
Per Capita GDP (US$)	1,260	1,310	1,406
Labor Force (millions)	17.36	17.0	18.3
Unemployment Rate (pct)	8.8	8.9	8.3

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	15.1	12.3	11.4
Consumer Price Inflation (period average)	6.2	4.0	2.9
Exchange Rate (LE/US$ annual average)			
Market Rate	3.39	3.39	3.396
Balance of Payments and Trade:			
Total Exports FOB [3]	5.345	5.128	4.445
Exports to U.S.[3]	0.694	0.698	[5] 0.660
Total Imports FOB [3]	15.565	16.899	16.969
Imports from U.S.[3]	3.840	3.060	[5] 3.000
Trade Balance[3]	–10.2	–11.7	–12.5
Balance with U.S.	–3.146	–2.361	[5] –2.360
External Public Debt	28.8	28.1	28.2
Fiscal Balance/GDP (pct)	–0.9	–1.0	–1.3
Current Account Balance/GDP (pct)	0.7	–3.4	–1.9
Debt Service Payments Ratio [4]	16.0	13.0	11.0
Gold and Foreign Exchange Reserves	20.2	20.3	18.0
Aid from U.S.	2.115	2.115	2.075

[1] Statistics are based on Egypt's fiscal year starting July 1 and ending June 30.
[2] Percentage changes calculated in local currency.
[3] Merchandise trade.
[4] Ratio of external debt service to current account receipts.
[5] Estimates.

1. *General Policy Framework*

Egypt, with a population of 67 million and a per capita income of USD 1,400, is a large developing country. Its market economy is segmented into the state sector (estimated at 30 percent of GDP), and the private sector (70 percent of GDP). The Ministry of Finance estimates the informal sector is equivalent to 25 percent of the GDP. Foreign assistance has funded a significant portion of Egypt's infrastructure development. The role of private investment in key infrastructure areas has increased over the last year.

Egypt's economic stabilization program that started in 1991 has improved most macroeconomic and trade indicators. Since 1991, real GDP growth has increased from 2 percent to 5 percent. Inflation decreased from 20 to 3 percent, foreign currency reserves increased from 7 to 17 billion dollars and the budget deficit decreased from 17 to around 1 percent of GDP. Tariff protection has been reduced with most favored nation (MFN) duties, which averaged 42 percent in 1991 now averaging 27 percent. Most non-tariff barriers have been removed.

Services make up the largest and fastest growing sector of the Egyptian economy, accounting for 58 percent of GDP (including government services). Tourism, the Suez Canal, trade, and banking are the largest service sub-sectors. Egypt exports primarily petroleum, light manufactures (textiles) and agricultural products, it imports machinery, refined oil products, and food products. Since 1995 Egypt's exports have remained at around 5 billion dollars while imports increased from 13 to 17 billion dollars.

In 1997 and 1998 Egypt's key sources of foreign exchange (tourism, Suez Canal receipts, worker remittance and petroleum exports) suffered external shocks. As a result Egypt's current account went from a small surplus to a 2.5 billion-dollar deficit. The decline in foreign exchange earnings may have played a role in the government's decision to issue a trade decree in November 1998, requiring that consumer goods be imported directly from the country of origin. In November 1999, the GOE amended this trade measure thus allowing consumer goods to be sourced from manufacturers' regional branches or distribution centers and easing standards for providing the origin of goods. In 1999 some of the sources of foreign exchange earnings started to recover with tourist visitor numbers at record levels, Suez Canal receipts stabilizing and petroleum prices rising.

The GOE's expenditures were around 22 billion dollars in FY 1998/99, some 29 percent of GDP, with the fiscal deficit around 1 percent of GDP. The deficit was financed through issuance of government securities and foreign assistance. Fiscal revenues are mainly comprised of tax revenue, including income tax receipts and customs tariffs. Egypt has plans to widen the base of the sales tax by including wholesale and retail trade, although implementation has been delayed. Delays in completing tax reform may have wider implications for further reductions in tariffs, given the importance of customs revenues in overall government revenue.

The GOE enacted Law 8 in 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Increasing the transparency of government regulations and strengthening intellectual property rights protection would encourage further foreign investment.

The Central Bank of Egypt consults with the ministry of finance and the ministry of economy and foreign trade, but it is an autonomous body and bears the ultimate responsibility for defining Egypt's monetary policy. Historically movements in treasury bill rates have provided a better indication of central bank policy than the discount rate.

In October 1999 President Mubarak appointed a new cabinet which has provided new impetus to Egypt's economic reform program. The new Prime Minister Atef Ebeid, who was previously in charge of the privatization program, is expected to increase the momentum of privatization. The merger of the ministry of economy with foreign trade under Youssef Boutros Ghali is likely to have a similar effect on trade and investment.

2. Exchange Rate Policy

Law 38 of 1994 and the executive regulations issued under Ministerial Decree 331 of 1994 regulate foreign exchange operations in Egypt. Responsibility for exchange rate policy lies with the government of Egypt and is administered by the Central Bank of Egypt in consultation with the minister of economy and foreign trade.

Central bank foreign exchange reserves stood at 17.4 billion dollars in August 1999. The GOE notes officially that the free market guides the rates of exchange set by the Central Bank of Egypt, other approved banks, and dealers. However, the central bank appears to actively monitor the exchange rate in order to assure the Egyptian pound's stability. According to the Central Bank of Egypt, the value of the Egyptian pound averaged around le 3.39 per USD in 1999. Rates offered by major commercial banks reflected only a modest spread over this average, in the range of 3.4 to 3.41 LE/USD. The rates offered by bureau of exchange, which account for approximately 6 percent to 10 percent of daily foreign exchange transactions, ranged up to 3 percent above the standard commercial rate.

The intervention currency is the U.S. dollar. There are no exchange or currency controls and foreign currency transfers are in principle unrestricted. In the last year, however, firms reported frequent delays in the processing of their requests to convert Egyptian pounds to foreign currency. Exports in recent years may have been affected by the real appreciation of the Egyptian pound since economic reform was initiated in 1991.

3. Structural Policies

In general, prices for most products are market based, although the GOE provides direct and indirect subsidies on key consumer goods to benefit Egypt's poor (including bread, which stimulates the demand for U.S. wheat). Pharmaceutical prices are set by the Ministry of Health. Railway fares, electricity, petroleum products and natural gas prices are gradually being deregulated to reflect actual costs.

Under its trade liberalization program and in accordance with its WTO obligations, Egypt has made progress in reducing its tariffs. The maximum rate for WTO-bound tariffs was recently reduced from 50 percent to 40 percent. Many cases of high tariffs persist, however, such as those affecting the import of automobiles, automobile spare parts and U.S. poultry products. Egypt does not maintain export quotes or require pre-approval for imports. It is in the process of implementing the harmonized system of classification. Although the government recognizes the need to eliminate procedural barriers to trade, businesses report that red tape and cumbersome bureaucracy remain significant problems.

The GOE instituted a general sales tax (GST) in 1991 and is now moving towards adoption of a value-added tax. Since 1991 taxes on certain consumer goods not covered by the GST (alcoholic and soft drinks, tobacco and petroleum products) were raised and converted to ad valorem taxes (VAT). Other reforms included lowering marginal tax rates, simplifying the tax rate structure, and improving administration of tax policy. Despite such efforts, businesses consistently note the need for reform and modernization of Egypt's tax system, describing its current administration as cumbersome and frequently unpredictable.

4. Debt Management Policies

In early 1991, official creditors in the Paris club agreed to reduce by 50 percent the net present value of Egypt's official debt, phased in three tranches of 15, 15 and 20 percent. The IMF conditioned release of the three tranches on successful review of Egypt's reform program. At about the same time, the United States forgave USD

6.8 billion of high-interest military debt. As a result, Egypt's total outstanding debt has declined to about USD 28 billion, and the debt service ratio fell from nearly 50 percent in 1988 to 13 percent in 1997/98.

In 1996, Egypt began a new round of discussions with the IMF. In October 1996, the two sides agreed to an ambitious package of structural reform measures through 1998, and the IMF approved a USD 291 million precautionary stand-by agreement for Egypt. This agreement paved the way for the release of the final USD 4.2 billion tranche of Paris club relief, reducing Egypt's annual debt servicing burden by USD 350 million. In September 1998, Egypt declared that it would not sign a third program with the IMF. The relationship with the fund and the GOE has taken a consultative aspect.

5. Aid

The United States is Egypt's largest provider of foreign assistance, having committed USD 2.1 billion in FY 2000. The assistance package is divided into economic support funds (USD 735 million) and military assistance (USD 1.3 billion). U.S. economic support assistance levels to Egypt will be gradually reduced over the next several years. Both governments are committed to working together to maximize the positive impact assistance has on Egypt's transition to a private-sector-led, export-oriented economy. A significant portion of the funds in both assistance categories are used by Egypt to acquire U.S. goods and services. For example, around USD 200 million of exports were financed in FY 1999 through USAID's commodity import program. An additional USD 200 million was used to finance technical assistance and services. The department of agriculture, in separate programs (GSM 102), allocated in FY 1999 about USD 200 million in U.S. exports to Egypt.

6. Significant Barriers to U.S. Exports

Egypt became a member of the world trade organization (WTO) in June 1995. Trade would be facilitated by increased transparency and improved notification to the WTO and major trading partners of changes the GOE makes to bring Egypt's trade regime into WTO compliance.

Import Barriers: Egypt does not require licenses. For food and non-food imports with a shelf life, the government mandates that they should not exceed half the shelf life at time of entry into Egypt. The importation of commodities manufactured using ozone-depleting chemicals is prohibited.

Services Barriers: The Egyptian government runs many service industries. Recent government policies allow private sector involvement in ports, maritime activities and airports, an opening that has spurred significant interest and activity in the private sector. Private firms dominate advertising, services. Egypt modified laws and regulations in accordance with its WTO financial services commitments.

Banking: Existing foreign bank branches have been permitted to conduct local currency operations since 1993. Two U.S. bank branches have licensed to do so. In June 1996, the parliament passed a bill amending the banking law and allowing foreign ownership in joint venture banks to exceed 49 percent, thus encouraging greater competition. In another significant development, Law 155 was passed in June 1998. It provided the constitutional basis needed to permit the privatization of the four public sector banks. (Privatizing publicly held banks will a complex and politically sensitive undertaking; the government has not yet named a public-sector bank for privatization.) In a move to eliminate a tax loophole and orient banks' portfolio managers to more economically productive investments, the government passed the Income Tax Law 5 of 1998. This law eliminated a loophole that allowed banks and financial institutions to deduct interest earned on government securities, as well as to deduct the interest paid on funds borrowed to purchase such securities.

Securities: International brokers are permitted to operate in the Egyptian stock market. Several U.S. and European firms have established operations or purchased stakes in brokerage firms.

Insurance: The passage of a new insurance law in June 1998 marked a potentially significant milestone for the sector and the national economy. The law permits foreign insurance companies to own up to 100 percent of Egyptian insurance firms. In 1999 the GOE approved the first application by a U.S. firm for majority ownership. Previously, foreign ownership was restricted to a minority stake. The GOE appears more receptive to applications to establish new operations in the relatively undeveloped area of life insurance than in the non-life sectors. Four public-sector companies (one of which is a reinsurance company) dominate the insurance market. There are five private sector insurance companies, three of which are joint ventures with U.S. firms. Two of the joint ventures are operating in the free zones.

Telecommunications: In October 1999 a new ministry of communications and information technology was created. The government had previously converted a government authority into Telcom Egypt, established a regulatory board for telecommunications and spun off responsibility for internet, cellular telephone and pay telephone to the private sector. In recent years Egypt's telecommunication infrastructure has undergone extensive modernization with the addition of five million lines. Telcom Egypt, the nation's fixed-line monopoly, announced in November that it would cut its international long distance rates by 25 percent. The government has indicated that it plans to sell 20 percent of Telcom Egypt in the first quarter of 2000. The mobile system has expanded significantly in the last four years as the result of increased GSM capacity. In 1996 a government-owned firm (Arento) was created with an initial GSM capacity of 90,000 lines. The establishment of two private sector companies in 1998 (Mobinil and Misrphone) further boosted the GSM system by 130,000 lines. Some GOE officials have expressed interest in the WTO basic telecommunications agreement and the international telecommunications agreement.

Maritime and Air Transportation: Maritime transport lines and services operated until recently as government monopolies. Law 22 of 1998 opened these areas to the private sector. This law permits the establishment of specialized ports on a build-own-operated basis. Under the new business environment created by Law 22, the private sector is becoming increasingly involved in container handling. In addition, Egypt Air's monopoly on carrying passengers has been curtailed, and several privately owned airlines now operate regularly scheduled domestic flights, although the national carrier remains, by far, the dominant player in the sector. Private firms have also become active in airport construction.

Standards, Testing, Labeling and Certification: While Egypt has decreased tariffs and bans on the importation of many products, other non-tariff barriers have increased. Items removed from the ban list were added to a list of commodities requiring inspection for quality control before customs clearance. This list now comprises 131 categories of items, including meat, fruits, vegetables, spare parts, construction products, electronic devices, appliances, transformers, household appliances, and many consumer goods. Agricultural commodities have been increasingly subject to quarantine inspection, so much so that some importers have begun arranging inspection visits in the U.S. to facilitate Egyptian customs clearance. Product specification also can be a barrier to trade. For example, Egyptian standard number 1522 of 1991 concerning inspection of imported frozen meat set an unattainable maximum 7 percent content of fat. There is a lack of clear standards for determining if processing is done according to Islamic rule, which restricts U.S. poultry parts exports.

Imported goods must be marked and labeled in Arabic with the brand and type of the product, country of origin, date of production and expiry date, and any special requirements for transportation and handling of the product. An Arabic language catalog must accompany imported tools, machines and equipment. The government mandates that cars imported for commercial purposes must be accompanied by a certificate from the manufacturer stating that they are suited for tropical climates. Many of these standards violate the WTO agreement which prohibits "nontechnical barriers to trade" (NTB). Only bona fide health and safety standards based on scientific evidence are mandatory under WTO; all other standards must be voluntary.

Investment Barriers: The General Authority for Free Zones and Investment (GAFI) which was placed under the Ministry of Economy and Foreign Trade in October has sole responsibility for regulating foreign investment. The GOE implemented Law 8 of 1997 to facilitate foreign investment by creating a unified and clear package of guarantees and incentives. Egypt signed a bilateral investment treaty with the United States in an investment guarantee agreement which extends political risk insurance (via OPIC) for American private investment. In addition, the GOE is a signatory of the international convention for the settlement of investment disputes.

Government Procurement: The GOE passed a new government procurement law this year (Law 89 of 1998) in an effort to increase transparency, assure equal opportunity among bidders and protect contractor rights. The law mandates that: a bid may not be transformed into a tender (a main defect of prior law dating from 1983); decisions on bids are to be explained in writing; and more weight will be accorded to technical considerations in awarding contracts. The law also requires the immediate return of bid bonds and other guarantees once the tender is awarded. Egypt is not a signatory to the WTO government procurement agreement.

Customs Procedures: In 1993, Egypt adopted the harmonized system of customs classification. Tariff valuation is calculated from the so-called "Egyptian selling price" which is based on the commercial invoice that accompanies a product the first time it is imported. Customs authorities retain information from the original commercial invoice and expect subsequent imports of the same product (regardless of the supplier) to have a value no lower than that noted on the invoice from the first shipment. As a result of this presumption of increasing prices and the belief that under-invoicing is widely practiced, customs officials routinely and arbitrarily increase invoice values from 10-30 percent for customs valuation purposes. Multiplication of authorities for commodity clearance and inspection increases the complexity and costs of exporting to Egypt. As customs procedures are becoming increasingly automated through the use of computers, customs officials will no longer be able to exercise such subjective judgment over valuation of imports. The WTO customs valuation agreement comes into force for Egypt on July 1, 2000.

7. Export Subsidies

At present Egypt has no direct export subsidies. Certain exporting industries may benefit from duty exemptions on imported inputs (if released under the temporary release system) or receive rebates on duties paid on imported inputs at the time of export of the final product (if released under the drawback system). Under its commitments to the World Bank, the Egyptian government has increased energy and cotton procurement prices and has abolished privileges enjoyed by public sector enterprises (subsidized inputs, credit facilities, reduced energy prices and preferential custom rates), thus reducing the indirect subsidization of exports.

8. Protection of U.S. Intellectual Property

Watch List Designation: Due primarily to exclusion of pharmaceutical products from patentability the United States Trade Representative placed Egypt on a "priority watch list" in April 1997, and retained this designation in 1998 and 1999. Egypt is a signatory to the GATT TRIPs agreement, the Bern Copyright Convention, the Paris Patent Convention, the Paris Convention for Protection of Industrial Property of 1883, the Madrid Convention of 1954, and the Nice Convention for the Classification of Goods and Services. The GOE has several WTO TRIPs obligations that came into force on January 1, 2000.

Patents: The existing Egyptian patent law (Law 132 of 1949) provides protection below international standards. It contains overly broad compulsory licensing provisions and excludes from patentability substances prepared or produced by chemical processes if such products are intended for food or medicine. The patent term is 15 years from the application filing date, compared with the international standards of 20 years. A 5-year renewal may be obtained only if the invention is of special importance and has not been adequately worked to compensate patent holders for their efforts and expenses. Compulsory licenses, which limit the effectiveness of patent protection, are granted if a patent is not worked in Egypt within three years or is worked inadequately.

Egypt has drafted, but not passed, legislation designed to improve patent protection by providing product versus process patents, increasing the protection period to 20 years, and offering fair prerequisites for compulsory licensing. However, the government may opt to delay implementation of the legislation, once passed, to take advantage of the transition period through 2005 granted to certain developing countries under the WTO TRIPs agreement.

Copyrights: Egypt has strengthened since 1997 the enforcement of copyright protection laws already on the books, although enforcement remains erratic and inadequate. Law 29 of 1994 amended the copyright law (Law 38 of 1992) to ensure that computer software was afforded protection as a literary work, allowing it a 50-year protection term. Law 38 of 1992, an amendment to the out-of-date 1954 copyright law, increased penalties against piracy and provided specific protection to computer software. A 1994 decree also clarified rental and public performance rights, protection for sound recordings, and the definition of personal use.

Trademarks: Egypt is considering completely revising its laws in order to enhance significantly legal protection for trademarks and industrial designs. The current trademark law, Law 57 of 1939, is not enforced strenuously and the courts have only limited experience in adjudicating infringement cases. Fines amount to less than USD 100 per seizure, not per infringement. Judgments and enforcement must be made separately in each of the 26 governorates.

Trade Secrets: Egypt has no specific trade secrets legislation. Protection of commercially valuable information is possible through contractual agreement between parties. Breach of contractual terms of protection can be remedied in legal proceedings under either the civil or criminal code, depending on the severity of the damage caused.

Semiconductor Chip Layout Design: There is no separate legislation protecting semiconductor chip layout design, although Egypt signed the Washington semiconductor convention.

9. Worker Rights

a. *Rights of Association:* Egyptian workers may, but are not required to join trade unions. A union local or worker's committee can be formed if 50 employees express a desire to organize. Most members (about 27 percent of the labor force) are employed by state-owned enterprises. There are 23 industrial unions, all required to belong to the Egyptian Trade Union Federation (ETUF), the sole legally recognized labor federation. The ETUF, although semiautonomous, maintains close ties with the governing National Democratic Party. Despite the ETUF leadership assertion that it actively promotes worker interests, it generally avoids public challenges to government policies.

b. *The Right to Organize and Bargain Collectively:* The proposed new labor law which remains pending from the last legislative session provides statutory authorization for collective bargaining and the right to strike, rights which are not now adequately guaranteed. Under the current law, unions may negotiate work contracts with public sector enterprises if the latter agree to such negotiations, but unions otherwise lack collective bargaining power in the state sector. Under current circumstances, collective bargaining does not exist in any meaningful sense because the government sets wages, benefits, and job classifications by law, allowing few issues open to negotiation. Larger firms in the private sector generally adhere to such government-mandated standards.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and not practiced.

d. *Minimum Age for Employment of Children:* In March 1996, the Egyptian parliament adopted a new "comprehensive child law" drafted by the National Council for Childhood and Motherhood. The minimum age for employment was raised from 12 to 14. Provincial governors may authorize "seasonal work" for children between 12 and 14. Education is compulsory until age 15. An employee must be at least 15 to join a labor union. The Labor Law of 1981 states that children 14 to 15 may work six hours a day, but not after 7 p.m. and not in dangerous activities or activities requiring heavy work. Child workers must obtain medical certificates and work permits before they are employed. Recent estimates by the Egyptian government put the number of child laborers at 1.5 percent of the total working population of 18.3 million. Local non-governmental organizations put the number of children working at much higher, although verification is impossible. The majority of working children (78 percent) are employed on farms. Children also work as apprentices in auto and craft shops, in construction, and as domestics. Most are employed in the informal sector. The government has difficulty enforcing child labor laws due to a shortage of inspectors. Economic pressures, rural tradition, the inadequacy of the education system, and lack of government control in remote areas pose significant, but not insurmountable, barriers to addressing child labor issues in the near future.

Egypt is signatory to the 1997 Oslo Action Plan calling for the immediate removal of children from hazardous occupations, a national action plan to address child labor issues, and the eventual elimination of child labor.

e. *Acceptable Conditions of Work:* The government and public sector minimum wage is approximately USD 31 a month for a six-day, 42-hour workweek. Base pay is supplemented by a complex system of fringe benefits and bonuses that may double or triple a worker's take-home pay. The average family can survive on a worker's base pay at the minimum wage rate. The minimum wage is also legally binding on the private sector, and larger private companies generally observe the requirement and pay bonuses as well. The ministry of manpower sets worker health and safety standards, which also apply in the free trade zones, but enforcement and inspection are uneven.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		1,423
Total Manufacturing		435
Food & Kindred Products	(1)	
Chemicals & Allied Products	32	
Primary & Fabricated Metals	7	
Industrial Machinery and Equipment	13	
Electric & Electronic Equipment	(2)	
Transportation Equipment	(1)	

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Other Manufacturing	(2)	
Wholesale Trade		–48
Banking		163
Finance/Insurance/Real Estate		0
Services		43
Other Industries		–60
TOTAL ALL INDUSTRIES		1,955

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,00 (+/–).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

ISRAEL

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP	99.0	99.0	96.4
Real GDP Growth	2.9	2.2	2.0
GDP by Sector:			
Agriculture	2.0	2.0	2.0
Manufacturing	7.0	16.0	15.0
Construction	7.0	7.0	6.0
Services	40.0	43.0	43.0
Public Sector	34.0	33.0	34.0
Per Capita GDP (US$)	17,150	16,570	15,775
Labor Force (000's) [2]	2,210	2,270	2,320
Unemployment Rate (pct) [2]	7.7	8.7	8.7
Money and Prices (annual percentage growth):			
Money Growth (M2) (pct) [3]	26	23	30
Consumer Inflation (pct) [3]	7.0	8.6	3.2
Exchange Rate (NIS/US$) [2]	3.45	3.80	4.20
Balance of Payments and Trade:			
Total Exports FOB	20.9	21.2	21.4
Exports to U.S.	7.3	8.3	8.5
Total Imports CIF [4]	28.7	27.0	29.7
Imports from U.S. [4]	5.4	5.4	6.3
Trade Balance [4]	–7.8	–5.8	–8.3
Balance with U.S. [4]	1.9	2.9	2.2
External Public Debt (gross)	26.2	27.4	27.5
Fiscal Deficit/GDP (pct)	2.8	2.4	3.2
Current Account Deficit/GDP (pct)	3.3	2.3	2.5
Debt Service/GDP (pct) [5]	6.5	6.5	6.5
Gold and Foreign Exchange Reserves [6]	20.3	22.7	21.9
Aid from U.S.	3.1	3.0	2.9
Aid from Other Countries	0	0	0

[1] 1999 indicators estimated using partial-year data.
[2] Annual average.
[3] December to December.
[4] Excludes defense imports.
[5] Includes private sector debt service.
[6] At end of year.

1. General Policy Framework

Israel is a small open economy, increasingly competitive internationally in such high technology sectors as telecommunications, software, pharmaceuticals, and biomedical equipment. Israel's economy grew rapidly in the first half of the 1990s, with growth averaging six percent annually. This expansion, during which Israel's economy grew in real terms by a cumulative 40 percent, was stimulated by a wave of immigration from the countries of the former Soviet Union and the erosion of Israel's economic isolation following peace agreements reached with Jordan and the Palestinians. Rising incomes and the needs of the immigrants encouraged a strong upsurge in imports, including from the United States. Merchandise imports almost doubled between 1990 and 1996, rising from $15.1 billion to $29.6 billion; imports from the United States grew from $2.7 billion to $6.0 billion over the same period. Export growth, although strong, did not keep pace, and the current account deficit widened to over five percent of GDP in 1996.

Since the mid-nineties, economic growth has slowed markedly. The economy grew only 2.2 percent in 1998 while per capita GDP fell. Growth in 1999 is expected to be about 2 percent. The economic slowdown was caused by a number of factors, including reduced immigration, the Asian financial crisis and restrictive monetary and fiscal policy, implemented to overcome the large budget deficits in the mid-90's. The government tightened fiscal policy beginning in 1997 in order to avert a potential crisis in Israel's balance of payments. This tightening cut Israel's budget deficit by roughly two percent of GDP. Fiscal restraint continued into the 1998 and 1999 budgets, but slower than expected growth resulted in an estimated increase of the budget deficit in 1999 from 2.4 to 3.2 percent of GDP. The proposed FY 2000 budget (not yet passed by the Knesset) calls for a budget deficit of 2.5% in 2000. The government hopes to reduce the deficit to 1.5 percent of GDP by 2003. Defense spending remains the largest single component of the Israeli budget, although defense spending dropped from around 25 percent of GDP in the early 80s to less than 10 percent of GDP in 1998. In recent years, the most rapidly growing portions of the budget have been in the area of social services, such as health care, education, and direct payments to individuals and institutions. Between 1990 and 1998, for example, education spending rose 83 percent after inflation, while transfer payments increased by 76 percent.

Since 1994, the Bank of Israel has maintained high interest rates in its campaign to slow inflation and to achieve eventual price stability. Its chief policy instrument is the interest rate charged on its "monetary loans" to the commercial banks; it also adjusts domestic liquidity through purchases and sales of treasury bills, and by adjusting the volume of its borrowings from the banks. With imports of goods and services amounting to some 45 percent of GDP, Israel's inflation rate is strongly influenced by exchange rate developments. After the consumer price index had risen only 3.0 percent in the twelve months ending in July 1998, the lowest rate of price increase recorded since the 1960s, a sharp decline in the value of the shekel in subsequent months gave a swift upward boost to inflation. The CPI finished up more than 8 percent for the year. In 1999, inflation has remained consistently low, with an inflation rate of around 3 percent expected at the end of the year. Israel's official inflation target for 2000-2001 is 3-4 percent.

2. Exchange Rate Policy

The shekel floats within a pre-defined target zone against a basket of currencies: the U.S. Dollar, Yen, Euro, and Pound Sterling. As a matter of policy, the Bank of Israel does not intervene in the foreign exchange markets as long as the shekel remains within the target zone, although it is obligated to do so once the limits of the zone are reached. During the first half of 1997, for example, large-scale capital inflows caused the shekel to appreciate to the edge of its target zone. To keep the shekel within the zone, the central bank was forced to absorb the inflow of foreign currency and to sterilize the effect on domestic liquidity of such purchases through increased borrowings from the public.

Israel ended all foreign exchange controls for current transactions in 1993. In mid-1998, at the time of its fiftieth anniversary celebrations, Israel ended almost all of its remaining capital controls, except for limits on Israeli institutions' foreign investments and on access by non-Israelis to longer-term derivatives in the domestic market.

3. Structural Policies

Over the past decade, Israel has gradually reduced the degree of government involvement in and control over the economy while increasing the influence of domestic and international competition. Israel signed a Free Trade Agreement with the United States in 1985 and has similar agreements with the EU, the EFTA, and seven other countries. Since 1991 Israel has been unilaterally reducing tariffs on imports from countries with which it does not have trade agreements. This policy of increasing exposure to international competition has led to a significant restructuring of Israeli industry, causing job losses in such traditional light manufacturing sectors as shoes and textiles.

Significant reforms with important commercial implications for U.S. companies are being undertaken in several sectors. The most significant progress has been made in the telecommunications sector. In 1997, two private consortia, each with a U.S. firm as a participant, began offering international telephone service in competition with the established government-owned company; prices for international calls fell by as much as 80 percent almost immediately. Further plans for liberalization of the telecommunications sector include allowing more cellular telephone operators (there are now three), and opening up domestic landline service to competition.

The government raised almost $4 billion from the sale of shares in government-owned companies and banks in 1997 and 1998. The most important of these transactions was the sale to a U.S.-Israeli investor group of a controlling 43-percent stake in Bank Hapoalim. Bank Hapoalim is Israel's largest bank and has extensive holdings in Israeli industry. The government has sold off pieces of most other Israeli banks: it now retains majority ownership in only two of the five largest banks. The pace of privatization slowed in 1999; receipts for the first eight months of the year totaled under $300 million, less than one-third of the target for the year. The next big target for privatization is probably Bezek, the state domestic phone company. Efforts to sell all or part of the state airline El Al have stalled; it is unlikely that El Al will be privatized anytime soon.

The state power company, Israel Electric (IEC), dominates electricity generation and distribution in Israel. Under current law, independent producers can generate up to ten percent of Israel's electricity; another ten percent of Israel's power needs could be met by imports. Both areas could provide opportunities for U.S. companies. Progress towards opening up the electricity market to competition, however, has been very slow. Currently, IPPs or imports are meeting virtually none of Israel's power needs.

4. Debt Management Policies

The gross foreign debt of the public sector totaled $27.5 billion as of June 1999, all of it medium to long-term, and much of it guaranteed by the U.S. Government. Israel borrowed $9.2 billion between 1993 and 1998, for example, in bonds guaranteed by the United States intended to assist with the absorption of the immigrants from the former Soviet Union. The external liabilities of the banking system and non-financial public sector brought Israel's total gross foreign debt to $56 billion as of mid-1999. After netting out foreign assets of $44.3 billion, the country's net debt stood at $11.7 billion.

Anticipating the end of the U.S. loan guarantee program, the government began in 1995 to tap the international bond markets under its own name. Thus far, it has made successful offerings in the U.S., European, and Japanese bond markets.

5. Aid

U.S. assistance to Israel for fiscal year 1999 included $1.92 billion in military aid, of which over $1.4 billion was earmarked for procurement from the United States. U.S. aid also included economic assistance of $960 million and various forms of support for military R&D, notably for missile defense.

6. Significant Barriers to U.S. Exports

With the exception of some categories of agricultural produce and processed foods, all duties on products from the United States were eliminated under the 1985 United States-Israel Free Trade Area Agreement (FTAA) by January 1, 1995. The FTAA liberalized and expanded the trade of goods between the United States and Israel, and spurred discussions on freer trade in services, including tourism, telecommunications, and insurance.

Israel ratified the Uruguay Round Agreement on January 15, 1995. Israel became a member of the World Trade Organization on April 21, 1995 and implemented the WTO regime on January 1, 1996.

The U.S.-Israel FTAA allows the two countries to protect sensitive agricultural subsectors with nontariff barriers including import bans, quotas, and fees. These limitations have been carried forward into the WTO regime. Most quantitative limits have been translated into Tariff Rate Quotas (TRQs), while items previously banned now bear prohibitively high tariffs or fees that make imports of such goods uncompetitive with domestic production. The principal U.S. goods affected by these measures include poultry and dairy products, fish, and most fresh produce.

In late 1996, the United States and Israel agreed on a five-year program of agricultural market liberalization. The agreement covers all agricultural products, and provides for increased access during each year of the agreement via TRQs and tariff reductions. This agreement will be renegotiated in 2000. Despite an Israeli commitment to issue all TRQ licenses for a given year no later than October 31 of the previous year, there continue to be substantial delays in the licensing of U.S. products. Division of general quotas into impractically small and non-commercial individual lots deters potential buyers from quota utilization.

Israel has largely eliminated a unique form of protection for locally produced goods known as "Harama," meaning, "uplift." This was a 2-5 percent addition applied at the pre-duty stage to the CIF value of goods to bring the value of the products to a supposedly "acceptable" level for customs valuation. Israel calculates import value according to the Brussels Definition of Value (BDV), a method that tolerates uplifts of invoice prices. Israel is not a signatory to the WTO Valuation Code, although it has expressed its intention to become one.

A second uniquely Israeli form of protection is called "TAMA." TAMA is a post-duty uplift designed to convert the CIF value plus duty to an equivalent wholesale price for purposes of imposing purchase tax. Coefficients for calculation of the TAMA vary from industry to industry and from product to product.

In addition, purchase taxes from 25 to 95 percent are applied to goods ranging from automobiles to alcoholic beverages. Israel has eliminated or reduced purchase taxes on many products, including consumer electronics, building inputs, and office equipment. Where remaining, purchases taxes apply to both local and foreign products. However, when there is no local production, the purchase tax becomes a duty-equivalent charge.

Israel has reduced the burden of some discriminatory measures against imports. Although Israel agreed in 1990 to harmonize standards treatment, either by dropping health and safety standards applied only to imports or making them mandatory for all products, implementation of this promise has been slow. Enforcement of mandatory standards on domestic producers can be spotty, and in some cases (e.g., refrigerators, auto headlights, plywood, and carpets) standards are written so that domestic goods meet requirements more easily than do imports. In September 1998, Israel amended its packaging and labeling requirements to allow non-metric packaging as long as information on pricing in standard metric units is provided. This change has facilitated the entry of U.S. food products packaged in non-metric sizes. Israel has agreed to notify the United States of proposed new mandatory standards to be recorded under the WTO.

The Standards Institute of Israel is proposing a bilateral Mutual Recognition Agreement of Laboratory Accreditation with the United States that could result in the acceptance of U.S.-developed test data in Israel. The proposed program would eliminate the need for redundant testing of U.S. products in Israel to ensure compliance with mandatory product requirements. The Israeli cabinet decided in August 1999 that official Israeli standards could incorporate in their entirety more than one foreign standard. The government is developing implementing regulations. Once the regulations go into effect, this has potential to significantly reduce trade advantages enjoyed by products from the EU over goods of U.S. origin.

The government actively solicits foreign investment, including in the form of joint ventures, and especially in industries based on exports, tourism, and high technology. Foreign firms are accorded national treatment in terms of taxation and labor relations and are eligible for incentives for investments in priority development zones after receiving the approval of the Ministry of Industry and Trade. The incentive program provides grants of up to twenty percent of the amount of capital invested and tax benefits for investments in the development priority regions. There are generally no restrictions on foreign ownership, but a foreign-owned entity must be registered in Israel. Profits, dividends, and rents can generally be repatriated without difficulty through a licensed bank. Over 2000 U.S. companies have subsidiaries or other representation in Israel, according to the Israel-American Chamber of Commerce. Investment in regulated sectors, including banking, insurance, and defense-related industries, requires prior government approval.

Israel has one free trade zone, in the city of Eilat. In addition, there are three free ports: Haifa, Ashdod, and the port of Eilat. Enterprises in these areas may qualify for special tax benefits and are exempt from indirect taxation.

Israel is a signatory to the Uruguay Round Procurement Code, intended to enable more open and transparent international tendering procedures for a wide range of government entities. However, while some government entities notify the U.S. Government of tenders valued at over $50,000, many do not, and the notices that are received frequently carry short deadlines and are often only in Hebrew. Moreover, U.S. suppliers have been locked out, to date, of Ministry of Defense food tenders for the army and other security forces. Complex technical specifications and kosher certification requirements discourage foreign participation. Recently, however, there have been new efforts to facilitate purchase of U.S. food products for the Israeli military.

The government frequently seeks offsets (subcontracts to Israeli firms) of up to 35 percent of total contract value for purchases by ministries, state-owned enterprises, and municipal authorities. Failure to enter into or fulfill such industrial cooperation agreements (which may involve investment, co-development, co-production, subcontracting, or purchase from Israeli industry) may disadvantage a foreign company in government awards. Although Israel pledged to relax offset requests on civilian purchases under the FTAA, Israeli law continues to require such offsets. Israeli Government agencies and state-owned corporations not covered by the Uruguay Round Government Procurement Code follow the "Buy Israel" policy to promote national manufacturers.

Israeli law provides for a 15 percent cost preference to domestic suppliers in many public procurement purchases, although the statute recognizes the primacy of Israel's bilateral and multilateral procurement commitments. The cost preference for local suppliers can reach as high as 30 percent for firms located in Israel's priority development areas.

In addition to its WTO multilateral trade commitments and its FTAA with the United States, Israel also has free trade agreements with the European Union, Canada, the Czech Republic, Slovakia, Turkey, Hungary, Poland, Slovenia, and the EFTA states. It also has a preferential trade agreement with Jordan. With respect to all other countries, Israel has substituted steep tariffs for nontariff barriers previously applied, and is gradually reducing those tariffs. Israel's import liberalization program and negotiation of new free trade agreements have diluted U.S. advantages under the bilateral FTAA.

As part of the Middle East Peace Process, Israel has granted duty free access to its market for 50,000 tons of fresh and processed agricultural products from Jordan. It has also committed itself to allowing unlimited access for agricultural produce from the Palestinian Authority.

7. Export Subsidies Policies

The U.S.-Israeli FTAA included an agreement to phase out the subsidy elements of export enhancement programs and to refrain from new export subsidies. Israel has already eliminated grants, except in the case of agricultural export and import substitution crops. In 1993, Israel eliminated the major remaining export subsidy, an exchange rate risk insurance scheme which paid exporters five percent on the FOB value of merchandise. Israel still retains a mechanism to extend long-term export credits, but the volumes involved are small, roughly $250 million. Israeli export subsidies have resulted in past U.S. antidumping or countervailing duty cases. Israel has been a member of the WTO/GATT Subsidies Code since 1985.

Israel's Parliament, the Knesset, passed legislation in 1994 authorizing the creation of Free Processing Zones (FPZs). Under the terms of the law, qualifying companies operating in the FPZs would be exempt from direct taxation for a twenty-year period, and imported inputs would be free from import duties or tariffs. Companies in FPZs would also be exempt from collective bargaining and minimum wage requirements, although subject to other labor laws. The legislation was originally intended to promote investment in export-related industries, but the wording of the legislation as passed does not limit applicant companies to exporters or providers of services to overseas clients. Government ministries continue to discuss details of the FPZ's. As of November 1999, no FPZ's had yet been established, although one had been proposed for the Beer Sheva region.

8. Protection of U.S. Intellectual Property

Israel is a member of the World Trade Organization (WTO), and projects that it will be in compliance with its commitments under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement by January 1, 2000. Israel expects to pass legislation before the end of 1999 that will amend its patent, trademark, copyright, and other relevant laws to bring it into compliance with TRIPS. The pharmaceuticals industry, however, has raised questions about whether the TRIPS implementation law will satisfy the data protection requirements of TRIPS section 39.3. (More on pharmaceuticals below.)

The GOI is also developing an updated copyright law, which it expects to bring to the Knesset in 2000. The proposed legislation would include enhanced rights of distribution in connection with rental rights and imports of copyrighted materials. Rental rights would include all protected works, including sound recordings, cinematographic works, and computer programs. Current Israeli patent law contains overly broad licensing provisions concerning compulsory issuance for dependent and nonworking patents. The government is working on revisions of laws on patents, cable broadcasting, trademarks and other areas.

Israel is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, the Paris Convention for the Protection of Industrial Property, and the Patent Cooperation Treaty. Israel is also a member of the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the recognition and enforcement of foreign arbitral awards.

In February 1998, the Knesset passed a separate amendment to the Patent Law which will allow non-patent holders to manufacture limited quantities of patented pharmaceutical products prior to the expiration of patent rights, in preparation for submitting data necessary to obtain marketing approval to Israeli and foreign health authorities. The amendment also provides for a limited extension of the patent term for pharmaceutical products. The United States unsuccessfully objected to the amendment and urged that Israel model its law on the comparable provision of U.S. law.

Israel passed legislation early in 1999 that would weaken patent protection by permitting parallel importation of patented pharmaceutical products. The United States has urged Israel not to enact the proposed legislation due to its potential adverse impact on the rights of U.S. patent holders.

In April 1998, the U.S. Trade Representative placed Israel on the "Special 301" Priority Watch List due in large part to U.S. concern over an increase in illegal copying and sale of video and audio recordings. In June 1998, USTR submitted an "Action Plan" to the Government of Israel addressing outstanding U.S. concerns, including increasing piracy levels of cable television transmissions, audio and videocassettes, compact disks, and computer software.

In March 1999, the GOI submitted to USTR a report on its IPR enforcement activities and its progress in fulfilling the Action Plan. The GOI said its accomplishments included legislation to bring Israel into compliance with TRIPS obligations by the end of 1999, establishment of a new police unit dedicated to combat IPR violations, and establishment of an inter-ministerial committee under the Ministry of Industry and Trade to monitor progress on IP enforcement.

Nevertheless, on April 30, 1999, USTR announced, based on its special 301 review, that the GOI had made little progress in implementing the 1998 Action Plan. As a result, USTR placed Israel on the priority watch list. In making this announcement, USTR cited specific concerns about:

—the inadequacy of Israel's copyright law;
—amendments to the pharmacists law that weaken patent protection for pharmaceuticals;
—high levels of IPR piracy, particularly audio CD's;
—insufficient police and prosecutorial attention to IPR cases.

USTR will conduct a Special 301 out-of-cycle review of Israel's IPR protection in December 1999.

9. Worker Rights

a. *The Right of Association:* Israeli workers may join freely established organizations of their choosing. Most unions belong to the General Federation of Labor (Histadrut) and are independent of the government. In 1995, Histadrut's membership dropped sharply after the federation's links with the nation's largest health care fund were severed. A majority of the workforce remains covered by Histadrut's collective bargaining agreements. Non-Israeli workers, including nonresident Palestinians from the West Bank and Gaza who work legally in Israel, are not members of Israeli trade unions but are entitled to some protection in organized workplaces. The right to strike is exercised regularly. Unions freely exercise their right to form federations and affiliate internationally.

b. *The Right to Organize and Bargain Collectively:* Israelis fully exercise their legal right to organize and bargain collectively. While there is no law specifically prohibiting antiunion discrimination, the Basic (i.e., quasi-constitutional) Law against discrimination could be cited to contest discrimination based on union membership. There are currently no export processing zones, although the free processing zones authorized since 1994 would limit workers' collective bargaining and minimum wage rights.

c. *Prohibition of Forced or Compulsory Labor:* Israeli law prohibits forced or compulsory labor for both Israeli citizens and noncitizens working in Israel.

d. *Minimum Age for Employment of Children:* Children who have attained the age of 15 and who remain obligated to attend school may not be employed, unless they work as apprentices under the terms of the apprenticeship law. Nonetheless, children who have reached the age of 14 may be employed during official school holidays. The employment of children aged 16 to 18 is limited to ensure adequate time for rest and education. Ministry of Labor inspectors are responsible for enforcing these restrictions, but children's rights advocates contend that enforcement is unsatisfactory, especially in smaller, unorganized workplaces. Illegal employment of children does exist, probably concentrated in urban light industrial areas.

e. *Acceptable Conditions of Work:* The minimum wage is set by law at 47.5 percent of the average national wage, updated periodically for changes in the average wage and in the consumer price index. Union officials have expressed concern over enforcement of minimum wage regulations, particularly with respect to employers of illegal nonresident workers. Along with union representatives, the Labor Inspection Service enforces labor, health, and safety standards in the workplace. By law, the maximum hours of work at regular pay are 47 hours per week (eight hours per day and seven hours before the weekly rest). The weekly rest must be at least 36 consecutive hours and include the Sabbath. Palestinians working in Israel are covered by the law and by collective bargaining agreements that cover Israeli workers.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors of the economy in which U.S. companies have invested are the same as described above.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		41
Total Manufacturing		2,344
Food & Kindred Products	71	
Chemicals & Allied Products	65	
Primary & Fabricated Metals	15	
Industrial Machinery and Equipment	–11	
Electric & Electronic Equipment	1,709	
Transportation Equipment	5	
Other Manufacturing	490	
Wholesale Trade		91
Banking		0
Finance/Insurance/Real Estate		386
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		3,067

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

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

JORDAN

Key Economic Indicators [1]

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Income, Production and Employment:			
Nominal GDP [2]	6,974	7,384	7,612
Real GDP Growth (pct) [3]	1.3	2.2	2.0
GDP by Sector:			
Agriculture	208	186	N/A
Manufacturing	835	860	N/A
Services	1,285	1,354	N/A
Government	1,256	1,331	N/A
Per Capita Nominal GDP (US$) [4]	1,516	1,552	1,565
Labor Force (000's) [5]	1,024	1,250	N/A
Unemployment Rate (pct) [5]	13.2	14.9	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	7.8	7.6	6.0

Key Economic Indicators [1]—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	1999
Consumer Price Inflation [6]	3.0	3.1	2.0
Exchange Rate			
Official (JD/US$ annual average)	0.709	0.709	0.709
Balance of Payments and Trade:			
Total Exports FOB [7]	1,835	1,802	1,835
Exports to U.S.[8]	26.0	17.1	30.0
Total Imports CIF±[7]	4,100	3,827	3,980
Imports from U.S.[8]	402	353.1	270
Trade Balance [7]	−2,265	−2,025	−2,145
Balance with U.S.[8]	−376	−336	−228
Current Account Deficit/GDP (pct) [9]	−0.42	−0.18	0.7
External Debt Outstanding [10]	6,459	7,054	7,259
Debt Service Payments/GDP (pct) (Commitment Basis)	12.3	10.5	N/A
Debt Service Payments/GDP (pct) (Cash Basis)	7.5	6.9	N/A
Fiscal Deficit/GDP (excluding grants)	−7.7	−10.7	−7.0
Fiscal Deficit/GDP (including grants)	−3.1	−6.8	−3.3
Gold and Foreign Currency Reserves [11 12]	2,400	1,954	2,726
Official Foreign Currency Reserves [12]	1,693	1,169	1,916
Aid from U.S.[13 14]	180	207	262
Aid from All Other Sources [14]	259	236	N/A

[1] Sources: Central Bank of Jordan's (CBJ) Monthly Bulletin, October 1999; IMF First Review of EFF Arrangements, September 21,1999; Ministry of Finance's (MOF) Government Finance Bulletin, July 1999; and Ministry of Labor's Annual Report 1998. FY 1999 estimates are based on CBJ 1999 projections, in the 1998 Annual Report; MOF projections, and embassy projections for exports and imports to/from U.S. are based on 8 months of U.S. Commerce Department statistics. 1998 figures are preliminary as per their sources.

[2] FY 1999, based on Nominal GDP growth projection of 3.1 percent (IMF).

[3] Percentage changes calculated in local currency for real GDP at constant market prices. Note that data for 1996-1999 has been revised.

[4] For 1999, population estimate of 4,918,000 and projected nominal GDP growth rate of 3.1 percent.

[5] Labor Force: Ministry of Labor Annual Report 1998; Unemployment: FY 1998, official result of the first round of the Employment and Unemployment Survey conducted by the Department of Statistics (unofficial estimates are almost twice as high).

[6] Percentage change in the Cost of Living Index.

[7] Merchandise trade; exports and imports on customs basis.

[8] Trade with U.S. based on Department of Commerce statistics. 1999 projections estimated from 8 month trade figures.

[9] Including grants. Figures for 1997 and 1998 are in surplus.

[10] FY 1999 estimated from IMF debt growth projections.

[11] Represents net foreign exchange reserves plus gold.

[12] FY 1999 figures as at end of August.

[13] FY 1996 includes $100 million of military equipment transfers; figures exclude credit guarantees and GSM grain soft loans, but include soft loan PL 480 (for agricultural commodities). Includes economic and military assistance. FY 1999 includes Section 416(b) donation of U.S. agricultural commodities.

[14] Foreign grants as reported in the General Government Budget (CBJ reports), including the Iraqi grant. Total FY 1999 foreign grants going to the budget (including US ones) are expected to total US$ 290 million.

1. General Policy Framework

With a per-capita gross domestic product (GDP) of about $1,550, and a population of 4.9 million, Jordan has one of the smallest and poorest economies in the region. Since 1996, Jordan has experienced slow economic growth, declining per capita income, and high levels of unemployment. Real gross domestic product (GDP) is expected to grow in 1999 at no more than two per cent, which is below the rate of population growth. Drought caused agricultural output to decline in 1999.

The government is committed to economic reform, especially in the area of privatization and in improving the investment climate. Jordan is in the process of acceding to the world trade organization (WTO), and is likely to gain membership during the first quarter of 2000. As a result, it is in the process of passing laws modernizing customs and phytosanitary regulations, intellectual property protection, the tax regime, laws regulating services, and many other aspects of its economy. Recently, after years of inaction, the government privatized the Aqaba Railway and partially privatized the state-owned cement company. Significant progress has been made towards privatizing the Jordan Telecommunications Company and Royal Jordanian, the national airline.

The government offers significant incentives to foreign businesses wishing to establish operations in Jordan. The U.S. and Jordan have signed a Bilateral Investment Treaty, which protects investors and establishes procedures for resolving investment disputes, and a Trade and Investment Framework Agreement, which aims to broaden economic ties between the two countries.

The United States offers unique trade benefits to Jordan through the designation of five "Qualifying Industrial Zones" (QIZs). Goods manufactured in QIZs, which require input from both Jordan and Israel, are allowed duty-free entry into the U.S. Thousands of jobs have been created in the last year due to this initiative. Other potential QIZs in Aqaba and Mafraq, are in the planning stage.

2. Exchange Rate Policy

The Central Bank of Jordan (CBJ) oversees foreign currency transactions in Jordan and sets the exchange rate. The dinar-dollar fixed rate was instituted in 1995 and remains at 0.708 (buy) and 0.710 (sell) dinar to the dollar (approximately $1.41 to the dinar). The dinar fluctuates against other currencies according to market forces.

All restrictions pertaining to the inflow and outflow of foreign currency (including gold) were rescinded in 1997. The Jordanian dinar (JD) was made fully convertible for all commercial and capital related transactions. Foreign currency is obtainable from licensed banks at the legal market-clearing rate, which is the CBJ's official rate. Although there has been deterioration of the real effective exchange rate since the early 1990s, it is anticipated that the JD will remain pegged to the dollar at an exchange rate of approximately $1.41 to the JD, in light of the Central Bank's commitment to maintaining exchange rate stability.

Moneychangers operate under Central Bank supervision and are free to set their own currency exchange rates. Moneychangers, unlike banks, do not pay CBJ commission fees for every exchange transaction, which gives them a competitive edge over banks.

Banks do not require prior CBJ approval for the incoming and outgoing transfer of funds from either resident or non-resident accounts (including investment-related transfers). Banks, however, ultimately report all foreign currency transactions to the CBJ. Banks are permitted to open non-resident accounts in JD and/or foreign currency.

The CBJ requires banks to submit non-resident supportive documents on behalf of their foreign clients every three years. Otherwise such accounts will be converted to resident foreign currency accounts. Non-resident foreign currency accounts are exempted from all transfer-related commission fees charged by the central bank.

Banks may buy or sell an unlimited amount of foreign currency on a forward basis. Banks are permitted to engage in reverse operations involving the selling of foreign currency in exchange for JD on a forward basis for the purpose of covering the value of imports. There are no restrictions as to the amount resident account holders may maintain in foreign currency deposits, and there are no limits on the amount of funds residents are permitted to transfer abroad.

3. Structural Policies

Although enjoying U.S. Generalized System of Preferences (GSP) and Normal Trade Relations benefits, Jordan does not provide reciprocal treatment of goods imported from the United States. Most imports into Jordan are subject to tariffs and duties, while industrial raw materials and capital equipment imported by licensed industrial projects may be exempted. The ceiling on all duties is 35 percent. Most additional customs taxes, fees and duties on regular imports have been abolished. However, luxury goods and automobiles are still assessed additional sales taxes, fees, and duties.

The Kingdom's Income Tax Law imposes a 35 percent maximum marginal rate. Taxes on individual incomes vary between 5 percent (for annual incomes less than $3,000) and 30 percent (for annual incomes exceeding $22,500). Corporate taxes are set at 35 percent for banks and financial institutions and 25 percent for companies engaged in brokerage and agency activities. Re-invested profits and profits earned on exports are exempt from income tax.

Current law imposes an across-the-board 13 percent sales tax. However, the sales tax is higher on certain items, such as cigarettes, alcohol and automobiles. The law exempts exports from the sales tax and empowers the Cabinet to impose additional sales taxes to compensate for revenue losses from reduced customs duties. After reducing duties on all imports to no more than 35 percent in mid-1999, the Council of Ministers lowered the special sales tax on imported automobiles. The result is that automobiles, although still expensive, are more affordable for the average Jordanian. Almost all types of professional, business and legal services are also subject to the 13 percent sales tax. The government is working to revise the sales tax and expects to introduce a VAT-like sales tax in mid-2000.

4. Debt Management Policies

Jordan's outstanding external official debt is approximately $7 billion. Jordan rescheduled $400 million in debt to Paris Club creditors in 1997, and a further $800 million in 1999, easing repayment pressure. The ratio of debt service to exports of goods and non-factor services has been decreasing since 1993, dropping from 35.9 percent in 1993 to 21.4 percent in 1998, according to the central bank. More than 25 percent of Jordan's external debt is to multilateral institutions, while its largest bilateral creditors are Japan, France and the United Kingdom.

5. Aid

In fiscal year 1999, USAID's economic assistance program to Jordan totaled $200 million. In addition, the U.S. provided $45 million in Foreign Military Financing (FMF), and $1.6 million in International Military Education and Training Program (IMET) funds. Jordan also utilized $15 million in GSM 103 loan guarantees for grain purchases, and received 300,000 tons of wheat, worth approximately $40 million, donated under the Section 416(b) program. USAID's economic assistance program for FY 2000 is expected to be approximately $200 million.

6. Significant Barriers to U.S. Exports

Import Licenses: Import licenses are generally not required. Approximately 50 special items do require prior clearance. The license regime will be modified in accordance with WTO requirements in early 2000.

Services Barriers: At present, market-entry barriers affect almost all service industries.

Foreign suppliers of services do not receive Normal Trade Relations or national treatment. However, when Jordan accedes to the WTO in early 2000, many of these barriers will be eased or lifted completely.

Standards, Testing, Labeling, and Certification: Except for pharmaceuticals, which are handled by the Ministry of Health, the Jordanian Standards and Measures Department is responsible for most issues related to standards, measures, technical specifications and ISO certification. Imported products must comply with labeling and marking requirements issued by the Standards and Measures Department and relevant government ministries. Different regulations apply to imported foodstuffs, medicines, chemicals and other consumer products. Jordanian importers are responsible for informing foreign suppliers of any applicable labeling and marking requirements.

Investment Barriers: The United States and Jordan signed a Bilateral Investment Treaty in 1997. The current Investment Promotion Law is designed to promote both local and foreign investment and to encourage the formation of joint ventures and multinational enterprises in Jordan. Most important to U.S. business, the law provides equal treatment for foreign and Jordanian investors. Restrictions on foreign investment remain in four sectors: media, construction, trade and commercial services, and mining.

Government Procurement Practices: With few exceptions, the General Supplies Department of the Ministry of Finance makes government purchases. Foreign bidders are permitted to compete directly with local counterparts in international tenders financed by the World Bank. However, local tenders are not directly open to foreign suppliers. By law, foreign companies must submit bids through agents. While Jordan's procurement law does not allow non-competitive bidding, it does permit a government agency to pursue a selective tendering process. The law gives the tender-issuing department, as well as review committees at the Central Tenders and General Supplies Departments, the right to accept or reject any bid while withholding information on its decisions.

Customs Procedures: Despite donor-supported reform efforts, cumbersome customs procedures continue to undermine Jordan's business and investment climate. Overlapping areas of authority and difficult clearance procedures remain in place. Actual appraisal and tariff assessment practices are frequently arbitrary and may even differ from written regulations. Customs officers often make discretionary decisions about tariff and tax applications when regulations and instructions conflict or lack specificity. Delays in clearing customs are common.

7. Export Subsidies Policies

The Central Bank runs a low interest financing facility to support eligible exports, including all agricultural and manufactured exports with domestic value-added of not less than 25 percent. The Jordan Loan Guarantee Corporation offers soft loans to small scale, export-oriented projects in industry, handicrafts and agriculture. The Export and Finance Bank, a public shareholding corporation, provides commercial financing and loan guarantees to Jordanian exporters.

8. Protection of U.S. Intellectual Property

After it accedes to the World Trade Organization, Jordan will be obligated to meet the requirements of the Trade Related Aspects of Intellectual Property (TRIPS) agreement. Jordan is a member of the World Intellectual Property Organization (WIPO), and is a signatory to the Paris Convention for the Protection of Industrial Property and the Berne Convention.

In April 1999, the U.S. Trade Representative retained Jordan on the "Special 301" Watch List for inadequate protection of intellectual property, but by the end of 1999, Jordan was taken off this list. Jordan has passed the appropriate intellectual property laws and is in compliance on this issue.

In the area of copyrights, amendments to Jordan's Copyright Law were passed in September 1999 by parliament and provide an improved framework for protection of foreign copyrights. This law appears to comply with TRIPS requirements, but fully effective enforcement mechanisms are not yet in place. Amendments to the existing trademark law were approved by parliament in late 1999.

A new patent law went into effect in December 1999. This law could curtail unauthorized copying of pharmaceutical products, which results in tens of millions of dollars in losses to U.S. and European pharmaceutical firms. The law appears to fall short of TRIPS data protection requirements, but this shortcoming will be addressed in additional legislation to be adopted before accession to the WTO.

Software piracy is common in Jordan. However, the new copyright law, in conjunction with one high-profile raid on several retailers of pirate software, has begun to drive the pirate software market underground. In 1998, Jordan issued a decree requiring government ministries to use licensed software.

9. Worker Rights

a. *The Right of Association:* Workers in the private sector and some state-owned companies have the right to establish and join unions. More than 30 percent of the Jordanian work force is unionized. Unions represent their membership in dealing with issues such as wages, working conditions and worker layoffs. Seventeen unions make up the General Federation of Jordanian Trade Unions (GFJTU). The GFJTU actively participates in the International Labor Organization.

b. *The Right to Organize and Bargain Collectively:* Unions have, and exercise, the right to bargain collectively. GJFTU member unions regularly engage in collective bargaining with employers. Negotiations cover a wide range of issues, including salaries, safety standards, working conditions and health and life insurance. If a union is unable to reach agreement with an employer, the dispute is referred to the Ministry of Labor for arbitration. If the ministry fails to act within two weeks, the union may strike.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory labor is forbidden by the Jordanian Constitution, except in a state of emergency such as war or natural disaster.

d. *Minimum Age for Employment of Children:* Children under age 16 are not permitted to work except in the case of professional apprentices. Under an apprentice program, students may leave the standard educational track and begin part-time training (up to 6 hours a day) at age 13. In practice, enforcement of this law often does not extend to small family businesses that employ underage children.

e. *Acceptable Conditions of Work:* Jordan's workers are protected by a comprehensive labor code, enforced by Ministry of Labor inspectors. A minimum wage of 80 JD per month was decreed in October 1999. The government maintains and periodically adjusts a minimum wage schedule of various trades, based on recommendations of an advisory panel consisting of representatives of workers, employers and the government. Maximum working hours are 48 per week, with the exception of hotel, bar, restaurant and movie theater employees, who may work up to 54 hours. Jordan has a Workers Compensation Law and a social security system, which cover companies with more than five employees.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those in other sectors of the Jordanian economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount
Petroleum	–1
Total Manufacturing	(1)

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998—Continued

[Millions of U.S. Dollars]

Category	Amount	
Food & Kindred Products	([1])	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		([1])
Finance/Insurance/Real Estate		([1])
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		32

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

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

KUWAIT

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	30,242	25,151	27,696
GDP Growth (pct) [3]	–0.2	–16.3	10.1
GDP by Sector:			
Manufacturing	4,033	2,999	3,538
Services	3,602	3,617	3,655
Government	6,399	6,643	6,842
Petroleum	12,158	7,772	12,062
Per Capita GDP (US$)	13,691	11,075	12,089
Labor Force (000's)	1,208	1,243	1,255
Unemployment Rate (pct)	1.3	0.7	0.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	3.9	–0.8	2.6
Consumer Price Inflation (pct)	0.7	0.2	0.3
Exchange Rate (KD/US$ annual average)			
Official	0.303	0.305	0.305
Balance of Payments and Trade:			
Total Exports FOB	14,238	9,548	9,977
Exports to U.S. [4]	1,998	1,471	1,344
Total Imports CIF	8,257	8,610	8,963
Imports from U.S. [4]	1,394	1,479	1,212
Trade Balance	5,983	938	1,014
Balance with U.S. [4]	604	–8.7	132
Current Account Surplus/GDP (pct)	26.8	10	18.4
External Public Debt [5]	1,404	802	451
Debt Service Payments/GDP (pct)	3.1	2.3	1.3
Fiscal Deficit/GDP (pct) [6]	4	16.2	23.7
Gold and Foreign Exchange Reserves (US$ billions)	3.3	3.6	3.7
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1999 figures are projections based on data through August 1999.
[2] GDP at factor cost.

[3] Percentage changes calculated in local currency.
[4] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 Figures are estimates based on data available through August 1999.
[5] Based on Kuwaiti Government figures as of January 1999.
[6] This is a Ministry of Finance projection calculated using an estimated world crude oil price of US$ 10/barrel; Embassy projects a lower deficit for FY 1999/2000.

1. General Policy Framework

Kuwait is a politically stable state where the rule of law prevails. The press is largely free and commercial advertising is available. Arabic is the official language but English is widely spoken. Kuwait has a small and relatively open, oil-rich economy which has created an affluent society.

Kuwait still faces several structural problems in its budget: excessive dependence on oil revenue, growing government expenditures due to the need for continued high defense spending, growing social expenditures resulting from high levels of government employment, and provision of heavily subsidized social services and utilities. Primarily because of weak oil revenues during the first half of 1999, Kuwait's budget was projected to be in deficit for the FY 1999/2000. A five-year plan to reduce government employment, reduce subsidies and encourage privatization of services is expected to be presented to parliament in late 1999 but may meet resistance. However, higher oil prices in the last half of 1999 should alleviate some of the pressure on Kuwait's budget and weaken the impetus for economic restructuring.

Domestic investment is encouraged by provision of low cost land, subsidized utilities and waivers of duties and fees. These are offset by lengthy bureaucratic procedures, and for foreigners, high tax rates and complex procedures to secure work visas. The Kuwait Central Bank uses interest rates as its primary means to control money supply. This is accomplished through adjustments to the discount rate and through open market operations of government securities. Kuwait's money supply (M2) in August 1999 was up by 2.2% over the previous 12 months.

2. Exchange Rate Policy

There are no restrictions on current or capital account transactions in Kuwait, beyond a requirement that all foreign exchange purchases be made through a bank or licensed foreign exchange dealer. Equity, loan capital, interest, dividends, profits, royalties, fees and personal savings can all be transferred in or out of Kuwait without hindrance.

The Kuwaiti Dinar itself is freely convertible at an exchange rate calculated daily on the basis of a basket of currencies which is weighted to reflect Kuwait's trade and capital flows. Since the dollar makes up over half of the basket, the Kuwaiti Dinar has closely followed the exchange rate fluctuations of the U.S. Dollar over the past year.

3. Structural Policies

Kuwait's government plays a dominant role in the local economy, which may diminish if moves toward privatization and rationalization of the economy are implemented. Kuwait's economy is heavily regulated, which restricts participation and competition in a number of sectors and strictly controls the roles of foreign capital and expatriate labor. Policies favor Kuwaiti citizens and Kuwaiti-owned companies. Income taxes, for instance, are only levied on foreign corporations and foreign interests in Kuwaiti corporations, at maximum rates of 55 percent of taxable income. Individuals are not subject to income taxes, but the government is considering possible changes to its current income tax structure.

Foreign investment is welcome in Kuwait for minority partnership in select sectors. Foreign nationals, save for the citizens of some GCC countries, are prohibited from having majority ownership in virtually every business other than certain small service-oriented businesses, and may not own property. Non-GCC nationals are forbidden to trade in Kuwait stocks on the Kuwait stock exchange except through the medium of unit trusts (mutual funds). Kuwait's parliament is currently reviewing legislation that would allow majority foreign ownership in selected sectors and allow direct foreign participation in the Kuwait Stock Exchange. Approval may occur before the end of 1999.

Government procurement policies specify local products, when available, and prescribe a 10 percent price advantage for local companies on government tenders. There is also a blanket agency requirement for all foreign companies trading in Kuwait to either engage a Kuwaiti agent or establish a Kuwaiti company with majority Kuwaiti ownership and management.

4. Debt Management Policies

Prior to the Gulf War, Kuwait was a significant creditor to the world economy, having amassed a foreign investment portfolio that was variously valued at $80 to

$100 billion. Following liberation, Kuwait made the final payment on its $5.5 billion jumbo reconstruction loan in December 1996. The estimated value of the Kuwait Investment Authority's (KIA) foreign assets, concentrated primarily in the Fund for Future Generations, is now approximately $60 billion, while other government foreign assets are estimated at about $22 billion. The government is authorized by law to borrow up to KD 10 billion ($30.5 billion) or its equivalent in major convertible currencies. As of the end of August 1999, the total outstanding balance of public debt instruments in KD issued by the Central Bank of Kuwait was KD 2.37 billion ($7.78 billion), while Kuwait's official external debt was estimated at about $451 million.

5. Significant Barriers to U.S. Exports

On July 1, 1992, Kuwait began collecting a four-percent tariff on most imports. This flat rate is applied to the Cost, Insurance and Freight (CIF) value of imported goods. Where imports compete with domestic "infant industries," the Ministry of Commerce and Industry may impose protective tariffs of up to 25 percent. In such cases, tariff reviews and determinations are done on a case by case basis.

There are no customs duties on food, agricultural items and essential consumer goods. Imports of some machinery, most spare parts and all raw materials are exempt from customs duties. Oil companies may apply for tariff exemptions for drilling equipment and certain other machinery, including that for new plants.

Kuwait, like other GCC member states, maintains restrictive standards that impede the marketing of U.S. exports. For example, shelf-life requirements for processed foods are often far shorter than necessary to preserve freshness and result in U.S. goods being noncompetitive with products shipped from countries closer to Kuwait. Standards for many electrical products are based on those of the UK, which restrict access of competitive U.S. products. Standards for medical, telecommunications and computer equipment tend to lag behind technological developments, with the result that government tenders often specify the purchase of obsolete, more costly items. Government procurement policies specify local products when available and prescribe a 10 percent price advantage for local firms in government tenders.

The government views its offset program as a major vehicle for motivating foreign investment in Kuwait. The U.S. Government opposes this type of program and has recommended that Kuwait carefully weigh all the potential costs to itself of an offset program. Interested U.S. firms should familiarize themselves with the terms of this program to ensure that the offset program does not become an undue obstacle to their business.

In June 1993, Kuwait announced that it would no longer apply the secondary boycott to firms that do business with Israel and the tertiary boycott with firms that do business with firms subject to the secondary boycott, but would continue to apply the primary boycott to goods and services produced in Israel itself. Kuwait has also taken steps to revise its commercial documentation to eliminate all direct references to the boycott of Israel. Should U.S. firms receive requests for boycott-related information from private Kuwaiti firms or Kuwaiti public officials, they should advise the embassy of the request, report the request as required by law to the U.S. Department of Commerce, and take care to comply with all other requirements of the U.S. anti-boycott laws. Kuwait, along with many other Middle East countries, continues to enjoy a waiver of the 1996 "Brown Amendment" requirements. The "Brown Amendment" prohibits defense sales to those countries that have not eliminated all vestiges of the enforcement of the secondary and tertiary boycott of Israel, unless waived by the President.

For perishable imports arriving via air, land or sea, customs clearance is prompt and takes about three hours. To complete clearance, the importer presents its import license and quality test certificate. Recurring perishable imports can be cleared and taken to the importer's premises after a sample has been submitted to the municipality for quality testing.

Usually, customs assesses duty on imported goods based on commercial invoices. If the customs officials believe the declared value unrealistic, they may make their own assessment.

Importers do not need a separate import license for each product or each shipment. An importer does, however, need an annual import license issued by the Ministry of Commerce and Industry. To be eligible, the company must be registered both in the Commercial Register at the Ministry of Commerce and Industry, as well as at the Kuwait Chamber of Commerce and Industry. Kuwaiti shareholding in the capital of the company must be at least 51 percent.

A special import license is required to import certain kinds of goods, such as firearms, explosives, drugs and wild animals. Some drugs require a special import license from the Ministry of Public Health. Imports of firearms and explosives require a special import license form the Ministry of Interior.

6. Export Subsidies Policies

Kuwait does not directly subsidize any of its exports, which consist almost exclusively of crude oil, petroleum products and fertilizer. Almost 98 percent of Kuwait's food is imported. Farmers receiving government subsidies grow small amounts of local vegetables, and small amounts of these vegetables are sold to neighboring countries. However, not enough of these vegetables are grown or sold to make any significant impact on local or foreign agricultural markets. Periodically, Kuwait cracks down on the re-export of subsidized imports such as food and medicine.

7. Protection of U.S. Intellectual Property

Kuwait is a member of the World Trade Organization (WTO) and hopes to have in place necessary legislation that will put it in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPS) Agreement by January 1, 2000. Kuwait joined the World Intellectual Property Organization (WIPO) in April of 1998, but has not yet signed the Berne Convention for the protection of literary and artistic works (copyright) or the Paris Convention for the protection of industrial property (patent and trademark). The U.S. Trade Representative listed Kuwait in 1999 on the "Special 301" Priority Watch List for lack of progress in passing copyright legislation, absence of patent coverage for pharmaceuticals, and Intellectual Property (IP) enforcement problems.

Patents: Kuwait's 1961 Patent Law was never implemented and contained a number of deficiencies. The draft patent law being considered by its Parliament represents a significant improvement. While meeting basic requirements of the WTO Accord on Trade Related Aspects of Intellectual Property (TRIPS), questions remain regarding when coverage for pharmaceuticals will begin and how compulsory licensing provisions will be interpreted.

Copyrights: In 1995, the Ministry of Information issued ministerial decrees protecting U.S. and British-copyrighted material. In April 1998, Kuwait's Ministry of Planning issued a decree barring the use of pirated software on government computers. A draft Copyright Law, currently with the Kuwait Parliament, is expected to be acted on before the end of 1999. The draft is essentially TRIPS-consistent, but there are questions regarding its protection of sound recordings and rental rights (both TRIPS requirements). Kuwait's Ministry of Information has begun a program to educate its officials, and the Kuwait public, on implementation of the new law.

Video piracy, in particular, remains a major concern despite efforts by the Ministry of Information to enforce the 1995 Ministerial Decree. Lack of staff and Kuwaiti officials' reluctance to publicize the names and locations where pirated products are seized have been two major obstacles. Uncertain and slow judicial action is also a hurdle. It is hoped that these problems will be addressed following passage of the copyright law.

8. Worker Rights

a. *The Right of Association:* Both Kuwaiti and non-Kuwaiti workers have the right to establish and join unions; latest figures indicate 50,000 workers are union members. The government restricts the free establishment of trade unions: workers may establish only one union in any occupational trade, and unions may establish only one federation. New unions must have at least 100 members, 15 of whom must be Kuwaiti. Expatriate workers, about 80 percent of the labor force, may join unions after five years residence, but only as nonvoting members. In practice, the Kuwait Trade Union Federation claims that this restriction is not enforced and that foreigners may join unions regardless of their length of stay.

b. *The Right to Organize and Bargain Collectively:* While unions are legally independent organizations, 90 percent of their budgets derive from government subsidies and the government oversees their financial records. This extends to prescription of internal rules and constitutions, including prohibition of involvement in domestic political, religious or sectarian issues; unions nevertheless engage in a wide range of activities. Unions can be dissolved by court ruling or Amiri decree, although this has never happened. Were this to happen, union assets would revert to the Ministry of Social Affairs and Labor. Kuwaiti citizen, but not foreign, union members have the right within the union to vote and be elected. The law limits the right to strike; all labor disputes must be referred to compulsory arbitration if labor and management cannot reach a solution, and strikers are not guaranteed immunity from state legal or administrative action against them. Foreign workers, regardless of union status, may submit any grievance to the Kuwait Trade Union Federation, which is authorized to investigate their complaints and offer free legal advice.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution prohibits forced labor "except in the cases specified by law for national emergencies and with just remuneration." Foreign nationals must obtain a Kuwaiti sponsor to obtain a residence permit, and cannot change employment without permission of the original sponsors. Domestic servants, not protected by Kuwait's Labor Law, are vulnerable to abuses of this rule. Sponsors frequently hesitate to grant permission to change employment because of the various expenses they covered to bring the servants into the country, often ranging from $700 to $1,000. "Runaway" maids can be treated as criminals under the law for violations of their work and residence permits, especially if they attempt to work for someone else without the required permits. Despite government protections, some sponsors continue to hold their servants' passports as a means of controlling their movement.

d. *Minimum Age for Employment of Children:* Minimum legal age is 18 years for all forms of work, both full and part-time. Employers may obtain permits to employ juveniles between the ages of 14 and 18 in certain trades, for a maximum of six hours per day, on condition that they work no more than four consecutive hours followed by a rest period of at least one hour. Compulsory education laws exist for children between the ages of 6 and 15. Some small businessmen employ their children on a part-time basis, and there have been unconfirmed reports of some South Asian domestic servants under 18 who falsified their age in order to enter Kuwait.

e. *Acceptable Conditions of Work:* In the public sector, the effective minimum monthly wage is approximately $742 for Kuwaiti citizens and $296 for non-Kuwaitis; there is no private sector minimum wage. Labor law sets general conditions of work for both public and private sectors, with the oil industry treated separately. The Civil Service Law, which also pertains to the public sector, limits the standard workweek to 48 hours with one full day of rest per week, and provides for a minimum of 14 workdays of leave per year and a compensation schedule for industrial accidents. The law also provides for employer-provided medical care, periodic medical exams to workers exposed to environmental hazards on the job, and compensation to workers disabled by injury or disease due to job-related causes. Legal protections exist for workers who file complaints about dangerous work situations. Laws establishing work conditions are not always applied uniformly to foreign workers, and foreign laborers frequently face contractual disputes, poor working conditions and, in some cases, physical abuse.

f. *Rights in Sectors with U.S. Investment:* Two significant U.S. investments in Kuwait in the oil industry, one in the partitioned neutral zone shared by Kuwait and Saudi Arabia and the other in Kuwait proper, operate under and in full compliance with the Kuwaiti labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		(1)
Total Manufacturing		(1)
Food & Kindred Products	0	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	(1)	
Electric & Electronic Equipment	0	
Transportation Equipment	(2)	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		(1)
Services		17
Other Industries		(1)
TOTAL ALL INDUSTRIES		(1)

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).

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

MOROCCO

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	33,160	36,179	35,573
Real GDP Growth (pct) [3]	-2.2	6.3	0.2
GDP by Sector:			
Agriculture	5,093	5,911	N/A
Manufacturing	5,857	6,040	N/A
Services	6,451	6,833	N/A
Government	4,428	4,378	N/A
Per Capita GDP (US$)	1,218	1,303	1,250
Labor Force (urban 000's)	5,068	5,137	5,160
Urban Unemployment Rate (pct)	16.9	19.1	21.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	9.2	7.7	9.5
Consumer Price Inflation	1.0	2.7	1.3
Exchange Rate (DH/US$ annual average)			
Official	9.60	9.59	9.90
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4]	6,985	7,279	7,060
Exports to U.S. [4]	164	198	220
Total Imports CIF [4]	9,449	10,255	10,717
Imports from U.S. [4]	509	643	740
Trade Balance [4]	-2,464	-2,974	-3,657
Balance with U.S. [4]	-345	-445	-520
External Public Debt (US$ billions)	19.1	19.3	18.0
Fiscal Deficit/GDP (pct) [5]	3.3	3.5	2.3
Current Account Deficit/GDP (pct)	1.1	3.1	2.5
Debt Service Payments/GDP (pct)	8.5	8.3	8.1
Gold and Foreign Exchange Reserves	4,234	4,450	6,130
Aid from U.S. [5]	13.5	17.6	16.4
Aid from All Other Sources	1,750	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data in November.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Fiscal Year Basis.

1. General Policy Framework

Morocco boasts the largest phosphate reserves in the world, a diverse agricultural and fisheries sector, a high-potential tourism industry, a growing manufacturing sector, and a considerable inflow of funds from Moroccans working abroad. Most of Morocco's trade is with Europe, with France alone accounting for about a quarter of Morocco's imports and a third of its exports.

The government has pursued market-oriented economic reforms since the early 1980s. It has restrained spending, revised the tax system, reformed the banking system, pursued appropriate monetary policies, eased import restrictions, lowered tariffs, launched a privatization program and liberalized foreign exchange controls. Monetary policy serves primarily to maintain Morocco's exchange rate. These reforms have helped restore macroeconomic equilibria: the current account deficit, fiscal deficit and inflation rates are well below their early 1980s levels. Economic growth has been modest, with wide year-to-year fluctuations due to heavy dependence on agriculture and vulnerability to cyclical droughts.

With the passing of power from the late King Hassan II to King Mohamed VI, Morocco has signaled its determination to intensify the economic reform process, and among other things, to streamline foreign and domestic investment procedures and devolve more power to regional governments. Morocco launched a privatization program in 1992 and since then 60 out of 114 state enterprises have been sold, raising $1.7 billion. Among the companies currently slated for privatization are sugar plants, hotels, and banks. The national monopoly telecommunications firm Maroc Telecom and the national airline Royal Air Maroc are also scheduled for partial privatization in 2000, either through the Casablanca Stock Exchange or through strategic partnerships. The Moroccan Government has embraced private financing for the construction and operation of some highways, a new port for Tangier and other large infrastructure projects, including a $1.5 billion electric power project awarded to a joint venture between an American and a European firm. American firms are currently competing for a concession to provide water and electricity distribution services to two cities in northern Morocco.

Real GDP grew 6.3 percent in 1998 following a good harvest. Agricultural GDP increased by 16 percent in 1998. Following poor rains during the 1998-99 growing season, real GDP growth is expected to remain stagnant in 1999. A good start to the current rainy season has raised hopes for increased grain production for 2000. Morocco has a comfortable level of foreign exchange reserves, thanks in part to the recent sale for $1.1 billion of a second license to provide cellular phone services. This large influx of money has also resulted in the recent cancellation of new government debt issues. The government has been implementing incremental liberalization of exchange controls for Moroccan residents, most recently relaxing the amount of foreign currency Moroccan citizens can purchase in order to obtain medical treatment abroad. Morocco's chronic merchandise trade deficit grew in 1998 as imports increased by 7.9 percent while exports remained stagnant. Receipts from remittances and tourism have increased steadily over the past three years, with tourism receipts up 19.3 percent thus far in 1999. Foreign investment for 1998 fell by 63.2 percent over the record 1997 levels, but appears to be recovering in 1999.

2. Exchange Rate Policies

The Moroccan Dirham is convertible for all current transactions (as defined by the International Monetary Fund's Article VIII) as well as for some capital transactions, notably capital repatriation by foreign investors. Foreign exchange is routinely available through commercial banks for such transactions on presentation of documents. Moroccan companies may borrow abroad without prior government approval. Investment abroad by Moroccan individuals or corporations is subject to approval by the Foreign Exchange Board. Approval is routinely denied for projects that do not directly benefit Morocco. Private Moroccans continue to face several foreign exchange restrictions, notably against use of international credit cards. This makes it nearly impossible for Moroccans to use e-commerce to purchase goods internationally.

The central bank sets the exchange rate for the dirham against a basket of currencies of its principal trading partners, particularly the French Franc and other European currencies. The rate against the basket has remained steady since a nine percent devaluation in May 1990, with changes in the rates of individual currencies reflecting changes in cross rates. Since Morocco's average inflation rate throughout the 1990s has been greater than the other currencies, many economists believe that the dirham is now overvalued. The government argues consistently against devaluation. The large weight given to European currencies in the basket results in a greater volatility of the dollar than the European currencies against the dirham. This increases the foreign exchange risk of importing from the United States as compared to importing from Europe. The IMF has urged to GOM to introduce greater flexibility into its exchange rate regime, to help boost exports and promote growth.

3. Structural Policies

The 1992 Foreign Trade Law committed Morocco to the principles of free trade, reversing the legal presumption of import protection. It replaced quantitative restrictions with tariffs (both ad valorem and variable) on the importation of politically sensitive items such as flour, sugar, tea and cooking oil.

Interest rate policy has also changed in recent years. In 1994, the government revised the interest rate ceilings on bank loans. The new ceiling is set at a three to four percent markup over the rate received on deposits, including the below-market rates on required deposits. The effect of the change is to lower the interest rate ceilings, although real rates remain high.

Morocco has a three-part tax structure consisting of a value-added tax, a corporate income tax, and an individual income tax. The investment code passed by the parliament in October 1995 reduced corporate and individual income taxes, as well as many import duties. The code also eliminated the value-added tax on certain capital goods and equipment. A plethora of minor taxes can significantly raise the cost of certain imported goods.

4. Debt Management Policies

Morocco's foreign debt burden has declined steadily as a result of prudent borrowing and active debt management in recent years. Foreign debt fell from 128 percent of GDP in 1985 to about 53 percent of GDP in 1998. Similarly, debt service payments before rescheduling, as a share of goods and services exports, fell from over 58 percent in 1985 to about 25 percent in 1998. The last Paris Club rescheduling took place in 1992. The government does not foresee the need for further Paris Club rescheduling, although it is pursuing other forms of debt relief with major official creditors. Since 1996, France and Spain have authorized debt-equity swaps covering 20 percent of eligible Paris Club debt. In October 1999, the Paris Club endorsed an increase to 30 percent in the debt-swap ceiling.

5. Aid

Less than 10 percent of the U.S. aid listed in the economic indicators section for 1997 or 1998 was military assistance. In 1999, approximately 25 percent of the aid was in the form of military assistance. In addition to the direct assistance listed, the United States leveraged $15 million in housing guaranty funds in 1997, and $11.5 million in 1999.

6. Significant Barriers to U.S. Exports

Import Licenses: Morocco has eliminated import-licensing requirements on a number of items in recent years. Licensing requirements remain for firearms, used clothing, used tires and explosives.

Tariffs: Tariffs have been gradually reduced in recent years. The maximum tariff for most goods is 35 percent, although the range of tariffs is 2.5 percent to 300 percent, with the highest tariffs applied to cereals. Despite the downward trend, tariffs on some products have increased as quantitative restrictions were replaced with higher tariffs. For example, following the elimination of licensing requirements, tariffs on dairy products, cereals, vegetable oils and sugar have increased. There is also a 10 to 15 percent surtax on imports of most goods as well as a value added tax ranging from 0 to 20 percent. Tariffs on most industrial products imported from the European Union will be gradually eliminated once the Association Agreement is implemented, with a target date of 2010 for complete elimination.

Services Barriers: Barriers in the services sector have been falling as Morocco conforms to its WTO engagements. In November 1989, parliament abrogated a 1973 law requiring majority Moroccan ownership of firms in a wide range of industries, thus eliminating what had been a barrier to U.S. investment in Morocco. In 1993, the Moroccan Government repealed a 1974 decree limiting foreign ownership in the petroleum refining and distribution sector, which allowed Mobil Oil to buy back the government's 50 percent share of Mobil's Moroccan subsidiary in 1994. Foreign companies cannot acquire a majority stake in firms in the insurance sector.

Standards, Testing, Labeling and Certification: Morocco applies approximately 500 industrial standards based on international norms. These apply primarily to packaging, metallurgy and construction. Sanitary regulations apply to virtually all food imports. Meat should be slaughtered according to Islamic law. The government does not require locally registered firms to apply ISO 9000 usage. The use of the metric system is mandatory.

Investment Barriers: The government actively encourages foreign investment. The parliament passed a new investment code in 1995 which applies equally to foreign and Moroccan investors, except for the foreign exchange provisions which favor foreign investors. Unlike the previous sectoral investment codes, the advantages offered under the new code are to be granted automatically. There are no foreign investor performance requirements, although the new code provides income tax breaks for investments in certain regions, and in crafts and export industries. Foreign investment is prohibited in certain sectors of the economy, including the purchase of agricultural land and investment in the phosphate sector.

Government Procurement Practices: While government procurement regulations allow for preferences for Moroccan bidders, the effect of the preference on U.S. companies is limited. The Moroccan government has placed an increasing emphasis on transparency. Virtually all of the government procurement contracts that interest U.S. companies are large projects for which the competition is non-Moroccan (mainly European) companies. Many of these projects are financed by multilateral development banks, which impose their own nondiscriminatory procurement regulations. U.S. companies sometimes have difficulty with the requirement that bids for government procurement be in French.

Customs Procedures: In principle, customs procedures are simple and straightforward, but in practice they are sometimes marked by delays. The Customs Administration has launched a program to speed up the customs clearance process. Average processing time has fallen from several days to several hours. A commercial invoice is required, but no special invoice form is necessary. Certification as to country of origin of the goods is required.

7. Export Subsidies Policies

There are no direct export subsidies, although the 1995 investment code provides a five-year corporate income tax holiday for export industries. Morocco has a temporary admission scheme that allows for suspension of duties and licensing requirements on imported inputs for export production. This scheme includes indirect exporters (local suppliers to exporters). In addition, a "prior export" program exists, whereby exporters can claim a refund on duties paid on imports that were subsequently transformed and exported.

8. Protection of U.S. Intellectual Property

Morocco has a relatively complete regulatory and legislative system for the protection of intellectual property, but strong enforcement is lacking. Morocco is not on the Special 301 Watch List or Priority Watch List. Morocco is a member of the World Trade Organization (WTO) and is expected to be in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPs) Agreement by early 2000. Morocco is also a member of the World Intellectual Property Organization and is a party to the Berne Convention for the protection of literary and artistic works (copyright), The Universal Copyright Convention, the Paris Convention for the protection of industrial property (patent and trademark), the Brussels Satellite Convention, and the Madrid Agreement Concerning the International Registration of Marks (as revised at Nice, 1957).

Copyright: The Moroccan Parliament is considering legislation that will increase protection for computer software. Morocco's new commercial courts recently ruled in Microsoft's favor in two cases against software pirates.

Patents: A quirk dating from the era of the French and Spanish protectorates requires patent applications for industrial property to be filed in both Casablanca and Tangier for complete protection. The proposed 1996 industrial property code, expected to be implemented by 2000, will amend this provision and require that applications be filed only in Casablanca.

Trademarks: Counterfeiting of clothing, luggage, and other consumer goods is illegal, but not uncommon. Counterfeiting is primarily for local sales rather than for export. Trademarks must be filed in both Casablanca and Tangier, although this too will be amended in the new law.

9. Worker Rights

a. *The Right of Association:* Workers are free to form and join unions throughout the country. The right is exercised widely but not universally. About six percent of Morocco's nine million workers are unionized, mostly in the public sector. The unions are not completely free from government interference. Narrowly focused strikes continue to occur. Work stoppages are normally intended to advertise grievances and last 48-72 hours. Unions maintain ties to international trade secretariats.

b. *The Right to Organize and Bargain Collectively:* The protection of the right to organize and bargain collectively is implied in the Constitution and Labor Law. The government protections are generally not enforced in the informal sector. Observance of labor laws in larger companies and in the public sector is more consistent. The laws governing collective bargaining are inadequate. Collective bargaining has been a long-standing tradition in some parts of the economy, notably heavy industry, and is becoming more prevalent in the service sector.

There is no law specifically prohibiting anti-union discrimination. Employers commonly dismiss workers for union activities regarded as threatening to employer interest. The courts have the authority to reinstate such workers, but are unable to enforce rulings that compel employers to pay damages and back pay.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited in Morocco.

d. *Minimum Age for Employment of Children:* The law prohibits the employment of any child under 12 years of age. Special regulations cover the employment of children between the ages of 12 and 16. In practice, however, children are often apprenticed before age 12, particularly in the handicraft industry. The use of minors is common in this informal sector of the economy, which includes rug making, ceramics, wood working, and leather goods. Children are also employed informally as domestics and usually receive little remuneration. Child labor laws are generally well observed in the industrialized, unionized sector of the economy but not in the informal sector. In September 1998, the Government of Morocco adopted the International Labor Organization's Convention 138 on the prohibition of child labor.

e. *Acceptable Conditions of Work:* The minimum wage is about $180 a month and is not considered adequate to provide a decent standard of living for a worker and his or her family. However, this figure is above the per capita income. The minimum wage is not enforced effectively in the informal sector of the economy. It is enforced fairly well throughout the industrialized, unionized sectors where most workers earn more than the minimum wage. They are generally paid between 13 and 16 months salary, including bonuses, each year.

The law provides for a 48-hour maximum workweek with not more than 10 hours any single day, premium pay for overtime, paid public and annual holidays, and minimum conditions for health and safety, including the prohibition of night work for women and minors. As with other regulations and laws, these are not universally observed in the informal sector.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment, all of which is in the formal, industrial sector of the Moroccan economy, do not differ from those described above.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		16
Total Manufacturing		52
Food & Kindred Products	30	
Chemicals & Allied Products	21	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	(2)	
Other Manufacturing	–2	
Wholesale Trade		(1)
Banking		(1)
Finance/Insurance/Real Estate		0
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		86

[1] Suppressed to avoid disclosing data of individual companies.
[2] Less than $500,000 (+/–).
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

OMAN

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	[1] 1998	[2] 1999
Income, Production and Employment:			
Nominal GDP [3]	15.8	14.1	14.2
Real GDP Growth (pct) [3]	3.6	–10.6	0.7
GDP by Sector:			
Agriculture & Fisheries	0.4	0.4	0.4
Petroleum	6.3	4.4	4.5
Manufacturing	0.6	0.6	0.6
Services [4] (total services less public services sector)	6.2	6.5	6.4
Government Services [4]	1.8	1.7	1.6
Per Capita GDP (US$)	7,006	6,165	6,122
Labor Force (000's)	630.9	634.8	624.0
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2 Jan-Dec) [5]	24.5	4.8	0.3
Consumer Price Inflation [6]	0.4	–0.5	–0.5
Exchange Rate (Omani Rial/US$)	2.6	2.6	2.6
Balance of Payments and Trade: [7]			
Total Exports FOB	7.6	5.5	5.9

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	[1]1998	[2]1999
Exports to U.S. (US$ millions)[8]	260.9	230.4	227.7
Total Imports CIF	5.2	5.8	4.6
Imports from U.S. (US$ millions)[8]	342.0	302.7	175.5
Trade Balance	2.4	–0.3	1.3
Balance with U.S. (US$ millions)	–81.1	–72.2	52.2
External Public Debt	3.0	N/A	N/A
Fiscal Deficit/GDP (pct)[9]	0.2	6.9	10.8
Current Account Deficit/GDP (pct)[10]	7.0	20.8	12
Debt Service Payments/GDP (pct)	2.0	N/A	N/A
Gold and Foreign Exchange Reserves[11]	2.1	2.0	2.5
Aid from U.S. (US$ millions)[12]	0.2	0.2	0.2
Aid from Other Sources	N/A	N/A	N/A

[1] All 1998 GDP data is provisional.

[2] 1999 estimates are annualized based on January-June data from the Central Bank of Oman and the September 30, 1999 Ministry of National Economy statistical bulletin unless otherwise indicated.

[3] The 1999 GDP growth rate was determined by annualizing the January-June 1999 GDP, using September 1999 statistics published by the Ministry of National Economy.

[4] Health and Education are included in services, although most government-provided services shown are current (not capital) expenditures for public administration and defense.

[5] 1999 money supply data is based on January through June 1999. Source: Central Bank of Oman.

[6] Muscat Governate CPI.

[7] The trade balance with the U.S. does not include Omani oil purchased by the United States on the spot market. Trade data does not necessarily include all U.S. exports subsequently reexported to Oman from Dubai, UAE, primary entrance point for most U.S. goods to the southern Arabian Peninsula.

[8] 1999 trade data is annualized using January-September 1999 figures from the U.S. Department of Commerce. 1997-1999 trade data is from the U.S. Department of Commerce, which has lower figures for U.S. exports to Oman than Omani customs data, presumably due to the large numbers of U.S. products re-exported to Oman from the United Arab Emirates.

[9] Fiscal deficit as a percentage of GDP was annualized using the August 31, 1999 figures.

[10] Current account deficit for 1999 is based on the Standard and Poor's projection for the year.

[11] Data represent Central Bank assets. 1999 data is June 30, 1999 balance. The State General Reserve Fund does not publish its holdings.

[12] Funding for International Military Education and Training (IMET) program.

Sources: Central Bank of Oman, Ministry of National Economy. Bilateral trade data is from U.S. Department of Commerce.

1. General Policy Framework

The Sultanate of Oman is a nation of 2.3 million people (including as many as 600,000 expatriates) living in the arid mountains and desert plain of the southeastern Arabian Peninsula. Oman's nominal GDP in 1998 was $14.1 billion, a decline of 10.6 percent from 1997. Oman is a small oil producer and ranks 18th in the world for overall oil production. In 1998, Oman cut oil production to about 820,000 barrels per day in line with OPEC production cuts although Oman is not a member of OPEC. This was in response to declining oil prices in 1998, which saw a 29 percent drop in Omani oil revenue in 1998. This production cut was maintained in 1999 even after the oil price recovery which began during the second quarter of 1999. Oil revenue accounted for 61 percent of government revenues in the first eight months of 1999. Oman's estimated per capita GDP dropped from about $ 7,000 in 1997 to about $ 6,100 in 1998. Preliminary figures released by the Ministry of National Economy indicate no GDP growth during the first six months of 1999. However, the recovery in oil prices witnessed during the second quarter of 1999 will most likely bring about a positive GDP growth of about one percent and a corresponding increase in per capita income. Oil revenues increased by 12.4 percent during the period January through July 1999 compared to the same period in 1998. Preliminary 1999 figures also indicate a decrease in total imports of about 15 percent and an increase in exports of about 6.7 percent during the first seven months of 1999. This should result in a $1.3 billion trade surplus at the end of 1999.

A significant proportion of Oman's rural population lives near the poverty line. The annual population growth, as estimated by the government, is around 2 percent. This presents an ever-increasing demand on infrastructure. It is estimated that 46 percent of the Omani population is under the age of 15 and 70 percent of the population is under the age of 25. Therefore job creation and "Omanization," i.e., transfer of expatriate jobs to Omanis, are major government priorities.

The Omani Government links developmental priorities and budgetary plans in five-year planning cycles. Oman's Fifth Five Year Plan, 1996-2000, laid out a program designed to shift economic development from governmental to private initiative; diversify the national economy from dependence on crude oil revenue, primarily through future natural gas sales and light industry; and educate a productive national work force for private employment. Aiming at a zero deficit by the year 2000, stringent annual budgets were planned on the basis of revenue of $15 per barrel of petroleum. While the 1997 budget deficit was just $47 million, the sharp drop in oil prices in 1998 left Oman with a budget deficit of nearly $975 million in 1998, or approximately 6.9 percent of GDP. Despite fiscal tightening, there is no personal income tax in Oman, and with the exception of the recent introduction of modest fees for medical visits, Omanis continue to enjoy free medical care and free education, including post-secondary school, vocational and higher education. With oil prices around $ 10 a barrel by the end of 1998, the 1999 State General Budget reduced expenditures by about 6 percent (compared to the 1998 budget) without affecting spending on such services as health, education, and electricity. The Omani government also took measures to increase non oil revenue in 1999 by increasing customs duties to 15 percent on a wide range of goods including automobiles and increasing the corporate income tax from 7.5 percent to 12 percent. Preliminary figures issued by the Ministry of National Economy for the first eight months of 1999 revealed a fiscal deficit of around $ 1 billion.

Among major public expenditure categories in 1998, defense and security accounted for 38 percent of current expenditures (military capital expenditures are not published). Current and capital expenditures for the national oil company Petroleum Development Oman (PDO) accounted for 15.2 percent of total public expenditures. This trend continued in 1999, as defense and security current expenditures accounted for 39 percent and PDO current and capital expenditure accounted for 13.9 percent of total public expenditures through the end of August 1999.

Oman's economy is too small to require a complicated monetary policy. The Central Bank of Oman directly regulates the flow of currency into the economy. The most important instruments which the bank uses are reserve requirements, loan to deposit ratios, treasury bills, rediscount policies, currency swaps and interest rate ceilings on deposits and loans. Such tools are used to regulate the commercial banks, provide foreign exchange and raise revenue, not as a means to control the money supply. The large amounts of money repatriated from Oman by foreign workers and by foreign companies in Oman help ease monetary pressures but also contributes to current account deficits. Outward workers' remittances decreased by 13 percent in 1997 to $1.5 billion, or 9.5 percent of GDP. Though outward workers remittance was further reduced to $ 1.4 billion in 1998, it increased as a percentage of GDP.

2. Exchange Rate Policies

The rial has been pegged to the dollar since 1973. Since a 10.2 percent devaluation in 1986, it has remained steady at about $2.60 to 1 rial.

3. Structural Policies

Oman operates a free market economy, but the government is at present the most important economic actor, both as an employer and as a purchaser of goods and services. Contracts for goods and services for the government, including the two largest purchasers, Petroleum Development Oman and the Defense Ministry, are done on the basis of tenders overseen by a Tender Board. Oman promotes private investment through a variety of soft loans (currently through the Ministry of Commerce and Industry and, for projects under 250,000 R.O., the Oman Development Bank, reorganized in 1997), tax incentives, modest procurement preferences, and subsidies, mostly to industrial and agricultural ventures. The government grants five-year tax holidays to newly established industries or expansion projects; a one time renewal is possible. Oman has fairly rigorous health, safety and environmental standards, and is attempting to upgrade its enforcement capabilities.

Oman revised its corporate tax structure in 1999 to increase its non-oil revenue and make it easier for minority foreign-owned joint ventures to benefit from the national tax rate. A 12 percent maximum rate of corporate income tax is now applicable to wholly Omani-owned firms and companies with no more than 49 percent direct foreign ownership and majority Omani ownership. A graduated system of taxes, with a ceiling of 25 percent, applies to Omani/foreign joint venture companies with up to 99 percent direct foreign ownership. 100 percent foreign owned companies are subject to a corporate taxation rate of up to 50 percent, however, the tax rate for foreign petroleum companies is set in concession agreements. Import duties were hiked early in 1999 and are currently between five percent and fifteen percent. There are no personal income taxes or property taxes. Employers pay 7 percent of a foreign worker's basic salary to a vocational training fund for Omanis, and 8 percent of an Omani's basic salary to a social security fund. The government imposes substantial fees for labor cards, and companies are liable for fines if they do not reach government-specified levels of "Omanization" by the end of target deadlines.

The Omani government continues to emphasize privatization of the telecommunications, power, and transport sectors as a national priority. In 1996, Oman became the first Gulf nation to turn exclusively to the private sector to finance, build and operate a power plant, a 90 MW plant in Manah. Title for the Manah plant will revert to the government after 20 years and the project is undergoing an expansion to reach 270MW. In 1999, the government awarded a tender for a 200 MW power plant in Salalah and selected international financial advisors for planned privatizations in the telecommunications, power, and aviation sectors. The government has been involved in a number of joint-ventures with private sector firms in major infrastructure projects. November 1998 saw the opening of a world-class container transshipment port at Salalah, owned and operated by Salalah Port Services (SPS) a joint venture between the Omani Government, Sea-Land (U.S.), Maersk Lines (Denmark), and Omani investors operating under the name Salalah Port Services. In mid-1999, Maersk purchased many of Sea-Land's overseas operations, including Sea-Land's participation in the Port Salalah project. The container port, already one of the 20 largest ports in the world is in close proximity to major East-West shipping lanes and is expected to spur industrial growth in the Salalah area.

In 1999 the government announced plans to establish an industrial free zone at Port Salalah, under the management of Salalah Port Services. As of October 1999, construction on the $2 billion Oman Liquefied Natural Gas (OLNG) plant at Sur was over 90 percent complete. A joint venture between the Omani Government, Royal Dutch Shell, Total, and Korea Gas, OLNG is expected to begin deliveries in April 2000. The entire 6.6 million ton/year LNG output of OLNG has been sold in long term contracts to Korea, India (an affiliate owned by the U.S. firm Enron), and Japan. Financing on the downstream plant is on a limited recourse basis, with upstream facilities and a 360 km pipeline financed through the corporate developers, principally Royal Dutch Shell. The future of the proposed Sur fertilizer plant, a joint venture between the Omani Government and Indian state investors, is not clear at this stage. The government is also planning gas-driven projects in the northern Omani port city of Sohar, including a $3 billion aluminum smelter complex (still seeking technical partners). However, government plans for a $900 million polyethylene plant in Sohar have stalled as the originial joint-venture partner, BP/Amoco, withdrew from the project in 1999. In 1999, the government proceeded with the planned $250 million expansion of Sohar port, awarding the tender for breakwater construction to Daewoo, and announced plans to build gas pipelines to Sohar and Salalah by 2001.

4. Debt Management Policies

Oman's sovereign debt is estimated at $3 billion. In October 1999 the government withdrew plans for a $400 million Eurobond issue, citing the improved performance of the economy in the wake of increased oil prices. Although Oman maintains a solid reputation for credit worthiness, in March 1999, Standard and Poors revised Oman's credit rating from stable to negative (BBB–). There are no International Monetary Fund or World Bank adjustment programs. The government gives little publicity to the occasional modest foreign aid that it donates. Sultan Qaboos also makes occasional personal donations to Arab causes, Muslim institutions, or worthy foreign organizations. Oman does not publish figures on the level of its external debt or its fund to meet future contingencies, the State General Reserve Fund (SGRF). The 1998 budget crunch required a draw down of $704 million from the SGRF in 1998 and $1.17 billion through August 1999, an increase of 200 percent over the corresponding period in 1998.

5. Significant Barriers to U.S. Exports

A license is required for all imports. Special licenses are required to import pharmaceuticals, liquor and defense equipment. Some foreign suppliers have previously complained that exclusive agency agreements are difficult to break. In September 1996, Oman amended its agency law to allow non-exclusive representational agreements. Although currently not a member of the WTO, Oman is actively seeking to accede to the WTO and will need to introduce new legislation in order to comply with WTO requirements on market access for goods and services, intellectual property protection, and customs valuation.

Services barriers consist of simple prohibitions on entering the market. For example, entry by new foreign firms in the areas of banking, accountancy, law and insurance is not permitted (except as contracted for specialized services required by the government), although joint ventures for professional services are encouraged between Omanis and foreign firms. The central bank seeks the strengthening and further consolidation of existing banks. It has placed limits on the percentage of the consumer loan portfolio and is pressing for the BIS 12 percent capital adequacy standard. Citibank has a wholly-owned branch in Muscat. Major U.S. engineering and accounting firms are well represented. Omani firms appear quite open to affiliation with U.S. firms. The U.S. firm Curtiss, Mallet-Prevost, Colt & Mosle is the only U.S. law firm with an office in Muscat and serves as legal counsel to the Ministry of Electricity of Water for the Salalah power privatization project.

Tax policy discourages wholly foreign-owned firms. Oman attempts to attract foreign firms and investors to participate in joint ventures with Omani majority ownership. It has a case-by-case approach towards major projects by wholly or largely foreign owned firms For very large strategic projects, Oman may offer foreign investors control commensurate with their investment and risk.

Oman uses a mix of standards and specifications systems. Generally, GCC standards are adopted and used. However, because of the long history of trade relations with the UK, British standards have also been adopted for many items, including electrical specifications. Oman is a member of the International Standards Organization and applies standards recommended by that organization. U.S. exporters sometimes run afoul of dual language labeling requirements or, because of long shipping periods, have trouble complying with shelf-life requirements. U.S. export brokers and Omani trading firms are prone to trade difficulties when deliveries are not made within demanding government tender delivery dates.

Despite requirements to "Omanize" the work force, the private sector depends on a high number of expatriates for managerial, technical, and physical labor. Government statistics indicate that over 90 percent of workers in the private sector are expatriates.

Oman continues to promote "Buy Omani" laws; this is a slow process as very few locally made goods meeting international standards are available. The Tender Board evaluates the bids of Omani companies for products and services at 10 percent less than the actual bid price, but imported goods and services bid by Omani agents are said to receive the same national preference. Because of short lead times on open tenders, it is often difficult to notify U.S. firms of trade and investment possibilities, and thereafter difficult for those firms to obtain a local agent and prepare tender documents. Foreign firms seeking to compete for open and unpublished tenders find it advantageous to develop relationships with local firms.

Oman's customs procedures are complex. There are complaints of sudden changes in the enforcement of regulations. As part of "Omanization," only Omani nationals are permitted to clear shipments. Processing of shipments at Omani ports and airports can add significantly to the amount of time that it takes to get goods to the market or inputs to a project. Overland shipments from the UAE seldom encounter problems.

Oman substantially eased visa requirements in 1999 by offering a 72 hour visa for U.S. and European tourists and businessmen arriving at Muscat's Seeb Airport. However, this visa is non-extendable and the airline carrying the passenger is responsible for ensuring that the visitor departs on time, which in turn has discouraged use of this visa. Two-year multiple entry visas can be issued to American tourists and business representatives. In general, these visas are only issued at Oman's Washington embassy, although U.S. professionals residing in GCC countries can receive multiple-entry visas at the port of entry. Visa denials are not unusual for unaccompanied women tourists and young adult males. In late 1996, the Royal Oman Police reduced non-resident stays from two months to one month per entry, thereby hampering business visits of longer duration by U.S. and by non-U.S. citizen employees of U.S. firms. These visas can only be extended outside Oman, so visitors whose activities keep them here longer than a month face the added expense of a trip, usually to Dubai, for a visa renewal.

6. Export Subsidies Policies

Oman's policies on development of light industry, fisheries, and agriculture aim to make those sectors competitive internationally. Investors in these three sectors receive a full range of tax exemptions, utility discounts, soft loans and, in some cases, tariff protection. The government has also set up an export guarantee program which both subsidizes the cost of export loans and offers a discounted factoring service.

7. Protection of U.S. Intellectual Property

Oman's record on intellectual property protection has improved dramatically in recent years, in tandem with its efforts to accede to the World Trade Organization (WTO). Oman will have to meet its obligations under the WTO's Trade Related Aspects of Intellectual Property (TRIPS) Agreement immediately upon WTO accession.

Oman is a member of the World Intellectual Property Organization (WIPO), and in 1998 declared its accession to the Paris Convention for the Protection of Industrial Property (patents, trademarks and related industrial property) and Berne Convention for the Protection of Literary and Artistic Works. In 1998 and 1999, the Omani government implemented a ban on sales of pirated video and audiocassettes and pirated computer software, which once had dominated the local market. Since government enforcement of these bans began, sales of pirated tapes and computer software has virtually disappeared.

Oman has a trademark law which it enforces. It does not, however, protect well-known marks unless they are registered in Oman. Application for trademark protection also requires a local agent. Oman affords little or no patent protection in critical areas such as pharmaceutical products. Oman has said it would recognize patents issued by the GCC patent office, but that offer will be of little value until the GCC patent office, which opened in November 1998, is running effectively.

8. Worker Rights

Sultan Qaboos issued a Basic Law November 6, 1996 that serves as Oman's first written basic framework, akin to a constitution but consistent with Islamic Shari'a Law. In theory, the Sultanate should have issued legislation implementing the Basic Law's provisions within two years of its issuance. It is unclear whether or how any of the expected implementing measures will affect worker rights.

a. *The Right of Association:* Articles 33 and 34 of the Basic Law establish the right to assemble and freedom of association when consistent with legal limitations and objectives. Currently, Omanis and resident foreigners alike are free to join only the relatively few officially sanctioned associations.

b. *The Right to Organize and Bargain Collectively:* Since 1994, the Sultanate has indicated that it is reviewing a new labor law drafted by the Ministry of Social Affairs and Labor. Sultanate officials have characterized its provisions as consistent with international labor standards. It will reportedly contain a provision for the establishment of worker committees in the work place and remove the current prohibition against strikes. Oman is a member of the International Labor Organization.

c. *Prohibition of Forced or Compulsory Labor:* Compulsory or forced labor is illegal. That said, foreign workers are typically unaware of their right to take disputes over contract enforcement to the Labor Welfare Board or are afraid that questions regarding their employment status will result in deportation.

d. *Minimum Age for Employment of Children:* The Ministry of Social Affairs and Labor enforces 13 as the minimum employment age. Employers require the Ministry's approval to engage children between 13 and 16 years of age in overtime, night, weekend or holiday, or strenuous work. Nonetheless, small family businesses in practice may employ underage children, particularly in the agricultural and fisheries sectors.

e. *Acceptable Conditions of Work:* The minimum wage for nonprofessional expatriate workers is about $156 month, less any charges by Omani sponsors for the workers' visas, but does not cover domestic workers, farm hands, government employees, and workers in small businesses. Omani nationals tend to be well protected. Most employed Omanis work for the government, with a 35 hour work week and generous leave of between 42 to 60 days annually plus 9 days emergency leave and Omani holidays. Skilled foreign workers predominate in private sector employment and enjoy regionally competitive wages and benefits. Whether covered by the law or not, many unskilled foreign workers work for less than the minimum wage and for hours exceeding the 40 to 45 hour private sector work week. The temperature during Oman's hot summer has never been officially recorded at the 50 degree (Celsius) mark, which, adhering to an International Labor Organization standard, would mandate the stoppage of outside labor. Non-Muslim workers are expected to respect the Ramadan month of daytime fasting by not publicly drinking or eating. Foreign workers find Oman very attractive for its employment opportunities and general living conditions.

f. *Rights in Sectors with U.S. Investment:* To date, U.S. firms have little direct investment in Oman. U.S. petroleum firms operating in Oman comply fully with Omani labor law.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		59
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		[1]
Finance/Insurance/Real Estate		[1]
Services		0
Other Industries		0
TOTAL ALL INDUSTRIES		84

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

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

SAUDI ARABIA

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1,2] 1999
Income, Production and Employment:			
Nominal GDP	146.3	128.9	140.0
Real GDP Growth (pct)	1.9	1.6	1.0
GDP by Sector:			
Agriculture	8.9	9.1	N/A
Manufacturing (including oil)	13.5	12.6	N/A
Services	56.2	57.5	N/A
Government	36.7	34.2	N/A
Per Capita GDP (US$)	6,836	6,190	6,543
Labor Force (millions)	6.7	6.5	N/A
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.6	2.4	N/A
Consumer Price Inflation	–0.4	–0.2	1.0
Exchange Rate (SR/US$ annual average)			
Official	3.745	3.745	3.745
Balance of Payments and Trade:			
Total Exports FOB	60.7	39.7	37.5
Exports to U.S.	9.4	5.1	N/A
Total Imports FOB	–26.4	–27.5	–27.4
Imports from U.S.	5.9	5.9	N/A
Trade Balance	34.2	12.1	10.0
Balance with U.S.	N/A	N/A	N/A
Current Account Deficit/GDP (pct)	0.3	–13	–5
External Public Debt	N/A	N/A	N/A
Debt Service Payments/GDP (pct)	4.7	5.3	5.1
Fiscal Deficit/GDP (pct)	1.1	8.8	N/A
Gold and Foreign Exchange Reserves	17.8	17.8	N/A
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] 1999 figures are projections.

[2] Sources: IMF International Statistics Yearbook 1999; Saudi-American Bank Economic and Market Update; U.S. Embassy Riyadh 1999 Saudi Economic Trends Report; IMF Saudi Arabia Statistical Index.

1. General Policy Framework

Saudi Arabia generally sets a framework for a free market economy, but with parastatals dominating economic output. Government policies generally encourage commercial enterprise, but a strict interpretation of Islamic mores limits the range of policy options as well as that of commercial endeavors. Since about 1970, Saudi Arabia has published a series of five-year development plans, focusing on infrastructure and industrialization. Development plans, however, are presented as planning tools, not as centralized controls, and the government emphasizes that its development plans rely on significant private sector involvement.

The oil and government sectors are the engines of the economy. Parastatal enterprises, including Saudi ARAMCO (oil), Saudi Basic Industries Corporation (SABIC), and utilities, among others, tend to dominate the economy. Spending decisions taken by the few large state companies reverberate throughout the economy. Concerned with the security challenges posed by its neighbors, Saudi Arabia seeks sufficient military and security resources to protect its territory. The Saudis also protect the pilgrims who visit the two Islamic holy cities of Mecca and Medina. The kingdom is also a large buyer of advanced military technology.

In 1998, oil sector revenues comprised an estimated 37 percent of GDP, and an estimated 70 percent of budget revenues. Other government revenues, including items such as customs duties, investment income, and fees for services, are to a large degree indirectly tied to oil, as capital available for consumption and investment is generally derived from oil receipts. In addition, the manufacturing and services sectors are largely dependent on petroleum and petrochemical activities.

Starting with the oil boom dating from 1973, Saudi Arabia maintained annual budget surpluses until 1982, when the decline in oil prices led to a renewed deficit. These deficits have continued for the past 17 years. Initially, the deficits were financed by a drawdown of foreign exchange reserves. Starting in 1987, the government began financing deficits by issuing government bonds, and taking loans from domestic banks. The government has also accrued substantial arrearages to the private sector over the past decade, though these were paid down substantially in 1996 and 1997 with unanticipated oil revenues from these years.

Spending in 1996 exceeded the budgeted target by $12 billion, but because of high oil revenues, the government achieved its deficit target of $4.5 billion. Oil revenues were higher than anticipated for 1997 as well, allowing the government to end the year with a small $1.6 billion deficit. However, the collapse in oil prices in late November 1997 brought this favorable fiscal trend to an end. Saudi oil revenues dropped by 35 percent in 1998, leading to a deficit of $12.3 billion, or almost 10 percent of GDP. Oil prices have rebounded in 1999 and, coupled with increased fiscal discipline, have lowered the projected deficit to the $4-6 billion range. The government's hopes of achieving a balanced budget by 2000 depend mostly on what oil prices will be in that year.

Money supply is regulated through the Saudi Arabian Monetary Agency (SAMA), which has statutory authority to set monetary reserve requirements for Saudi Arabian banks, impose limits on their total loan portfolio, and regulate the minimum ratio of domestic assets to their total assets. It also manages the bond market, and can repurchase development bonds and treasury bills as required. There is a limit to the amount of bonds that can be repurchased. SAMA oversees a financial sector consisting of 10 commercial banks. All 10 banks have majority private ownership, with the exception of National Commercial Bank, where state institutions purchased 50 percent of total shares in 1999. The Ministry of Finance oversees five specialized credit institutions.

2. Exchange Rate Policy

The exchange rate for the Saudi Arabian Riyal is SR 3.745 = US$1.00. This rate has been consistent since 1986. Officially, the Riyal is pegged to the IMF's Special Drawing Rights (SDR) at SR 4.28255 = SDR 1. There are no taxes on the purchase or sale of foreign exchange.

Generally speaking, there are few foreign exchange controls for either residents or nonresidents, in keeping with the government policy to encourage an open economy. Of the few restrictions, the most noteworthy are: direct commercial transactions with Israel and Israeli-registered corporations are prohibited, as are most transactions with Iraq; and, local banks are prohibited from inviting foreign banks to participate in riyal-denominated transactions without prior SAMA approval.

3. Structural Policies

The government maintains price controls for basic utilities, energy, and many agricultural products. Water and electricity, for most consumers, are subsidized, with consumer prices often well below the cost of production, especially for potable water. Petroleum products and feedstocks for petrochemical industries are provided at below world market pricing, presumably reflecting discounts for lower costs in production and transport. The government maintains that local petroleum prices that are below world market averages (e.g., a gallon of gasoline sells for $.90 at the pump) reflect the low costs of production. Nonetheless, the effect of these low prices is that petroleum products, including many petrochemicals, are sold in Saudi Arabia at prices that effectively eliminate competing imports. Agricultural subsidies were dramatically curtailed in the early 1990s and have been reduced in recent budgets, in line with the government's deficit reduction plans and its goal to reduce water consumption.

The Saudi Arabian Government imposes few taxes, relying on oil revenues, customs duties, and licensing fees for most government revenue. Saudi Arabian nationals pay no income tax, but are obliged to pay "zakat," a 2.5 percent Islamic assessment based on net wealth (not income). Zakat is designed to support the Islamic community (e.g., to pay for hospitals, schools, support for the indigent). Saudi-owned businesses do not pay corporate tax beyond the "zakat." Foreign companies and self-employed foreigners pay an income tax, but do not pay zakat. Business income tax rates range from 25 percent on annual profits of less than $26,667 to a maximum rate of 45 percent for profits of more than $266,667. Some foreign investors avoid taxation either in part or totally, by taking advantage of various investment incentives, such as 10-year tax holidays for investments in approved projects meeting specified requirements. Import tariffs are generally 12 percent ad valorem (CIF), except on products imported from other member states of the Gulf Cooperation Council. Certain specified essential commodities (e.g., defense purchases) are not subject to custom duties. Saudi Arabia also levies a maximum 20 percent tariff on products that compete with local "infant" industries.

The Saudi Arabian Government is currently considering changes to the Foreign Investment Code and related foreign corporate taxation laws, which may result in significant reductions in the amount foreign corporations are taxed. Changes to Saudi Arabia's tariff structure are also being considered in the context of Saudi Arabia's effort to gain membership in the World Trade Organization.

4. Debt Management Policies

Saudi Arabia is a net creditor in world financial markets. SAMA manages foreign assets of roughly $54 billion in its issues and banking departments, and an estimated $29 billion for autonomous government institutions, including the Saudi Pension Fund, the Saudi Fund for Development, and the General Organization for Social Insurance. Under SAMA's rules, $17.8 billion of the roughly $54 billion in foreign assets is designated to guarantee the Saudi Riyal. In addition to overseas assets managed by SAMA, the commercial banking system has an estimated net foreign asset position of $11.4 billion.

Public sector foreign debt, which stood at a level of $1.8 billion at the beginning of 1995, was retired in May of that year. Domestic banks, Saudi ARAMCO, Saudi Arabian Airlines, and other state-owned enterprises, however, have overseas liabilities.

Government domestic borrowing has a short history in Saudi Arabia. The government began borrowing to finance budget deficits in 1987 by selling government development bonds having two-to-five year maturities. After the massive defense expenditures of the 1991 Gulf War, the government expanded its borrowing by signing loan syndications with international and domestic banks, and by introducing treasury bills. This debt, owed almost entirely to domestic creditors, such as autonomous government institutions, commercial banks, and individuals, ballooned to about $130 billion by the end of 1998, or over the GDP level. In addition, the government issued a series of bonds to farmers and some other private sector creditors (mainly contractors) for past due amounts. Paying down this debt is now a focus of government concern.

Non-governmental external debt stood at $28 billion in 1998, up from $16 billion in 1996. This debt is serviceable, especially in light of improved oil revenues.

5. Significant Barriers to U.S. Exports

Saudi Arabia is currently in the process of negotiating accession to the World Trade Organization (WTO). This may result in changes to a number of current regulations that have the potential to restrict entry of U.S. exports and investments.

Import licensing requirements protect Saudi Arabian industries or enhance Saudi Arabian businesses. In most cases, foreign companies must operate through a Saudi Arabian agent. Contractors for public projects must purchase equipment and most supplies through Saudi agents. (This agency requirement does not apply to defense-related imports.) Saudi Arabia requires licenses to import agricultural products.

Saudi Arabia's preshipment inspection regime, known as the International Conformity Certification Program (ICCP), is designed to protect Saudi Arabian consumers from inferior foreign products. The ICCP has elements that can be viewed as barriers to free trade—such as an ad valorem-based fee schedule—and remains controversial. It adds inspection costs to imported civilian products, may delay shipments to Saudi Arabia, and can increase exporter overhead.

Restrictions on shelf life labeling standards in Saudi Arabia may make it difficult for some U.S. food producers to compete in the Saudi market.

Saudi Arabia gives preference to imports from other members of the Gulf Cooperation Council (GCC) in government purchasing, with a 10 percent price preference over non-GCC products for government procurement.

Saudi Arabia requires foreign civilian contractors to subcontract 30 percent of the value of government non-military contracts, including support services, to firms having Saudi-majority ownership. Many firms have reported that this has not been enforced consistently. Some U.S. businessmen have complained that this is a barrier to the export of U.S. engineering and construction services. Other service industries are restricted to government-owned companies, e.g., certain insurance and transportation services.

The "Investment of Foreign Capital Regulation" establishes the following conditions for a non-Saudi national to obtain a license for a business and for investment of foreign capital (considerable revisions to the Regulation are nearing completion):

a. Foreign capital must be invested in a development project, or in projects within the framework of the development plan in effect at the time of the investment. Investments in oil and mineral sectors are subject to special regulations of the Ministry of Petroleum and Mineral Resources.

b. Foreign capital investment must be accompanied by foreign technical expertise. In addition, the "foreign capital investment committee," established by the "investment of foreign capital regulation," reviews license applications. The committee's screening of foreign investments is general; the criteria for screening, other than the two conditions listed above, appear to be limited to:

—Ensuring that an investment does not violate the social or religious mores of Saudi Arabia.

—Regulating the number of establishments in any one sector, to the level that the market will sustain.

There is no requirement that a non-Saudi investor have a Saudi partner. At the same time, businesses having a minimum of 25 percent Saudi ownership are eligible for soft government loans, which are generally unavailable to firms lacking Saudi ownership. The government is currently reviewing foreign investment and agency regulations.

Saudi labor law requires companies to employ Saudi nationals, but foreigners account for at least 90 percent of the private sector labor force. Large companies are required to increase their percentage of Saudi employees by a certain percentage annually or face restrictions. This emphasis on "Saudiization" is increasing as the number of unemployed/underemployed Saudis increases.

6. Export Subsidies Policies

Saudi Arabian planners say that there are no export subsidy programs for industrial projects. Because feedstock prices are relatively low in Saudi Arabia, industrial production of petroleum and related downstream products is comparatively attractive. The government argues that this is simply a reflection of the low cost of domestic oil production. On January 1, 1998, the Saudi Government announced a 50 percent across-the-board increase in natural gas prices from $.50/million btu to $.75/million btu. The government has reduced subsidies to agriculture, which has resulted in reduced agricultural production available for export.

7. Protection of U.S. Intellectual Property

Saudi Arabia has applied to join the World Trade Organization (WTO). As part of its accession effort, Saudi Arabia is revising all of its intellectual property laws to make them conform with the WTO's Trade Related Aspects of Intellectual Property (TRIPs) standards. Saudi Arabia remains on the USTR's "Special 301 Watch List," having moved up in 1996 from the program's "Priority Watch List" in recognition of progress made in intellectual property rights protection. Saudi Arabia has joined the Universal Copyright Convention, and is a member of the World Intellectual Property Organization (WIPO), though not a contracting party to any of the treaties administered by WIPO. Efforts to protect intellectual property rights are uneven, and audio, video and software companies want greater protection of their product content in the Kingdom.

Saudi Arabia has enacted a patent regulation and established a patent office. The regulation was patterned along the lines of the U.S. patent law, but does not reproduce it. The terms of patent protection are generally adequate, but the period of protection is 15 years, five years less than the international TRIPs standard. The regulation permits compulsory licensing if the patent holder refuses to use the patent, or for other public policy reasons, on a wider basis than permitted under TRIPs. Further, the Saudi Patent Office is functionally slow. The office has received several thousand patent applications since 1989, but has completed action on only a relative handful. The patent office lacks sufficient manpower to process the backlog of applications. The Gulf Cooperation Council (GCC) established a parallel patent office in October 1998, but that office is not yet issuing patents.

Registration of trademarks is relatively uncomplicated, although some companies have complained that registration and search fees are high. Although legal remedies for infringement of a trademark exist, enforcement of trademark protection is inconsistent.

The embassy has received no verifiable reports of book piracy, and only one report of the unlicensed use of a published photograph. Piracy of U.S.-produced audio and videocassettes has decreased due to government enforcement polices but remains a problem. Estimates of losses to computer software companies due to illegal copying vary widely, but are generally considered high.

8. Worker Rights

a. *The Right of Association:* Saudi regulations prohibit labor associations.

b. *The Right to Organize and Bargain Collectively:* Expatriates perform much skilled and almost all unskilled labor. Non-Saudi workers who seek to organize may be deported.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited. However, as most unskilled labor is performed by expatriates, and as Saudi employers have legal authority over the movement of their contracted laborers, low paying labor may occur, especially in the case of domestic servants and in remote areas. During the past three years, the government has expelled many workers without proper work permits. One result of this may be to reduce the potential for abuse.

d. *Minimum Age for Employment of Children:* The labor law states that "a juvenile who has not completed 13 years of age shall not be employed." This restriction may be waived by application to the Ministry of Labor with the consent of the juvenile's parent or guardian. Children under 18 and women may not be employed in hazardous or unhealthy occupations. Wholly-owned family businesses and family-run farms are exempt from these rules.

e. *Acceptable Conditions of Work:* Saudi Arabian authorities consider that provisions of Islamic Law (the Shariah) provide more than adequate protection for laborers, and therefore additional regulation is unnecessary. Conditions of labor, while far from perfect, may in some cases be better than those found in countries from which most poorer expatriates come. Although Saudi Arabia has no minimum wage, generally speaking, expatriate laborers come to Saudi Arabia because they can earn more than they could at home. They receive time-and-one-half for hours (up to 12) over the 44 hours normally worked per week. The labor law requires employers to provide health insurance and to protect workers from job-related hazards and diseases.

f. *Rights in Sectors with U.S. Investment:* Worker rights in sectors with U.S. investment do not differ from those elsewhere. Conditions of work at major U.S. firms and joint-venture enterprises are generally better than elsewhere in the Saudi economy. Workers in U.S. firms normally work a five to five-and-one-half day week (i.e., 44 hours) with paid overtime. Overall compensation tends to be at levels that make employment with U.S. firms attractive.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment in Saudi Arabia on a Historical Cost Basis—1998. Generally it is assumed that the true value of U.S. direct investment in Saudi Arabia is in the range of $7-8 billion with the large majority in the petrochemical field. Antitrust concerns and general difficulties in gathering statistics make the exact aggregation of data impossible.

[Millions of U.S. Dollars]

Category		Amount
Petroleum		270
Total Manufacturing		149
Food & Kindred Products	14	
Chemicals & Allied Products	[1]	
Primary & Fabricated Metals	20	
Industrial Machinery and Equipment	[1]	
Electric & Electronic Equipment	1	
Transportation Equipment	5	
Other Manufacturing	51	
Wholesale Trade		105
Banking		[1]
Finance/Insurance/Real Estate		1,533
Services		280
Other Industries		[1]
TOTAL ALL INDUSTRIES		4,209

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

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

TUNISIA

Key Economic Indicators

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	16,594.7	17,3463.3	18,733.7
Real GDP Growth (pct) [3]	5.4	5.0	6.2
GDP by Sector:			
Agriculture	2,533.4	2,4812	2,732.1
Manufacturing	3,496.7	3,636.8	3,924.7
Services	6,514.0	6,919.9	7,535.2
Government	2,565.0	2,680.4	2,797.1
Per Capita GDP (US$)	1,953.4	2,098.2	2,238.2
Labor Force (000's)	2,850	2,920	2,990
Unemployment Rate (pct)	16	16	15.6
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	16	6	9
Consumer Price Inflation	3.7	3.1	3.0
Exchange Rate (TD/US$ annual average)			
Official	1.1	1.1	1.2
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB [4]	5,589.0	5,717.8	5,878.2
Exports to U.S. [4]	37.6	28.3	49.5
Total Imports CIF [4]	7,994.1	8,324.1	8,373.0
Imports from U.S. [4]	343.4	287.7	411.3
Trade Balance [4]	–2,405.1	–2,606.3	–2,494.8
Balance with U.S.	–305.7	–259.4	–361.8
External Public Debt	9,836.4	9,409.6	10,265.0
Fiscal Deficit/GDP (pct)	4.2	3.0	2.8
Current Account Deficit/GDP (pct)	3.3	3.4	2.0
Debt Service Payment/GDP (pct)	8.2	7.6	7.9

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Key Economic Indicators—Continued

[Millions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Gold and Foreign Exchange Reserves	2,100	1,750	2,100
Aid from U.S.	0.9	0.9	8.4
Aid from All Other Sources [5]	N/A	N/A	N/A

[1] 1999 figures are all estimates based on available monthly data in November.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Tunisia does not publish official aid figures.

Source: Tunisian Central Bank and other government sources.

1. General Policy Framework

Tunisia has made significant progress toward establishing a market economy over the past decade. The European Union (EU)-Tunisian Free Trade Accord was signed in 1995 and formally came into effect on March 1, 1998. Tunisia, having started implementing significant reforms in 1996, is on schedule in reforming its economy as required by the Accord. Over a 12-year period, the terms of the Accord require the Tunisian Government to eliminate import tariffs and open the market to business competition. Although tariff revenues decreased from $732 million in 1997 to $620 million in 1998, they reached $741 million in 1999 due to increased levels of imports. Initially, the government expects significant economic turmoil as state owned firms are privatized, jobs are eliminated and companies are forced to become more efficient. This should adversely affect unemployment which is officially 15.6 percent, but is widely believed to be higher, with some regions registering 30 percent. However, in the long run, the accord should help the country by attracting foreign investment and creating an export-oriented economy based increasingly on manufactured products.

The government's fiscal policy is socially oriented, designed to raise living standards and reduce poverty while maintaining economic and political stability. Approximately 58 percent of the government's budget is allocated for social programs, providing subsidies for education, basic foodstuffs and support for the poorest sectors of society. Since 1996, annual minimum wage increases have kept pace with the official inflation rate, which has averaged less than four percent annually for the period. The government has been commended by the IMF for prudent fiscal monetary measures in 1997, including trimming government expenditures while implementing food and energy price increases, as well as lowering tariff and nontariff barriers to trade. These trends continued in 1998 and 1999.

Tunisia needed to raise $614 million in 1999 to finance its budget deficit which is equal to 2.8 percent of the 1999 projected Gross Domestic Product (GDP) of over $21.5 billion. Tunisia's economic performance and low perceived commercial and political risk have been recognized in international financial markets, permitting the government to successfully float loans in the bond market. In 1997, the government tapped the U.S. market for the first time with the successful issuance of $400 million of "Yankee" bonds. In 1999, Tunisia became the first African country to tap the Euro denominated bond market with a successful $209 million bond offering.

The government predicts GDP growth of 6.2 percent for 1999, after posting 5.0 percent GDP growth in 1998. Tunisia maintains significant trade barriers to control the growth of imports and contain its trade deficit, which decreased over four percent from 1998 to 1999. Imports of goods and agricultural products rose during the last three years despite increased domestic agricultural production. Imports of consumer goods increased enough in 1997 that the government unofficially began restricting some imports, but this was not the case in 1998 or 1999. Customs duties and other import taxes will remain in place. In 1999, U.S. goods represented only 4.1 percent of total goods and services imported, but the U.S. held an eight to one trade surplus (according to Tunisian statistics) with Tunisia, primarily due to agricultural products. Trade with the U.S. experienced a strong rebound in 1999 after a down turn in 1998, and the U.S.-North Africa Economic Partnership, proposed in 1998 and officially launched in March 1999, has the potential to bring about a significant increase in U.S. investment and trade with Tunisia. Opportunities for U.S. exports include electrical power generation systems, construction and engineering services, telecommunications and computer equipment, and agricultural products and equipment.

The government, which exercises considerable control over the central bank, the stock market and other financial institutions, has kept tight control of the money supply. During the three year span from 1997 to 1999, foreign exchange reserves have averaged about $2 billion, which represents between two and three months of imports. The government has continued its policy of not allowing the Tunisian Dinar to be traded on international markets. Government exchange controls for Tunisians traveling abroad were recently loosened to allow them to take up to $855 (1,000 dinars) per year out of the country, doubling the previous limit of 500 dinars per year.

2. Exchange Rate Policy

While the dinar is not traded internationally on the world market, it is commercially convertible for most trade and investment operations, though some restrictions apply. Central bank authorization is needed for large-scale foreign exchange operations.

The value of the dinar is tied to a basket of foreign currencies, primarily those of Tunisia's major trading partners, such as Germany, France, Italy, Japan and the United States. All exchange rate transactions are done internally, and the Tunisian Central Bank allows the rate to float within a narrow band fixed by the Bank. There is no "parallel" or black market for currency exchanges within Tunisia, although such markets for the dinar exist in Libya and Algeria. In 1999, the value of the dinar varied considerably versus the dollar. In January the dollar bought 1.09 dinars, and by July this reached 1.22. However, by November the rate had fallen to 1.18, giving the dollar an eight percent appreciation relative to the dinar year-to-date.

3. Structural Policies

To meet the terms of the EU-Tunisian Free Trade Accord, the government is continuing to introduce structural economic reforms initiated in 1987 with the IMF and IBRD. As customs duties are eliminated over a 12-year period for a wide range of imports, Tunisian companies will have to become more competitive or risk going out of business. In conjunction with the Accord and in response to World Bank suggestions, the government has vowed to accelerate its privatization program. The government privatized approximately 60 companies between 1987 and 1997 raising approximately $400 million. In 1998 alone, proceeds from privatization surpassed $400 million with the sale of approximately 20 additional companies. The sale of two cement plants accounted for $380 million of this amount. In 1999, the rate of privatization slowed considerably as the planned sale of three additional cement plants, with the reported value of $500 million, was rescheduled for 2000. Total receipts from privatization efforts in 1999 were well below $100 million.

Tax and customs policies favor "offshore" Tunisian-based foreign companies which manufacture locally and export 80 percent or more of their production, enjoying 10-year tax-free status and other benefits. Foreign companies that import materials for use or sale in the Tunisian market, however, have continued to see customs duties rise, where permitted by World Trade Organization (WTO) rules. This has adversely affected Tunisian-based U.S. companies which depend on materials produced in the United States for their products. Tunisia has three Value-Added Tax (VAT) rates (6, 18 and 29 percent) based on the category of good sold (i.e., luxury or staple products). In order to make up for the decline in import duties, the government raised its middle VAT rate in 1997 from 17 to 18 percent, and made greater efforts to enforce compliance on retailers, causing price increases on a wide range of domestic and foreign products. In 1999, receipts from VAT were 34 percent above the 1997 level due to an increase in the volume of imports.

As the government has continued to modernize its power generation utilities and industrial infrastructure, its official policy has been to make contract bidding transparent and open to foreign companies. U.S. firms have been actively encouraged to bid on a number of procurement contracts. Unfortunately, between 1996 and 1999, official tender policies were not always strictly adhered to and factors other than price and quality of technology offered appear to have played a role in the awarding of contracts. Examples, involving competing U.S. and foreign firms, include contracts in the electronics and agricultural sectors of the economy. Such occurrences could deter U.S. companies from bidding on future public contracts. However, private sector sources gave the government high marks for its transparency and fairness in handling the bidding for the Rades II independent power plant. This project was won by a U.S.-led consortium and is worth between $400 and $450 million. The contract for this project was signed in April 1999.

4. Debt Management Policies

According to recent reports by the World Bank and the IMF, the government has managed its external debt portfolio well and has never had to reschedule its debt payments. Tunisia has won high investment grade ratings from a number of international rating agencies, such as Standard and Poor's, which assigned its triple b minus long-term rating in 1999 to a $209 million Euro bond issue. In 1997, Tunisia tapped the U.S. bond market for the first time and raised $400 million. In addition, several Tunisian commercial banks worked with U.S. investment firms in 1998 to raise money in U.S. commercial markets.

In 1999, the government projected its foreign financing requirements to be approximately $762 million. In 1998, Tunisia's outstanding foreign debt increased by $860 million to $10.27 billion, representing approximately 47.8 percent of gross available domestic revenue. Debt service payments on foreign debt in 1998 are projected to be $1.7 billion. As mentioned above, the October 1998 privatization of two cement factories brought nearly $400 million to the Tunisian treasury, a timely infusion to address the budget deficit which saved the government from tapping the foreign debt market to meet that shortfall.

5. Aid

Tunisia's USAID program was terminated in 1998 due to the country's progress on economic growth and development. In 1999, U.S. aid to Tunisia amounted to $8.4 million in military aid. These funds were used for the following programs: $5 million of Draw Down Authority to procure existing U.S. military goods and services, $2 million of Foreign Military Financing to purchase U.S. military goods and services, $900,000 in International Military and Educational Training and $400,000 in Humanitarian Assistance. The government does not publish foreign aid figures, therefore, the amount of aid from other sources is unavailable.

6. Significant Barriers to U.S. Exports

Significant barriers do exist to U.S. exports to Tunisia. While Tunisia allows over 90 percent of goods to be imported without a license, import duties range from 10 to 230 percent (cheese 133 percent, milk 200 percent). In addition, certain luxury consumer items and durable goods can be assessed a consumption tax that can be as high as 500 percent (small engine automobiles 50 percent, large engine automobiles 295 percent, champagne 500 percent). The consumption tax is used to offset the gradual elimination of tariffs, and is levied predominately on luxury goods regardless of whether they are imported or produced in Tunisia. At the retail level, the VAT can be applied to certain categories of goods.

Import licenses are sometimes required for goods that compete against those produced by developing Tunisian industries, such as textiles. Licenses are also required for expensive consumer goods, such as automobiles, payment for which could adversely affect the short-term balance of payments. The stated purpose of the licenses is to allow nascent local industries to grow, and U.S. exports have been limited or prevented when they are seen to compete with them.

Tunisia is moving to embrace ISO 9000 standards and testing. The Tunisian Consumer Protection Law of 1992 established standard labeling and marking requirements, and goods not specified under existing Tunisian regulations must meet international standards.

While foreign investment is welcomed, investment barriers exist. For on-shore companies within the services sector (defined as those with more than 20 percent of output destined for the Tunisian market), the government must authorize a foreign capital share of more than 49 percent. Foreign investors are denied treatment on par with Tunisians in the agricultural sector, and although land may be secured for long-term leases (40 years), foreign ownership of agricultural land is prohibited. For foreign companies producing for the Tunisian market, local content provisions may apply, and hiring of foreign personnel is subject to regulation and usually limited to senior management. Normally, foreign companies cannot distribute products locally without a Tunisian distributor. The government does not allow the establishment of foreign franchise operations except in special circumstances. There is no limit on the amount of foreign currency which can be brought into the country, but any amount over TD 1,000 must be declared at the port of entry and only the unused dinar balance of declared foreign currency may be reconverted and taken out of the country.

Laws concerning government procurement practices are nominally designed to make contract bidding objective, competitive, and transparent. However, in several recent cases, factors other than those specified in the tender offer appear to have played a role in determining who won the contract. This has caused some concern that the government will allow factors other than price, competitiveness and quality of technology or services offered to be the determining factors in awarding government contracts.

Customs administrative procedures are often complex and burdensome, requiring time and patience to complete necessary paperwork demanded by the authorities. Problems that arise are addressed on a case by case basis, and business or political connections can greatly affect the rate at which products are cleared. Most foreign companies choose to work with private customs agents to expedite the processing of their imports.

7. Export Subsidies Policies

The government does not provide export subsidies to Tunisian companies.

8. Protection of U.S. Intellectual Property

Tunisia is a member of the World Trade Organization (WTO), but is availing itself of a transitional period provided to developing countries to phase in obligations under the WTO Trade Related Aspects of Intellectual Property (TRIPS) Agreement. Tunisia belongs to the World Intellectual Property Organization (WIPO), and is a signatory to the Berne Convention for the protection of literary and artistic works (copyright) and the Paris Convention for the protection of industrial property (patent, trademark and related industrial property). As a member of the World Intellectual Property Organization (WIPO) and as a signatory to the UNCTAD agreement on the protection of patents and trademarks, Tunisia has pledged to protect foreign property rights.

In 1998, the U.S. Trade Representative named Tunisia to the "Special 301" Other Observations List (the lowest level of inclusion) because of concerns over an absence of patent protection for pharmaceutical products that allows dozens of top-selling medicines to be sold in the local market. Once a medicine is manufactured in Tunisia, its importation is restricted, hindering access to the market for U.S. firms. In 1999, Tunisia did not appear on the "Special 301" list, because the "other" category was eliminated and it was determined that Tunisian IPR violations did not warrant inclusion in a higher category. Recent complaints of trademark pirating, largely in the field of apparel, and copyright infringement, such as software, recordings, and movies also indicate that IPR violation is a growing problem in Tunisia.

Registration of foreign patents and trademarks is required with the national institute for standardization and industrial policy. However, Tunisia's patent and trademark laws are designed to protect only duly registered owners. In the area of patents, U.S. businesses are guaranteed treatment equal to that afforded to Tunisian nationals. Copyright protection is the responsibility of a separate government agency, which also represents foreign copyright organizations. Tunisian Copyright Law has been updated, but its application and enforcement have not been consistent with foreign commercial expectations. Print and video media are considered particularly susceptible to copyright infringement.

9. Worker Rights

a. *The Right of Association:* The Constitution and the Labor Code stipulate the right of workers to form unions and this right is generally observed in practice. The Tunisian General Federation of Labor (UGTT) is Tunisia's only labor federation. About 15 percent of the country's work force are members, but a greater number are covered by UGTT negotiated contracts. The UGTT is independent of the government but certain laws restrict its freedom of action. The current UGTT leadership has tried to cooperate with the government and support its economic reform programs, in return for regular wage increases and protection for workers.

b. *The Right to Organize and Bargain Collectively:* This right is protected by law and observed in practice. Wages and working conditions are set in triennial negotiations between the UGTT member unions and employers, and anti-union discrimination by employers is prohibited. Though the government does not participate in the negotiations, it must approve, but cannot modify, the agreements decided upon.

c. *Prohibition of Forced or Compulsory Labor:* Tunisia abolished compulsory labor in 1989, and ended the practice of sentencing convicts to "rehabilitation through work" in 1995.

d. *Minimum Age for Employment of Children:* In August 1996, the Labor Code raised the minimum age for employment in manufacturing from 15 to 16 years, while the minimum age for light work in agriculture and nonindustrial sectors is 13 years. The government requires children to attend school until age 16 and employers must observe certain rules to insure children obtain adequate rest and attend school. The UGTT has expressed concern that child labor continues to exist disguised as apprenticeship.

e. *Acceptable Conditions of Work:* The Labor Code provides for a range of minimum wages, which are set by a commission of government, UGTT and employers' representatives. Most business sectors observe a 48-hour workweek, with one 24-hour rest period. The government often has difficulty enforcing the minimum wage law, especially in nonunionized sectors of the economy. Workplace health and safety standards are enforced by the government.

f. *Rights in Sectors with U.S. Investment:* Working conditions tend to be better in export-oriented firms than in those producing exclusively for the domestic market.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		102
Total Manufacturing		27
Food & Kindred Products	27	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		1
Finance/Insurance/Real Estate		0
Services		22
Other Industries		0
TOTAL ALL INDUSTRIES		153

Source: Department of Commerce, Bureau of Economic Analysis.

UNITED ARAB EMIRATES

Key Economic Indicators

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	49.2	46.3	48.0
Real GDP Growth (pct)	0.8	–8.1	2.5
GDP by Sector: [3]			
Agriculture	1.5	1.6	1.6
Manufacturing	5.5	5.5	5.5
Services	22.2	23.4	24.0
Government	5.1	5.4	5.4
Per Capita GDP (US$)	18,741	16,780	17,500
Labor Force (000's)	1,330	1,380	1,400
Unemployment Rate (pct)	2.6	2.6	2.6
Money and Prices (annual percentage growth):			
Money Supply (M2)	9.0	4.2	4.0
Consumer Price Inflation (pct)	2.8	1.5-2	3.0
Exchange Rate(Dirham/US$)			
Official	3.67	3.67	3.67
Balance of Payments and Trade:			
Total Exports FOB [4]	34.0	30.4	33.5
Exports to U.S. [5]	1.0	0.7	0.7
Total Imports CIF [4]	26.6	27.2	29.0
Imports from U.S. [5]	2.6	2.4	2.3
Trade Balance [4]	7.4	3.2	4.5
Balance with U.S. [5]	–1.6	–1.7	–1.6
Current Account Surplus/GDP (pct)	12.8	3.9	6.0
External Public Debt	0.0	0.0	0.0
Debt Service Payments/GDP (pct)	0.0	0.0	0.0
Fiscal Deficit/GDP (pct)	5.1	17.0	10.0
Gold and Foreign Exchange Reserves (end of period)	8.2	8.9	9.5

Key Economic Indicators—Continued

[Billions of U.S. Dollars unless otherwise indicated]

	1997	1998	[1] 1999
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

[1] Estimates based on available monthly data in November 1999.
[2] GDP at current prices.
[3] GDP at factor costs.
[4] Merchandise trade; includes re-exports.
[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1999 figures are estimates based on data available through August.

Sources: Ministry of Planning, Central Bank, Ministry of Economy and Commerce.

1. General Policy Framework

The United Arab Emirates (UAE) is a federation of seven emirates. The individual emirates retain considerable power over legal and economic matters, most significantly over ownership and disposition of oil resources. Each emirate has its own Customs Service, as well as its own Civil Aviation Authority. The federal budget is largely derived from transfers from the individual emirates. Abu Dhabi and Dubai, the most prosperous emirates, contribute the largest shares.

Oil production and revenues from the sale of oil constitute the largest single component of GDP, accounting in 1998 for 22 percent of GDP and equaling roughly 33 percent of export and 86 percent of government revenue. Rising or declining oil prices have a direct effect on GDP statistics and an indirect impact on government spending but may, nevertheless, be less obvious in terms of overall economic activity. GDP declined by 5.8 percent in 1998, a decline attributable to sustained low oil prices. The great majority of the UAE's oil export income comes from Abu Dhabi Emirate, though Dubai and Sharjah also produce and export a modest amount of oil and gas products. The scarcity of oil and gas reserves in the UAE's northern emirates has led to continued—and successful—attempts at economic diversification. While the sharp drop in the oil sector's share of GDP in 1998 was due in large part to declining oil revenues, data over time indicates that the UAE has made significant progress in diversifying its economy away from oil. Important sectors under development include tourism, manufacturing, air travel and cargo services.

Government fiscal policies aim to distribute oil wealth to UAE nationals by a variety of means. Support from the wealthier emirates of Abu Dhabi and Dubai to less wealthy emirates is provided through the federal budget, largely funded by Abu Dhabi and Dubai, and by direct grants from the governments of Abu Dhabi and Dubai.

Federal commercial laws promote national ownership of business throughout the country. Foreign businesses, except those seeking to sell to the UAE Armed Forces, must have a UAE national sponsor. Agency and distributorship laws require that a business engaged in importing and distributing a foreign-made product must be owned 100 percent by a UAE national. Other businesses must be at least 51 percent owned by nationals. Companies located within the UAE's nine free zones are exempted from agency/distributorship, sponsorship, and national ownership requirements. However, if they lack 51 percent national ownership, they are treated as foreign firms and subjected to these requirements if they market products in the UAE.

The central bank seeks to maintain the dirham/dollar exchange rate, which has not changed since 1980, and to keep interest rates close to those in the United States. Given these goals, the bank does not have the scope to engage in independent monetary policy. Trends in domestic liquidity continue to be primarily influenced by residents' demand for UAE Dirhams relative to foreign exchange. Banks convert dirham deposits to foreign assets and back again in search of higher rates of return and in response to fluctuations in lending opportunities in the domestic market. To a limited extent, domestic liquidity can be influenced by the central bank through its sale and purchase of foreign exchange, use of its swap facility, and transactions in its certificates of deposit.

In recent years the UAE has run budget deficits. In 1994, the UAE budget deficit as a percentage of GDP was 7.9 percent; in 1998 that figure grew to 17.0 percent, largely attributable to a 34 percent drop in oil revenues that year. Assuming current policies remain unchanged, fiscal deficits will persist. Deficits are financed by domestic borrowing, principally by overdrafts from banks in which government entities have an ownership share, and by liquidation of or interest from overseas assets.

2. Exchange Rate Policies

There are no restrictions on the import or export of either the UAE Dirham or foreign currencies by foreigners or UAE nationals, with the exception of Israeli currency and the currencies of those countries subject to United Nations sanctions. Since November 1980, the dirham, though formally pegged to the IMF's Special Drawing Rights (SDR) at the rate of 4.76190 dirhams per SDR, with a margin of fluctuation set initially at 2.25 percent and widened in August 1987 to 7.25 percent, has been kept in a fixed relationship with the U.S. Dollar. The exchange rate is 3.67 UAE Dirhams per 1 U.S. Dollar.

3. Structural Policies

Foreign workers make up approximately 90 percent of the UAE labor force; in some areas of the private sector, 99 percent of workers are non-UAE nationals. In an effort to stem the problem of illegal immigration and employment, better regulate the labor market and improve its efficiency of administration, a new Labor Law came into effect on 1 October 1996 which dramatically increased the severity of penalties applicable to immigration offenses. As a result of the new immigration rules, nearly 10 percent of the UAE's population (roughly 20 percent of its work force) left the country between the beginning of August and the end of October 1996, although most returned in subsequent months once their immigration status was clarified. Employment of UAE citizens—known as "Emiratization"—is a stated national objective. In addition to persuasion and encouragement, the UAE Government has begun to employ legislation as a tool for promoting job opportunities for UAE nationals. Beginning in January 1999, employment of UAE nationals in the banking sector must increase by 4 percent per year, with UAE nationals required to comprise 40 percent of total banking sector work force in 2009. Additional measures, such as a ban on unskilled labor from certain countries, are also being employed in an effort to manage the labor force.

There is no income tax in the UAE. Foreign banks pay a 20 percent tax on their profits. Foreign oil companies with equity in concessions pay taxes and royalties on their proceeds. There are no consumption taxes, and the highest customs duty is 4 percent. More than 75 percent of imports still enter duty free. Gulf Cooperation Council (GCC) states continue to be engaged in discussions on unifying customs tariffs. Some progress has been made on this issue; the UAE, with its dependence on trade and its commitment to the free flow of goods, continues to push for lower rates than its GCC neighbors. Reaching agreement on a common GCC external tariff will represent a step forward in longstanding efforts to form a regional customs union.

Prices for most items are determined by market forces. Exceptions include utilities, educational services, medical care and agricultural products, which are subsidized for UAE nationals.

A passport and visa are required for entry into the UAE. Multiple entry visas for business or tourism and valid for up to ten years are available to U.S. passport holders from UAE embassies. Sponsors are not required, but applicants may be asked to provide an invitational letter to confirm the purpose of travel. These visas do not permit employment in the UAE. Visa applicants are now required to pay a 170 Dirham consular services fee when they apply.

4. Debt Management Policies

The UAE Federal Government has no official or commercial foreign debt. Some individual emirates have foreign commercial debts, and there is private external debt. There are no reliable statistics on either, but the amounts involved are not large. The foreign assets of the Abu Dhabi and Dubai governments and their official agencies are believed to be significantly larger than the reserves of the central bank. It is conservatively estimated that assets of the Abu Dhabi Investment Authority (ADIA) total more than $125 billion.

5. Significant Barriers to U.S. Exports

The UAE maintains non-tariff barriers to trade and investment in the form of restrictive agency, sponsorship, and distributorship requirements. In order to do business in the UAE outside of one of the free zones, a foreign business in most cases must have a UAE national sponsor, agent or distributor. Once chosen, sponsors, agents, or distributors have exclusive rights. They cannot be replaced without their agreement. Government tendering is not conducted according to generally accepted international standards. Re-tendering is the norm. To bid on federal projects, a supplier or contractor must be either a UAE national or a company in which at least 51 percent of the share capital is owned by UAE nationals. Federal tenders are required to be accompanied by a bid bond in the form of an unconditional bank guarantee for 5 percent of the value of the bid.

Except for companies located in one of the free zones, at least 51 percent of a business establishment must be owned by a UAE national. A business engaged in importing and distributing a product must be either a 100 percent UAE owned agency/distributorship or a 51 percent UAE/49 percent foreign Limited Liability Company (LLC). Subsidies for manufacturing firms are only available to those with at least 51 percent local ownership.

The laws and regulations governing foreign investment in the UAE are evolving. There is no national treatment for investors in the UAE. Non-GCC nationals cannot own land or buy stocks although limited participation by foreigners in some mutual funds is permitted. There have been no significant investment disputes over the past few years involving U.S. or other foreign investors. Claims resolution is generally not a problem, because foreign companies tend not to press claims, believing that to do so might jeopardize future business activity in the UAE.

6. Export Subsidies Policies

The government does not employ subsidies to provide direct or indirect support for exports.

7. Protection of U.S. Intellectual Property

The UAE is a member of the World Trade Organization (WTO) and should be in compliance with its obligations under the Trade Related Aspects of Intellectual Property (TRIPs) Agreement by January 1, 2000. The UAE is also a contracting party to the World Intellectual Property Organization (WIPO), and has signed the Paris Convention for the Protection of Industrial Property (patent, trademark and related industrial property). The UAE remains on USTR's "Special 301" Watch List because of deficiencies in protection of Intellectual Property Rights (IPR). In April 1999, the USTR cited inadequate protection of pharmaceutical patents as the primary reason for maintaining the UAE on the Watch List.

In 1992 the UAE passed three laws pertaining to intellectual property: a Copyright Law, a Trademark Law, and a Patent Law. Enforcement efforts did not begin in earnest until 1994. As a result of these efforts, the UAE is largely clean of pirated sound recordings and films. While the government has also undertaken enforcement actions against local companies selling pirated computer software, U.S. industry remains concerned about reports of large-scale copying of business computer software by corporate end-users. Efforts to combat computer-software and video piracy in the UAE have been successful; according to industry estimates, the rate of software piracy in 1998 declined by 6 percentage points to 54 percent, a 10 percent decline compared to the previous year. The UAE is recognized as a regional leader in fighting computer software and video piracy.

UAE patent law provides process, not product, patent protection for pharmaceutical products. The Ministry of Finance and Industry is currently in the process of amending the Patent Law; the amended version is expected to provide explicit product patent protection to pharmaceuticals, and should be in place before the WTO's 2000 deadline. A local pharmaceutical manufacturer continues to produce patent protected products. The Ministry of Information is currently amending the Copyright Law to bring it up to international standards.

According to the International Intellectual Property Alliance, estimated 1998 losses to U.S. copyright-based industries were $22.4 million in the UAE, a 19 percent decrease from the prior year.

8. Worker Rights

a. *The Right of Association:* There are no unions and no strikes. The law does not grant workers the right to organize unions or to strike. Foreign workers, who make up the bulk of the work force, risk deportation if they attempt to organize unions or to strike. Since July 1995, the UAE has been suspended from U.S. Overseas Private Investment Corporation programs because of the government's lack of compliance with internationally recognized worker rights standards.

b. *The Right to Organize and Bargain Collectively:* The law does not grant workers the right to engage in collective bargaining, which is not practiced. Workers in the industrial and service sectors are normally employed under contracts that are subject to review by the Ministry of Labor and Social Affairs. The Ministry of Interior Naturalization and Immigration Administration is responsible for reviewing the contracts of domestic employees as part of residency permit processing. The purpose of the review is to ensure that the pay will satisfy the employee's basic needs and secure a means of living. For the resolution of work-related disputes, workers must rely on conciliation committees organized by the Ministry of Labor and Social Affairs or on special labor courts. Labor laws do not cover government employees, domestic servants, and agricultural workers. The latter two groups face considerable difficulty in obtaining assistance to resolve disputes with employers. While any worker may seek redress through the courts, this puts a heavy financial burden on those in lower income brackets. In Dubai's Jebel Ali Free Zone, the same labor laws apply as in the rest of the country.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is illegal and not practiced. However, some unscrupulous employment agents bring foreign workers to the UAE under conditions approaching indenture. The government prohibits forced and bonded child labor and enforces this prohibition effectively. In 1996, the UAE ratified the International Labor Organization's 1957 Abolition of Forced Labor Convention.

d. *Minimum Age for Employment of Children:* Labor regulations prohibit employment of persons under age 15 and have special provisions for employing those aged 15 to 18. The Department of Labor enforces the regulations. Other regulations permit employers to engage only adult foreign workers. In 1996, the UAE ratified the International Labor Organization's 1973 Minimum Age Convention. In 1993, the government prohibited the employment of children under the age of 15 as camel jockeys and of jockeys who do not weigh more than 45 kilograms. The Camel Racing Association is responsible for enforcing these rules. Children under the age of 15 working as camel jockeys have still been observed. Several newspaper articles have appeared in 1999 detailing instances—some including abuse—of children as young as two years old being smuggled into the UAE to work as camel jockeys. The government prohibits forced and bonded child labor and enforces this prohibition effectively (see section 11c" above). The government does not issue visas for foreign workers under the age of 16 years. Education is compulsory through the intermediate stage, approximately the age of 13 or 14 years.

e. *Acceptable Conditions of Work:* There is no legislated or administrative minimum wage. Supply and demand determine compensation. However, according to the Ministry of Labor and Social Affairs, there is an unofficial, unwritten minimum wage rate which would afford a worker and family a minimal standard of living. As noted above, the Ministry of Labor and Social Affairs reviews labor contracts and does not approve any contract that stipulates a clearly unacceptable wage.

The standard workday and workweek are eight hours a day, six days per week, but these standards are not strictly enforced. Certain types of workers, notably domestic servants, may be obliged to work longer than the mandated standard hours. The law also provides for a minimum of 24 days per year of annual leave plus 10 national and religious holidays. In addition, manual workers are not required to do outdoor work when the temperature exceeds 112 degrees Fahrenheit. Most foreign workers receive either employer-provided housing or housing allowances, medical care, and homeward passage from their employers. Most foreign workers do not earn the minimum salary of $1,090 per month required to obtain residency permits for their families. Employers have the option to petition for a 6-month ban from the work force against any foreign employee who leaves his job without fulfilling the terms of his contract.

The Ministry of Health, the Ministry of Labor and Social Affairs, municipalities and civil defense units enforce health and safety standards. The government requires every large industrial concern to employ a certified occupational safety officer. An injured worker is entitled to fair compensation. Health standards are not uniformly observed in the housing camps provided for foreign workers. Workers' jobs are not protected if they remove themselves from what they consider to be unsafe working conditions. However, the Ministry of Labor and Social Affairs may require employers to reinstate workers dismissed for not performing unsafe work. All workers have the right to lodge grievances with Ministry officials, who make an effort to investigate all complaints. However, the Ministry is understaffed and underbudgeted; complaints and compensation claims are backlogged.

Rulings on complaints may be appealed within the Ministry and ultimately to the courts. However, many workers choose not to protest for fear of reprisals or deportation. The press periodically carries reports of abuses suffered by domestic servants, particularly women, at the hands of some employers. Allegations have included excessive work hours, nonpayment of wages, and verbal and physical abuse.

f. *Rights in Sectors with U.S. Investments:* There is no difference in the application of the five worker rights discussed above between the sectors of the UAE economy in which U.S. capital is invested and other sectors of the economy. If anything, sectors containing significant U.S. investment, such as the petroleum sector, tend to have better working conditions, including higher safety standards, better pay, and better access to medical care.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		284
Total Manufacturing		83
Food & Kindred Products	0	
Chemicals & Allied Products	8	
Primary & Fabricated Metals	16	
Industrial Machinery and Equipment	3	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	55	
Wholesale Trade		122
Banking		(1)
Finance/Insurance/Real Estate		(1)
Services		137
Other Industries		(1)
TOTAL ALL INDUSTRIES		710

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

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

SOUTH ASIA

BANGLADESH

Key Economic Indicators

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

	1997	1998	[1]1999
Income, Production and Employment:			
Nominal GDP	33,01[illegible]	34,104	36,432
Real GDP Growth (pct)[2]	5.9	5.7	5.2
GDP by Sector:			
Agriculture	9,618	9,770	10,927
Manufacturing	3,049	3,275	3,262
Services	17,462	18,307	19,379
Government	N/A	N/A	N/A
Per Capita GDP (US$)	263	270	284
Labor Force (000's)	N/A	N/A	N/A
Unemployment Rate (pct)	N/A	N/A	N/A
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	10.8	10.1	13.1
Consumer Price Inflation	2.6	7.0	9.0
Exchange Rate (Taka/US$ annual average)			
Official	42.8	45.4	47.95
Parallel	N/A	N/A	N/A
Balance of Payments and Trade:			
Total Exports FOB	4,406	5,161	5,313
Exports to U.S.[3]	1.679	1,846	N/A
Total Imports CIF	7,162	7,524	7,515
Imports from U.S.[3]	259	318	N/A
Trade Balance	–2,756	–2,363	–2,202
Balance with U.S.[3]	1,420	1,528	N/A
External Public Debt[4]	15,025	15,855	16,234
Fiscal Deficit/GDP (pct)	4.5	4.2	5.3
Current Account Deficit/GDP (pct)	2.4	3.6	4.2
Debt Service Payments/GDP (pct)	1.0	1.0	1.0
Gold and Foreign Exchange Reserves	1,719	1,751	1,522
Aid from U.S.[5]	73.6	77.0	153.0
Aid from All Sources[6]	1,481	1,419	1,502

[1] The Bangladesh fiscal year is July 1 to June 30.
[2] Percentage change calculated in local currency.
[3] Figures are for the calendar year.
[4] Medium and long-term.
[5] Figures are for the U.S. fiscal year (October 1-September 30).
[6] Disbursements.

1. General Policy Framework

Bangladesh is one of the world's poorest, most densely populated, and least developed countries; its per capita income for fiscal year 1999 (July 1, 1998 to June 30, 1999) is estimated at $285. A large proportion of its population of approximately 128 million is tied directly or indirectly to agriculture, which accounts for 30 percent of Gross Domestic Product (GDP) and about 70 percent of the labor force. Economic growth in fiscal year 1998-99 (FY 99) dropped one half a percentage point to 5.2 percent, primarily due to the disruptions cause by severe floods in 1998; nevertheless, it remained above the average annual growth rate of 4.0 to 4.5 percent over the last ten years. Even a 5-6 percent GDP growth rate, however, is inadequate to relieve the poverty faced by over half the population.

GDP growth has been dampened over the years by a number of factors: low productivity growth in the agricultural sector, political and policy instability, poor infrastructure, corruption, and low domestic savings and investment. The state's presence in the economy continues to be large, and money-losing state enterprises have been a chronic drain on the treasury. Nonetheless, during the 1990's Bangladesh liberalized its economy, and the private sector assumed a more prominent role as the climate improved for free markets and trade. The Awami League government, which came to power in June 1996, has largely continued the market-based policies of its predecessor, the Bangladesh Nationalist Party, and made some regulatory and policy changes toward that end. However, implementation of new policy directives by the bureaucracy has been slow and uneven.

Bangladesh suffered its worst flood in history during the summer and fall of 1998. The economic damage is difficult to estimate, but could have reached $1 billion. A large proportion of the winter rice crop could not be planted, which increased the food import bill dramatically despite the assistance of donor nations. The United States donated 700,000 metric tons of wheat. The World Bank and the International Monetary Fund (IMF) provided emergency balance of payment relief of about $320 million. For over two years, the IMF and Bangladesh have held inconclusive Enhanced Structural Adjustment Facility discussions, and an agreement is still not in sight. As of November 8, 1999, Bangladesh's foreign exchange reserves stood at about $1.6 billion, which is less than three months of import cover, but is considered normal for Bangladesh. These reserves have remained generally stable between $1.5 to $1.9 billion since November 1996.

Inflation increased to nine percent in FY99, up from seven percent in FY98, reflecting flood-induced food price hikes in the first half of the fiscal year; in the second half of FY99, and into FY2000, inflation has continued to decline as good harvests have driven down food grain prices. Since Bangladesh has limited trade and investment links overseas, the economy was not greatly affected by either the Asian financial crisis, nor has it benefited much from the ongoing recovery in the Asian economies. However, to respond to a continuing overvaluation of the taka relative to its competitors, Bangladesh devalued its currency by three percent in FY99, and an additional 2.1 percent to date in FY2000. Bangladesh's export performance, heavily concentrated in garments, slowed down to six percent growth in FY99, after several years of over 15 percent growth. Several factors, including flood-related supply disruptions, relative overvaluation of the taka, and some shift in U.S. apparel sourcing to Mexico, the Caribbean Basin, and southeast Asia contributed to this slowdown. The Bangladesh trade surplus with the U.S. continues to increase; it reached $1.5 billion in calendar year 1998.

The FY99 government deficit increased to 5.3 percent in FY99 compared to 4.2 percent in FY 98, largely due to the economic consequences of the floods in the summer of 1998. Revenue collections suffered due to both tax administration disruptions and a slowdown in economic activity during and after the floods. Tax revenues as a proportion of GDP fell to 7.3 percent in FY99, compared to 7.7 percent in FY98 and 7.6 percent in FY97. Government expenditures increased in response to the flood rehabilitation needs of the country, with expenditures as a proportion of GDP increasing to 14.3 percent in FY99 from 13.9 percent in FY98. Although previous years' Annual Development Plan (ADP)—consisting largely of capital investment—typically fell short of target, ADP expenditures in FY99 actually exceeded the target as a result of increased flood-induced outlays. As in prior years, about 60 percent of the fiscal deficit was financed through external sources (e.g., aid) while domestic sources (e.g., government borrowing) accounted for about 40 percent.

The government's primary monetary policy tools are the discount rate and the sale of Bangladesh Bank bills, though central bank influence over bank lending practices also plays an important role. Broad money growth (M2) increased to 13.1 percent in FY99 from 10.1 percent in FY98, due largely to the government's increased borrowing needs in the wake of the 1998 floods. This increased government borrowing tended to crowd out private borrowing in the first half of FY99. Due to a continuing decline in inflationary pressures during 1999, the central bank lowered its discount rate by one percentage point to seven percent in August 1999.

Although the government has taken some liberal investment measures to foster private sector involvement in the energy, power, and telecommunications sectors, poor infrastructure (e.g., power shortages, port bottlenecks), bureaucratic inertia, corruption, labor militancy, a weak financial system which keeps the cost of capital high, political unrest, and a deteriorating law and order situation continued to discourage domestic and foreign investors in FY99.

2. Exchange Rate Policies

At present, the central bank follows a semi-flexible exchange rate policy, revaluing the currency on the basis of the real effective exchange rate, taking account of the nominal exchange rates and inflation rates of major trading partners. A level of reserves equal to about 2.5 months of imports and a black market rate slightly above the official rate suggests that the currency is still somewhat overvalued. Foreign reserves have stabilized between $1.5 to 1.9 billion through 1997-1999. Although this level is considered "normal" for Bangladesh, the country's foreign exchange position remains fragile. The taka remains under pressure, but its market value is bolstered by annual aid receipts and by remittances from overseas workers. The taka is nearly fully convertible on the current account. The official exchange rate on December 20, 1999 was Taka 51.0 to $1.

Foreign firms are able to repatriate profits, dividends, royalty payments and technical fees without difficulty, provided appropriate documentation is presented to the Bangladesh Bank, the country's central bank. Outbound foreign investment by Bangladeshi nationals requires government approval and must support export activities. Bangladeshi travelers are limited by law to taking no more than $3,000 out of the country per year. Dollars are bought and sold in the black market, fueled by the informal economy. U.S. exports do not appear to have been negatively affected by the taka devaluations in 1998 and 1999.

3. Structural Policies

In 1993, Bangladesh successfully completed a three-year ESAF program, meeting all the IMF fiscal and monetary targets. During the flood-induced economic crisis in 1998, Bangladesh signaled a willingness to enter into another ESAF program; however, as the Bangladeshi economy recovered smartly from the disruptions caused by the floods, Bangladesh's enthusiasm for a new ESAF program waned. Although there is little disagreement between the IMF and Bangladesh on the substance of the economic reforms that need to implemented (i.e., tax reform with better tax administration and a broadening of the tax base; financial sector reform with stronger oversight and supervision by the central bank, improvement in the operation of state-owned commercial banks, and improvement of loan portfolios; and, public sector reform with an acceleration in privatization of state-owned enterprises), negotiations have stalled.

Bangladesh has managed to maintain a laudable measure of macroeconomic stability since 1993, but its macroeconomic position at the end of 1999 remains vulnerable, with slowing export growth, a stagnant industrial sector, inadequate infrastructure, a banking sector in need of comprehensive reforms, and an inefficient public sector that continues to drain the treasury. Progress on important economic reforms has been halting, though the government has instituted reforms of the capital market and taken some market-friendly decisions to encourage foreign investment. Overall, however, efforts at reform often are successfully opposed by vested interest groups, such as the bureaucracy, public sector labor unions or highly protected domestic producers. The public sector still exercises a dominant influence on industry and the economy; non-financial state-owned enterprises (SOEs) lost an estimated $281 million in FY99. Most public sector industries, including textiles, jute processing, and sugar refining, are chronic money losers. Their militant unions have succeeded in setting relatively high wages which their private sector counterparts often feel compelled to meet out of fear of union action.

Private sector productivity is further stunted by the state's poor management of crucial infrastructure (power, railroads, ports, telecommunications, and the national airline), most of which are government monopolies. Recognizing this shortcoming, and in order to increase foreign investment in the power sector, the government formalized in October 1996 its private power policy, which grants tax holidays and duty-free imports of plant and equipment for private sector power producers. As of November 1999, the government was purchasing power from three international power producers, and was negotiating or had signed contracts with others. Private investment is also allowed in the telecommunications sector for cellular communications, and in the hydrocarbons sectors, where international companies initially expressed a high level of interest in a second round of bidding for remaining exploration rights. The difficulties and the high cost of doing business in Bangladesh, combined with weakness in the world oil market, have forced some companies to reconsider or limit their exposure in Bangladesh. Two international companies now deliver natural gas to the government, contributing 15-20 percent of daily supply. The government practically gave up trying to attract foreign portfolio investment in domestic capital markets after a stock market crash in late 1996 and turbulence in other financial markets around the world in 1997 and 1998. Long an easy source of funds for loss-making government corporations and preferred private sector borrowers who did not feel obliged to repay loans, the dysfunctional banking sector continues to be the subject of reform programs. The banking sector is dominated by four large nationalized commercial banks. However, entry of foreign and domestic private banks has been permitted; numerous new private domestic and foreign banks have established a foothold in the market since 1996.

4. Debt Management Policies

Assessed on the basis of disbursed outstanding principal, Bangladesh's external public debt was $16.2 billion in FY99, up slightly from 15.9 billion in FY98. Because virtually all of the debt was provided on highly concessional terms by bilateral and multilateral donors (i.e. one or two percent interest, 30-year maturity, 20-year grace period), the net present value of the total outstanding debt is significantly lower than its face value. The external debt burden has eased during the 1990's with the external public debt as a percentage of GDP falling steadily from 45.8 percent in FY94 to 36.5 percent in FY98 Debt service as a percentage of current receipts has also declined, from 20 percent in FY91 to an estimated 8 percent in FY98. Bangladesh maintains good relationships with the World Bank, Asian Development Bank, the International Monetary Fund and the donor community. There has been no rescheduling of the external debt during FY99. Bangladesh has never defaulted on its external public debt, except in one instance where it deliberately missed a payment to make its point in a commercial dispute involving a loss-making fertilizer factory in which the Bangladesh government was the guarantor of the factory's debts.

5. Aid

No military aid is included in the figures in the tables.

6. Significant Barriers to U.S. Exports

Since 1991, the Government has made significant progress in liberalizing what had been one of the most restrictive trade regimes in Asia. Even so, Bangladesh continues to raise a relatively high share of its government revenues—nearly 60 percent—from import-based taxes, custom duties, VAT and supplementary duties on imports. Tariff reform, which began in 1994, has continued to date. The FY 2000 budget accelerated Bangladesh's efforts to shift from a tariff-based revenue system to an income-based one. Some of the more significant FY2000 changes to the tariff regime included: reduction in customs duty brackets from five to four, lowering of the top duty rate from 40 percent to 37.5 percent, and a unification of duty rates for different products within the broad HS code or product category, and a targeted reduction of duties to benefit certain sectors. The budget reduces the average tariff for capital goods from 12.6 percent in FY 99 to 8.9 percent in FY2000, for intermediate goods from 19.1 percent to 15.5 percent, and for consumer goods from 31.8 percent to 29.2 percent. Other reforms announced in the FY2000 budget include broadening coverage of the value added tax (VAT); measures designed to increase transparency, reduce corruption, and limit the discretion of the bureaucracy in adjudicating tax/tariff cases; introduction of a mandatory pre-shipment inspection (PSI) system of customs valuation, and; reduction in the number of personal income tax brackets and simplification of tax administration procedures.

Bangladesh, a founding member of the World Trade Organization (WTO), is subject to all the disciplines of the WTO. Some barriers to U.S. exports or direct investment exist. Policy instability, when policies are altered at the behest of special interests, creates difficulties for foreign companies. A government monopoly controls basic services and long-distance service in the telecommunications market, although the government has allowed private companies to enter the wireless communication market. Nontariff barriers also exist in the pharmaceutical sector, where manufacturing and import controls imposed by the national drug policy and the Drugs (Control) Ordinance of 1982 discriminate against foreign drug companies. Bangladesh is not a signatory to the WTO plurilateral agreements on government procurement or civil aircraft. Government procurement generally takes place through a tendering process, which is not always transparent. Customs procedures are lengthy and burdensome, and sometimes complicated by corruption. Introduction of the PSI system of customs valuation is expected to simplify customs procedures, make valuation less arbitrary, and reduce corruption.

Other drawbacks to investment in Bangladesh include low labor productivity, poor infrastructure, excessive regulations, a slow and risk-averse bureaucracy, and uncertain law and order. The lack of effective commercial laws makes enforcement of business contracts difficult. Officially, private industrial investment, whether domestic or foreign, is fully deregulated, and the government has significantly streamlined the investment registration process. Although the government has simplified the registration processes for investors, domestic and foreign investors typically must obtain a series of approvals from various government agencies to implement their projects. Bureaucratic red tape, compounded by corruption, slows and distorts decision-making and procurement. Existing export processing zones have successfully facilitated investment and export growth, but are too small to alter significantly the overall investment picture in the country.

Three years ago, the U.S. investment stock in Bangladesh was very small, totaling around $25 million, primarily in the assets of service companies and a few manufacturing operations. As work began in late 1997 and 1998 based on agreements between the government and U.S. companies in gas exploration and production, lubricants and energy production, the amount of U.S. investment rose significantly, to about $700 million. Other opportunities for significant investment in gas exploration and production, power generation and private port construction/operation could further swell U.S. investment and trade.

7. Export Subsidies Policies

The government encourages export growth through measures such as duty-free status for some imported inputs, including capital machinery and cotton, and easy access to financing for exporters. Ready-made garment producers are assisted by bonded warehousing and back-to-back letter of credit facilities for imported cloth and accessories. The central bank offers a 25 percent rebate to domestic manufacturers of fabric for ready-made garment exports. Exporters are allowed to exchange 100 percent of their foreign currency earnings through any authorized dealer. Government-financed interest rate subsidies to exporters have been reduced in stages over five years. Bangladesh has established Export Processing Zones (EPZs) in Chittagong and Dhaka, and has plans to open four more. Korean investors are undertaking to build and operate a private EPZ in Chittagong.

8. Protection of U.S. Intellectual Property

Bangladesh is a signatory of the Uruguay Round agreements, including the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2006. Bangladesh has also been a member of the World Intellectual Property Organization (WIPO) in Geneva since 1985.Bangladesh has never been cited in the U.S. Trade Representative's "Special 301" Watch List, which identifies countries that deny adequate and effective protection for intellectual property rights or deny fair and equitable market access for persons that rely on intellectual property protection. Even though Bangladesh has not been placed on the "Special 301" Watch List, it has outdated Intellectual Property Rights (IPR) laws, an unwieldy system of registering intellectual property rights, and a weak enforcement mechanism. Intellectual property infringement is common, particularly of computer software, motion pictures, pharmaceutical products and audio and video cassettes. Despite the difficulties, U.S. firms have successfully pursued their IPR rights in Bangladeshi courts. A draft new Copyright Law to update Bangladesh's copyright system and bring it in compliance with TRIPS is before the cabinet for approval; the government expects to enact new legislation in the year 2000 to update its laws concerning trademarks, patents and industrial design.

9. Worker Rights

a. *The Right of Association:* Bangladesh's Constitution guarantees freedom of association, the right to join unions, and, with government approval, the right to form a union.

With the exception of workers in the railway, postal, telegraph, and telephone sectors, government civil servants are forbidden to join unions. However, some workers covered by this ban have formed unregistered unions. The ban also applies to security-related government employees, such as in the military and police. Civil servants forbidden to join unions, such as teachers and nurses, have joined associations that perform functions similar to labor unions.

b. *The Right to Organize and Bargain Collectively:* Many unions in Bangladesh are highly politicized. Virtually all the National Trade Union centers are affiliated with political parties, including one with the ruling party. Pitched battles between members of rival labor unions occur regularly. Some unions are militant and allegedly engage in intimidation and vandalism. Unions do use their rights to call labor strikes.

The Essential Services Ordinance permits the government to bar strikes for three months in any sector deemed "essential." Mechanisms for conciliation arbitration and labor court dispute resolution were established under the Industrial Relations Ordinance of 1969. There have been numerous complaints of garment workers being harassed and fired in some factories for trying to organize workers. Workers in Bangladesh's EPZs are prohibited from forming unions, and the government has not fulfilled promises that restrictions on freedom of association and formation of unions in the EPZs would be lifted in stages between 1995 and 2000. The AFL-CIO has petitioned the U.S. Trade Representative to revoke General System of Preference benefits for Bangladesh for its failure to keep its commitment to restore full labor rights in the EPZs.

c. *Prohibition of Forced or Compulsory Labor:* The constitution prohibits forced or compulsory labor. The Factories Act and the Shops and Establishments Act, both passed in 1965, set up inspection mechanisms to guard against forced labor, but resources for enforcement are scarce. There is no evidence of forced labor, though conditions for some domestic servants resemble servitude, and some trafficked women and children work as prostitutes.

d. *Minimum Age for Employment of Children:* Bangladesh has laws that prohibit labor by children. The Factories Act bars children under the age of 14 from working in factories. In reality, enforcement of these rules is inadequate. According to United Nations estimates, about one third of Bangladesh's population under the age of 18 is working. In a society as poor as Bangladesh's, the extra income obtained by children, however meager, is sought by many families. In July 1995, Bangladesh garment exporters signed a memorandum of understanding that has virtually eliminated child labor in the garment export sector. Under the MOU, schools and a stipend program were established for displaced child workers. A monitoring system managed by the ILO enforces the MOU. As a result of the MOU, child labor has been virtually eliminated from the garment export sector.

e. *Acceptable Conditions of Work:* Regulations regarding minimum wages, hours of work, and occupational safety and health are not strictly enforced. The legal minimum wage varies depending on occupation and industry. It is generally not enforced. The law sets a standard 48-hour workweek with one mandated day off. A 60-hour workweek, inclusive of a maximum 12 hours of overtime, is allowed. Relative to the average standard of living in Bangladesh, the average monthly wage could be described as sufficient for minimal, basic needs. The Factories Act of 1965 nominally sets occupational health and safety standards. The law is comprehensive, but is largely ignored by many Bangladeshi employers.

f. *Rights in Sectors with U.S. Investment:* There are few manufacturing firms with U.S. investment. As far as can be determined, firms with U.S. capital investment abide by the labor laws. Similarly, these firms respect the minimum age for the employment of children. According to both the government and representatives of the firms, workers in firms with U.S. capital investment generally earn a much higher salary than the minimum wage set for each specific industry, and enjoy better working conditions.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category		Amount
Petroleum		([1])
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		([1])
Banking		([1])
Finance/Insurance/Real Estate		–4
Services		0
Other Industries		–2
TOTAL ALL INDUSTRIES		172

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

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

INDIA

Key Economic Indicators

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

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	383.0	412.0	430.0
Real GDP Growth (pct) [3]	5.1	6	–6.5
GDP by Sector (pct estimated):			
Agriculture	27.5	26.7	26.0
Manufacturing	23.9	25.3	24.5
Services	48.6	48.0	49.5
Government	N/A	N/A	N/A
Per Capita GDP (US$)	396.0	418.0	440.0
Labor Force (millions)	396.0	410.0	420.0
Unemployment Rate (pct)	22.5	22.5	22.5
Money and Prices (annual percentage growth):			
Money Supply Growth (M3)	18.0	18.4	18.0
Consumer Price Inflation	6.8	13.1	7.0
Exchange Rate (Rupee/US$ annual average)			
Official	37.12	42.08	43.5
Parallel	37.16	42.10	43.6
Balance of Payments and Trade:			
Total Exports FOB [4]	35.0	33.7	36.0
Exports to U.S. [5]	6.7	7.0	8.0
Total Imports CIF [4]	41.5	41.8	46.3
Imports from U.S. [5]	3.6	3.5	3.6
Trade Balance [4]	–6.5	–8.1	–10.3
Balance with U.S. [5]	3.1	3.5	4.4
Current Account Deficit/GDP (pct)	1.7	1.5	2.0
External Public Debt [6]	94.3	98.2	99.0
Debt Service Payments/GDP (pct)	2.7	2.5	2.2
Fiscal Deficit/GDP (pct)	5.7	6.3	5.5
Gold and Foreign Exchange Reserves	29.5	32.0	33.0
Aid from U.S. (US$ million)	121.8	156.0	129.0
Aid from Other Countries	3.2d2.7	N/A	

[1] Data are for Indian fiscal year (April 1 to March 31) unless otherwise noted. 1999 figures are all embassy estimates based on data available in October 1999.
[2] GDP at factor cost.
[3] Percentage changes calculated in local currency.
[4] Merchandise trade.
[5] Source: U.S. Department of Commerce and ITC; calendar year, exports FAS, imports customs basis; 1999 figures are estimates based on data available through October 1999.
[6] Includes rupee debt of $10 billion to the former USSR.

Sources: Indian Government economic survey, Indian Government budgets, Reserve Bank of India bulletins, World Bank, USAID, and private research agencies.

1. General Policy Framework

Economic reforms since 1991 have helped India achieve a large measure of macroeconomic stability and a moderate degree of liberalization of its trade, investment and financial sectors. These reforms boosted annual economic growth to around seven percent in the 1994-1997 period. In Indian Fiscal Year (IFY) 1997-98, growth slowed to 5.1 percent in the wake of the Asian financial crisis but increased to 6 percent in IFY 1998-99. For IFY 1999-2000, the U.S. Embassy projects GDP growth of about 6 to 6.5 percent and industrial growth of about 6 percent. The U.S. continues to be the largest investor in India and its biggest trading partner. The Indian economy has the potential to perform well, and the long-term prospects remain encouraging. There are continuing concerns, though, about inadequate infrastructure and chronic large budget deficits. The central government deficit has hovered around 5.5 to 6.5 percent of GDP with the consolidated public sector deficit (including states) remaining at a level of 9-10 percent of GDP.

During the first six months of FY 1999-2000, money supply (M3) rose by an estimated 18 percent. The Reserve Bank of India (RBI) target for M3 growth is 15 to 15.5 percent for the year. Credit policies for 1999-2000 announced in April and October 1999 have been aimed at accelerating industrial investment and output, and reducing interest rates while improving credit availability to business. Inflation has dropped considerably. Government and private forecasters now predict an average inflation rate (as measured by the Consumer Price Index) of 7 percent during FY 1999-2000, following inflation of 13 percent in the previous year.

2. Exchange Rate Policy

India has used exchange rate policy to improve its export competitiveness. On March 1, 1993, the exchange rate was unified and the rupee was made fully convertible on the trade account. On August 20, 1994, the rupee was made fully convertible on the current account. Controls remain on capital account transactions, with the exception of Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs), but their gradual removal is expected as foreign exchange reserves grow and India makes progress in merging its capital markets with international financial markets. In June 1997, the Tarapore Committee on Capital Account Convertibility recommended a three year (1998-2000) period for complete capital account convertibility of the rupee. The government has stated however, that India is in no hurry to complete full convertibility, especially given the recent crisis in East Asian economies and the need to strengthen the banking sector further.

The RBI intervenes in the foreign exchange market to maintain a stable rupee. The rupee is tied to a basket of currencies with the U.S. Dollar playing a predominant role. In IFY 1998-99, the exchange rate moved in the range of rupees 42.00-42.70 per dollar. From April to September 1999, the rupee depreciated by about 2 percent and is currently trading in the range of 43.2-43.50 per dollar. India was shielded from the East Asian currency crisis due to a staged approach to liberalization and its relatively low degree of exposure to global markets. In addition, India's short term foreign borrowing is low and Indian banks and financial institutions have very little exposure to the real estate sector.

3. Structural Policies

Pricing Policies: Central and state governments still regulate the prices of many essential products, including food-grains, sugar, edible oils, basic medicines, energy, fertilizers, water, and many industrial inputs. Agricultural commodity procurement prices have risen substantially during the past seven years, while prices for nitrogenous fertilizer, rural electricity and irrigation are subsidized. Acute power shortages are forcing several states to arrest the financial decline of state electricity boards by moving to market pricing. The federal government has also begun to scrutinize more carefully the cost of its subsidies. The government in 1997 announced a plan to reduce subsidy rates on food, and fertilizers from the existing 90 percent to 25 percent over the next five years. In September 1997, the government increased the prices of several petroleum products and committed to dismantling the Administered Price Mechanism for petroleum products over the next two years. However, progress has been slow.

Many basic food products are under a dual pricing system: some output is supplied at fixed prices through government distribution outlets ("fair price shops"), with the remainder sold by producers on the free market. Prices in government outlets usually are regulated according to a cost-plus formula; some formulas have not been adjusted in more than a decade. Regulation of basic drug prices has been a particular problem for U.S. pharmaceutical firms operating in India, although changes in national drug policy have sharply reduced the number of price-controlled formulations from 142 in 1994 to 72 at present.

Tax Policies: Public finances remain highly dependent on indirect taxes, particularly import tariffs. Between 1991 and 1998, indirect taxes accounted for about 70 percent of central government tax revenue. India's direct tax base is very narrow, with only 20 million taxpayers out of a total population of about one billion. Marginal corporate rates are high by international standards, although the FY 1996-97 budget lowered the corporate income tax rate for foreign companies from 55 percent to 48 percent. Tax evasion is widespread, and the government has stated that future rate cuts will depend on the success of efforts to improve tax compliance. Over the last seven years the government has been streamlining the nation's tax regime along the lines recommended by a government-appointed committee: increasing the revenue share from direct taxes; introducing a Value-Added Tax (VAT); and replacing India's complex tax code with one that is simple and transparent. The government also provides tax incentives for specific sectors, such as a 10-year tax holiday for infrastructure projects.

Regulatory Policies: The "new industrial policy" announced in July 1991 considerably relaxed government's regulatory hold on investment and production decisions. Under the new policies, industrial licenses are only required for 6 areas, defined as strategic. Some restrictions remain for manufacturing in certain sectors reserved for the public sector or small-scale industry. Additionally, the government announced in 1994 and 1995 liberal policies for the pharmaceutical and telecommunications industries. Most plant location strictures have been removed. Nevertheless, Indian industry remains highly regulated by a powerful bureaucracy armed with excessive rules and broad discretion. Government approval of foreign business investment projects often takes three to five years. As economic reforms take root at the federal level, the focus of liberalization is gradually shifting to state governments, which, under India's federal system of government, enjoy broad regulatory powers. The speed and quality of regulatory decisions governing important issues such as zoning, land-use and environment can vary dramatically from one state to another. Political opposition has slowed or halted important regulatory reforms governing areas like labor, bankruptcy, and company law that would enhance the efficiency of domestic and foreign investment.

4. Debt Management Policies

External Debt Management: India's reliance during the 1980's on debt-financed deficit spending to boost economic growth meant that commercial debt and Non-Resident Indian (NRI) deposits provided a growing share of the financing for India's mounting trade deficit. The result was a hefty increase in external debt, compounded by rising real interest rates and a declining term structure that reflected India's falling creditworthiness. Total external debt rose from $20 billion in FY 1980-81 to about $84 billion in FY 1990-91. Fueled by rising debt service payments, foreign exchange reserves fell to $1.1 billion (excluding gold and SDRs) during the FY 1990-91 balance of payments crisis, the equivalent of only two weeks of imports. By October 1999, India's reform program had succeeded in boosting reserves to $33 billion (excluding gold and SDRs).

External Debt Structure: India's total external debt reached $98.2 billion by March 1999. Debt service payments were estimated at $ 4.3 billion in 1998-99. Roughly two-thirds of the country's foreign currency debt is composed of multilateral and bilateral debt, much of it on highly-concessional terms. The share of concessional debt in total debt is about 42 percent. The addition of new debt has slowed substantially, as the government has maintained a tight rein on foreign commercial borrowing and defense-related debt and has encouraged foreign equity investment rather than debt financing. As a result, the ratio of total external debt to GDP fell from 39.8 percent in FY 1992-93 to 23.5 percent in FY 1998-99.

Relationship with Creditors: India has an excellent debt servicing record. However, Standard and Poor's (S&P) in October 1998 downgraded India's foreign currency debt from BB+ to BB, one notch below the highest speculative grade. On the other hand, S&P at the same time upgraded its outlook on India from negative to stable. In October 1999, Moody's upgraded India's foreign currency rating outlook from stable to positive while maintaining an unchanged speculative grade rating of Ba2. Citing its growing foreign exchange reserves and ample food stocks, India chose not to negotiate an extended financing facility with the IMF when its standby arrangement expired in May 1993.

5. Significant Barriers to U.S. Exports

Import Licensing: U.S. exports have benefited from significant reductions in India's import-licensing requirements. Since 1992, the government has eliminated the licensing system for imports of intermediates and capital goods, and has steadily reduced the import-weighted tariff from 87 percent to 23 percent at present. U.S. exports to India increased from $2.0 billion in 1991 to $3.6 billion in 1998-99. India currently maintains import restrictions (QRs) on more than 1,400 tariff line items justified by India on balance of payments (BOP) grounds. For this reason, the U.S. requested the establishment of a World Trade Organization (WTO) dispute settlement panel in November 1997 to resolve the issue. The panel's final report issued in April 1999 ruled against India's claims that its BOP situation justified import restrictions. In August 1999, the WTO Appellate Body rejected India's appeal and confirmed the panel's ruling. India and the U.S. are currently working out an agreement regarding the phase-out period for QRs.

Some commodity imports must be channeled ("canalized") through public enterprises, although many "canalized" items are now decontrolled. The main canalized items currently are petroleum products, bulk agricultural products such as grains and vegetable oils, and some pharmaceutical products. U.S. exporters face a negative list of items which cannot be imported, affecting roughly one-fourth of all tariff lines, and tariff protection that is still very high by international standards. Import licenses are still required for pesticides and insecticides, fruits, vegetables and processed consumer food products, breeding stock, most pharmaceuticals and chemicals, and products reserved in India for small-scale industry. This licensing requirement serves in many cases as an effective ban on importation. The new Export Import

Policy effective April 1, 1999, allowed import of several additional consumer products.

Services Barriers: The government runs many major service industries either partially or entirely, but private sector participants are increasingly being allowed to compete in the market. Entry of foreign banks remains highly regulated, but approval has so far been granted for the operation of 25 new foreign banks or bank branches since June 1993, when the RBI issued guidelines under which new private banks may be established. Furthermore, financial authorities have permitted sweeping changes in non-bank financial services since then. India does not allow foreign nationals to practice law in its courts, but some foreign law firms maintain liaison offices in India. The government is now reviewing its monopoly on life and general insurance with a view to future liberalization and reform of the industry. Foreign and domestic joint ventures participate in telecommunications, advertising, accounting, and a wide range of consultancy services. There is a growing awareness of India's potential as a major services exporter and increasing demand for a more open services market.

Standards, Testing, Labeling and Certification: Indian standards generally follow international norms and do not constitute a significant barrier to trade. However, India's food safety laws are often outdated or more stringent than international norms. Where differences exist, India is seeking to harmonize national standards with international norms. No distinctions are made between imported and domestic goods, except in the case of some bulk grains.

Investment Barriers: The industrial policy introduced in July 1991 achieved a dramatic overhaul of regulations restricting foreign investment. The requirement for government approval for equity investments of up to 51 percent in 48 industries covering the bulk of manufacturing activities has been entirely eliminated, although the government reserves the right to deny requests for increased equity stakes. Automatic approval up to 74 percent of FDI is permissible in eight categories including mining, storage, warehousing, and transport. In addition 100 percent of FDI is automatically approved in two sectors—electricity generation and transmission, and construction/maintenance of roads. However, government approval of foreign infrastructure projects is frequently stalled for lengthy periods of time.

Most sectors of the Indian economy are now open to foreign investors, except those that raise security concerns such as defense, railways and atomic energy. The U.S. and India have not negotiated a Bilateral Investment Treaty, although an agreement covering the operations of the Overseas Private Investment Corporation (OPIC) was updated in 1997. OPIC operations resumed in December 1998, following the partial lifting of sanctions imposed on India after its nuclear tests in May 1998. In 1994, India became a member of the Multilateral Investment Guarantee Agency (MIGA), an agency of the World Bank. The Indian Government ratified the Uruguay Round GATT agreement on January 1, 1995 and is a member of the WTO.

Government Procurement Practices: Indian Government procurement practices are not transparent and occasionally discriminate against foreign suppliers, but they are improving under the influence of fiscal stringency. Price and quality preferences for local suppliers were largely abolished in June 1992. Recipients of preferential treatment are now concentrated in the small-scale industrial and handicrafts sectors, which represent a very small share of total government procurement. Defense procurement through agents is not permitted, forcing U.S. firms to maintain resident representation. When foreign financing is involved, procurement agencies generally comply with multilateral development bank requirements for international tenders.

Customs Procedures: Liberalization of India's trade regime has reduced tariff and non-tariff barriers, but it has not eased some of the worst aspects of customs procedures. Documentation requirements, including ex-factory bills of sale, are extensive and delays frequent. In 1996, the government switched to the harmonized system of commodity classification, removing ambiguities and providing more transparency to its export-import policy.

6. Export Subsidies Policies

The 1991 budget phased out most direct export subsidies, but a tangle of indirect subsidies remains. Export promotion measures include exemptions or concessional tariffs on raw materials and capital inputs, and access to Special Import Licenses (SIL) for restricted inputs. Concessional income tax provisions apply to exports (export earnings are tax-exempt). Commercial banks provide export financing on concessional terms.

7. Protection of U.S. Intellectual Property

India is a signatory of the GATT Uruguay Round and World Trade Organization (WTO) agreements, including the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is obligated to bring its laws and enforcement efforts into TRIPS compliance by January 1, 2000. The government has announced its intention to take full advantage of the 2005 transition period permitted to developing countries under TRIPS before implementing full patent protection. India is a member of the Berne Convention for the Protection of Literary and Artistic Works, and in August 1998, it became a member of the Paris Convention and the Patent Cooperation Treaty.

In April 1998, the U.S. and India reached an agreement to resolve a long-running dispute over India's failure to implement its WTO TRIPs mailbox requirements for the filing of pharmaceutical and agricultural chemical product patent applications, and failure to implement a system for the granting of exclusive marketing rights. In April 1999, the Indian Parliament passed a patent bill establishing a "mailbox" system and allowing exclusive marketing rights, putting India in compliance with its TRIPS obligations.

Over the past decade, USTR has targeted India as a Priority Foreign Country in the "Special 301" process, and despite some improvements, India is still included in the "Special 301" Priority Watch List. Based on past practices, India was identified in April 1991 as a "Priority Foreign Country" under the "Special 301" provision of the 1988 Trade Act, and a Section 301 investigation was initiated on May 26, 1991. In February 1992, following a nine-month Special 301 investigation, the USTR determined that India's denial of adequate and effective intellectual property protection was unreasonable and burdens or restricts U.S. commerce, especially in the area of patent protection. As a result, in April 1992, the President suspended duty-free privileges under the Generalized System of Preferences (GSP) for $60 million in trade from India. In June 1992, additional GSP benefits were withdrawn, increasing the trade for which GSP is suspended to approximately $80 million.

India's patent protection is weak and has especially adverse effects on U.S. pharmaceutical and chemical firms. Estimated annual losses to the pharmaceutical industry due to piracy are $450 million. India's Patent Act prohibits patents for any invention intended for use or capable of being used as a food, medicine, or drug or relating to substances prepared or produced by chemical processes. Many U.S.-invented drugs are widely reproduced since product patent protection is not available. Processes for making drugs are patentable, but the patent term is limited to the shorter of five years from the grant of patent or seven years from the filing date of the patent application. Product patents in other areas are granted for 14 years from the date of filing.

India continues to have high piracy rates for all types of copyrighted works. Strong criminal penalties are available on paper, and the classification of copyright infringements as "cognizable offenses" theoretically expands police search and seizure authority. However, the severe backlogs in the court system and excessive procedural requirements result in very few cases being brought to conclusion.

Trademark protection is considered good, and will be raised to international standards with the passage of a new Trademark Bill that codifies existing court decisions on the use and protection of foreign trademarks, including service marks. The bill was first introduced in 1995 but failed to win parliamentary approval. Passage of the bill is expected in 2000. Enforcement of trademark owner rights has been indifferent in the past, but is steadily improving as the courts and police respond to domestic concerns about the high cost of piracy to Indian rights' holders.

8. Worker Rights

a. *The Right of Association:* India's Constitution gives workers the right of association. Workers may form and join trade unions of their choice; work actions are protected by law. Unions represent roughly 2 percent of the total workforce, and about 25 percent of industrial and service workers in the organized sector.

b. *The Right to Organize and Bargain Collectively:* Indian law recognizes the right to organize and bargain collectively. Procedural mechanisms exist to adjudicate labor disputes that cannot be resolved through collective bargaining. State and local authorities occasionally use their power to declare strikes "illegal" and force adjudication.

c. *Prohibition of Forced or Compulsory Labor:* Forced labor is prohibited by the constitution; a 1976 law specifically prohibits the formerly common practice of "bonded labor." Despite implementation of the 1976 law, bonded labor continues in many rural areas. Efforts to eradicate the practice are complicated by extreme poverty and jurisdictional disputes between the central and state governments; legislation is a central government function, while enforcement is the responsibility of the states.

d. *Minimum Age for Employment of Children:* Poor social and economic conditions and lack of compulsory education make child labor a major problem in India. The government's 1991 census estimated that 11.3 million Indian children from ages 5 to 15 are working. Non-governmental organizations estimate that there may be more than 55 million child laborers. A 1986 law bans employment of children under age 14 in hazardous occupations and strictly regulates child employment in other fields. Nevertheless, hundreds of thousands of children are employed in the glass, pottery, carpet and fireworks industries, among others. Resource constraints and the sheer magnitude of the problem limit ability to enforce child-labor legislation.

e. *Acceptable Conditions of Work:* India has a maximum eight-hour workday and 48-hour workweek. This maximum is generally, observed by employers in the formal sector. Occupational safety and health measures vary widely from state to state and among industries, as does the minimum wage.

f. *Rights in Sectors with U.S. Investment:* U.S. investment exists largely in manufacturing and service sectors where organized labor is predominant and working conditions are well above the average for India. U.S. investors generally offer better than prevailing wages, benefits and work conditions. Intense government and press scrutiny of all foreign activities ensures that any violation of acceptable standards under the five worker-rights criteria mentioned above would receive immediate attention.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		190
Total Manufacturing		256
Food & Kindred Products	–40	
Chemicals & Allied Products	128	
Primary & Fabricated Metals	–110	
Industrial Machinery and Equipment	227	
Electric & Electronic Equipment	78	
Transportation Equipment	–61	
Other Manufacturing	35	
Wholesale Trade		54
Banking		500
Finance/Insurance/Real Estate		356
Services		40
Other Industries		83
TOTAL ALL INDUSTRIES		1,480

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

PAKISTAN

Key Economic Indicators

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

	1997	1998	[1] 1999
Income, Production and Employment:			
Nominal GDP [2]	63.2	63.3	60.3
Real GDP Growth (pct)	1.9	4.3	3.1
GDP by sector (pct):			
Agriculture	25.3	25.2	24.5
Manufacturing	17.7	18.3	18.6
Services	8.5	9.7	8.9
Government	6.2	6.1	6.1
Real Per Capita GDP (US$)	493	483	483
Labor Force (Millions)	36.8	37.7	38.6

Key Economic Indicators—Continued

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

	1997	1998	[1] 1999
Unemployment Rate (pct)	6.1	6.1	6.1
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	12.2	14.2	3.5
Consumer Price Inflation	11.8	7.8	6.1
Exchange Rate (Rupees/US$)			
Official	40.5	46.0	51.4
Parallel	41.6	52.2	54.2
Balance of Payments and Trade:			
Total Exports FOB [3]	8.1	8.4	7.7
Exports to U.S.	1.4	1.7	1.7
Total Imports CIF [3]	11.2	10.3	9.3
Imports from U.S.	1.4	1.1	0.7
Trade Balance [3]	–3.1	–1.9	–1.6
Balance with U.S.	0.0	0.6	1.0
External Public Debt	27.9	29.7	28.6
Fiscal Deficit/GDP (pct)	6.5	5.5	4.5
Current Account Deficit/GDP(pct)	6.2	3.2	3.0
Debt Service Payments/GDP (pct)	5.9	5.0	6.3
Gold & Foreign Exchange Reserves	1.9	1.54	2.3
Aid from U.S. (U.S.$ millions)	1.9	1 9	1.0
Aid from All Other Sources [4]	154	97 1	221.1

[1] Data are for the corresponding Fiscal Years ending June 30. Rupee exchange rates used to convert to dollars are 38.9 for 1997, 43.2 for 1998, and 50.2 for 1999.

[2] GDP at factor cost.

[3] Merchandise trade.Gf[4] No military aid is believed to be included in these figures. Figures are for grant assistance.

Sources: Various government, including State Bank of Pakistan and Ministry of Finance.

1. General Policy Framework

In late 1999, Pakistan's economy continued in financial crisis. Following a difficult 1998 due to nuclear tests, the economy stabilized due to debt rescheduling and placing back on track the International Monetary Fund's (IMF) Enhanced Structural Adjustment Fund/Extended Fund Financing (ESAF/EFF) program in January 1999. Foreign exchange reserves climbed back up and stabilized to around $1.6 billion in late 1999. Foreign investment in FY 1998-99 plunged to $376 million, due to the poor investment climate and unresolved disputes with independent power producers. The government projects a growth rate in FY 1999-2000 of 4 to 5 percent, up from 3.1 percent in 1998-99. Inflation remains under control due to slow monetary growth, lower international prices and the relatively stable rupee; it is projected to be around 6 percent.

Pakistan's economic performance has been handicapped in recent years largely because of ineffective governance and weak policy implementation. Pakistan has the potential to achieve higher growth levels if the Government of Pakistan takes effective measures to achieve macro-economic stabilization and increase economic efficiency by restructuring its power sector and introducing financial sector reforms. The biggest challenge facing American firms in Pakistan is inconsistent, sometimes contradictory policies, and a recent record of not adhering to agreements reached with foreign investors. There is also a lack of transparency in government decision-making, coupled with allegations of systemic corruption. The new military government, which took over on October 12, 1999, has targeted economic revival as a main priority. Its stated goals are restoring investor confidence through stability and consistency in economic policies, increasing domestic savings, carrying out tax reforms, turning around state enterprises, boosting agriculture, and reviving industry.

Monetary Policy: Recent monetary policy has been aimed at encouraging growth in the context of price stability. The government and the State Bank of Pakistan (SBP) are attempting structural reforms in an effort to move toward more indirect, market-based methods of monetary control along with greater autonomy for the SBP. Other government monetary reforms include efforts to reduce concessionary and government-directed credit schemes, enhance competition in the banking sector, and improve prudential regulation and supervision. Prior to the coup, however, state-owned development finance institutions, had continued to make politically influenced lending decisions and, partly as a result, have weak balance sheets. The trade deficit has been reduced from about $3.1 to 1.6 billion between 96/97 and 98/

99, although in late 1999 it appears that imports are increasing. The current account deficit has also been halved, falling from $4.3 to 1.9 billion. The money supply (M2) has also fallen sharply.

Fiscal Policy: A central element of Pakistan's economic reforms has been the effort to reduce persistent government budget deficits. The budget deficit as a percent of GDP has shrunk from 6.3 to about 3.5 percent, achieved not by improved tax collection and revenue generation, but largely by cutting expenditures, especially those budgeted for development. Defense spending and debt repayments absorb 67 percent (80 percent of current expenditures) of total federal spending, leaving little for other basic government functions and improving the long-neglected social sectors. Meanwhile, the country has a very narrow tax base; perhaps one in one hundred Pakistanis pays income tax. The country has had to rely on import and excise taxes for a very high share of revenues, thus protecting inefficient industries and encouraging smuggling, and on official transfers from external creditors. The new military government has targeted loan defaulters and tax evaders and threatened severe punishment for those who do not pay back loans and taxes. It is too early, however, to assess whether it has the political will to implement the policy.

The Government of Pakistan's medium-term adjustment program has aimed to broaden the tax base through extension of under-taxed sectors and reduction of exemptions; to shift from taxation of international trade to taxation of consumption; to move to market determination of administered prices; and to improve the productivity of public spending. Progress has been mixed. Agriculture remains very lightly taxed. In August 1999, a 15 percent General Sales Tax (GST) was levied on petroleum products, electricity, gas, and fertilizers through a revenue-neutral basis by reduction in development or additional surcharges. GST was also imposed on branded food products, selected medicines and imported fruits. The previous government faced strong resistance against bringing small businesses into the sales tax net, although the military government appears committed to carrying out the GST program. Maximum import tariffs have been reduced from 70 percent in 1994-95 to 35 percent in March 1999, as part of Pakistan's trade reform program.

2. Exchange Rate Policy

Pakistan continued a managed floating exchange rate system until July 21, 1998. From July 22, 1998 the government introduced a multiple exchange rate system comprising an official rate, a floating interbank rate (FIBR), and a composite rate. On May 19, 1999 the government unified the exchange rate after a year long period of gradual transition. The exchange rate is stable at around rupees 51.50 per U.S. dollar, with less than a 5 percent kerb rate premium. The government does not allow authorized money changers a margin of greater than half a rupee per U.S. dollar between the buying and selling prices.

In years previous to the foreign exchange crisis of 1998, Pakistan significantly liberalized foreign exchange controls. The rupee is fully convertible on current account. Foreign firms investing in Pakistan (other than banks and insurance companies) may remit profits and capital without prior approval. In response to the foreign exchange crisis of 1998, however, the government froze existing foreign currency accounts and denied access to official reserves. Subsequently, foreign currency accounts could be opened in commercial banks, but the State Bank does not provide forward cover for such accounts.

3. Structural Policies

Under the three-year IMF ESAF/EFF program of October 1997, the government has continued to carry out its commitments to structural adjustment policies and macroeconomic objectives, including (a) to reduce the external current accounts deficit (strengthen external reserves); (b) to raise the annual growth rate of real GDP; and, (C) to progressively reduce inflation. In principle, the Government of Pakistan has been pursuing a long-term strategy of deregulation, reduction of the public sector role in the economy, and opening the economy to international competition. While progress has been made, the state remains an important player in the Pakistani economy, especially in the financial sector.

Pricing and Tax Policies: Pakistani government agencies and public sector companies allow only exclusive agents to submit bids for tenders as an assurance that they receive only one quotation from each supplier. In the market, pricing is often complicated by the country's complex tax structure, which often includes a number of taxes and customs duties that marketers must build into their final sales prices. These include landing charges, customs duty, bank charges, insurance, and the recently introduced GST. The Government has recently done away with the "octroi" tax (a municipal toll tax). Exemptions or relief from import duties have been allowed on imported machinery. Tax relief has also been provided for expansion and balancing, modernization and replacement in existing industries.

Regulatory Policies: As part of an integrated investment promotion strategy, Pakistan has undertaken a comprehensive program to bring the economy into a fully market-oriented system. In a new policy, announced April 1999, foreign investment on a repatriable basis has now been allowed in manufacturing, infrastructure, hotel/tourism, agriculture, services, and social sectors. Key features of Pakistan's investment climate include a general policy of permitting foreign investors to participate in local projects on an up to 100 percent equity basis, easing of work permit and remittance restrictions on expatriate managers and technical personnel, no requirement of government approval to set up an industry with a few very limited exceptions, statutory protection against expropriation, and no restrictions on borrowing by foreign entities.

4. Debt Management Policies

Pakistan remains dependent on foreign donors and creditors to meet its financing needs. Even with IFI assistance, Pakistan has run a current account deficit in recent years. Both annual debt servicing requirements and the current account deficit have hovered around 3 percent of GDP in recent years, while gross external public debt is over 50 percent of GDP.

Until 1998, Pakistan had an excellent record of honoring external debt obligations. However, during the foreign exchange crisis of 1998, foreign exchange reserves declined to less than $450 million in November 1998. Arrears accumulated to over $1.5 billion. Pakistan came to the brink of a general payments default. The 1998 foreign exchange crisis led to IFI rescheduling late in the year and rescheduling with Paris and London club creditors. Pakistan still awaits an IMF tranche originally due for disbursement in July 1999. The disbursement was delayed by failure of the late Sharif government to implement IMF conditionality regarding fuel prices and continuing World Bank concern over the independent power project (IPP) dispute. With the recent coup, continued IFI support remains uncertain.

5. Significant Barriers to U.S. Exports

Pakistan is a member of the World Trade Organization (WTO).

Import Licenses: In recent years Pakistan has significantly reformed its previously restrictive import regime. Import licenses, formerly common, have been abolished on all "freely importable" goods, i.e. on all items not on the negative list (68 items banned mostly for religious, health or security reasons). All importing firms in the private sector must register as importers with the Government of Pakistan's Export Promotion Bureau and must have valid registration at the time of the import. Certain detrimental import restrictions, mostly questionable fees, have continued, including for soda ash. U.S. pharmaceutical manufacturers have faced discriminatory application of the internal sales tax between imported pharmaceutical raw materials and the same domestically produced raw materials. The imported raw materials also usually receive preferential tariff rates only if the same materials are not manufactured locally. The Pakistan government has also adopted a discriminatory policy against transnational pharmaceutical manufacturers by insisting that they can only register products that are on sale in the country of incorporation of the respective company, while local companies are not held to such a standard.

Services Barriers: The new 1997 investment policy promised liberalization in services. Pakistan's offer in the WTO financial service negotiations in December 1997 included the right of establishment for banks, and grandfathered acquired rights of foreign banks and foreign securities firms. In the past foreign banks generally have been restricted to a few branches, faced higher withholding taxes than domestic banks, and experienced restrictions on doing business with state-owned corporations. New foreign entrants to the general insurance market are virtually barred. Foreign firms wishing to compete in the life insurance market face sever obstacles. Those few foreign insurance companies operating in Pakistan faced various tax problems and long delays in remitting profits. Under the WTO Agreement on Basic Telecommunications Services, Pakistan made commitments to provide market access and national treatment for all local, domestic long distance and international basic voice telecommunications services and private leased circuit services as of January 1, 2004. Packet-switched, e-mail, Internet, circuit-switched data services, and trunked radio services can be provided only through the network facilities of Pakistan Telecommunications Corp. until 2003. Up to 100 percent foreign investment on licensed services may be permitted; there will be no foreign ownership restrictions as of January 1, 2004. Pakistan also adopted some pro-competitive regulatory principles regarding transparency of regulations, interconnection and numbering, and competitive safeguards. Motion pictures face high tax rates, especially the practice of including the royalty value in the dutiable value of films imported for showing in theatres, which have sharply cut their export into Pakistan. Theater owners also lack the authority to set admission prices according to market conditions.

Standards: The Pakistan Standards Institution (PSI) has so far established about 4,000 national standards for agriculture and food, chemicals, civil and mechanical engineering, electronics, weights and measures, and textile products. Testing facilities for agricultural goods are inadequate, and standards are inconsistently applied, resulting in occasional discrimination against U.S. farm products. Sometimes a U.S. exporter will encounter difficult with "quality" standards, usually in the context of protecting some domestically manufactured product.

Investment Barriers: Pakistan has liberalized its foreign investment regime and officially encourages investment. Investors often face unstable policy conditions, however, particularly on large infrastructure projects. The Government of Pakistan has refused to recognize its contractual commitments to independent power producers, and has harassed these producers. These actions have severely damaged Pakistan's climate for foreign investment. Security concerns can also be disruptive factors influencing company choice of location of facilities and areas of operation. Local content requirements occur in the automobile, electronics, electrical products, and engineering industries under Pakistan's "deletion program," but these will have to be phased out before January 1, 2000 in order for Pakistan to comply with the WTO Agreement on Trade Related Investment Measures (TRIMS).

Government Procurement: The government, along with its numerous state-run corporations, is Pakistan's largest importer. Work performed for government agencies, including purchase of imported equipment and services, is often awarded through tenders that are publicly announced or issued to registered suppliers. Lack of transparency, however, has been a recurrent and substantial problem. The Government of Pakistan nominally subscribes to principles of international competitive bidding, but political influence on procurement decisions has been common, and decisions have not always been made on the basis of price and technical quality alone.

Customs Procedures: Investors sometimes complain that the incentives advertised at the policy level are not implemented on-the-ground, particularly with respect to customs. Pakistan has replaced its controversial pre-shipment inspection valuation system with an import trade price system run by the Pakistan customs agency. This change, however, has not eliminated complaints. In numerous disputes importers have asserted that import trade prices are arbitrarily set by customs officials. Investors also cite frequent changes in rates, and charge that customs officers often demand bribes. In July, Pakistan passed legislation to comply with the WTO Customs Valuation Agreement. Customs authorities are presently transitioning to the new system with plans for full compliance by January 1, 2000.

6. Export Subsidies Policies

Pakistan actively promotes the export of Pakistani goods with measures such as government financing and tariff concessions on imported inputs, and income and sales tax concessions. These policies appear to be equally applied to both foreign and domestic firms producing goods for export. Pakistan has established export processing zones with benefits such as tax holidays, indefinite carry forward of losses, exemption of imports from taxes and duties, and exemption from labor laws and various other regulatory regimes.

7. Protection of U.S. Intellectual Property

Pakistan is party to the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and is currently revising its laws to become TRIPS compliant by January 1, 2000, as required by TRIPS. Pakistan is a member of the Berne Convention for the Protection of Literary and Artistic Works, the Universal Copyright Convention, and the World Intellectual Property Organization, but is not a member of the Paris Convention for the Protection of Industrial Property. Pakistan has been on the U.S. Trade Representative's "Special 301" Watch List since 1989 due to widespread piracy, especially of copyrighted materials and slow efforts to implement its patent mailbox obligations under the TRIPS agreement. Present U.S. concerns include continuing high piracy levels; a TRIPS inconsistent copyright law; nominal fines for infringers; lack of patent protection for pharmaceutical products; a TRIPS inconsistent term of patent protection; and trademark infringement.

Patents: Current law protects only process patents, though the government has stated its commitment to eventually offering product patents in accordance with WTO obligations.

Trademarks: Since 1994, Pakistan has required that pharmaceutical firms label the generic name on all products with at least equal prominence as that of the brand name. This trademark labeling requirement serves to dilute in the minds of consumers the differences in quality, efficacy and safety among different products. There also have been occasional instances of infringement, including trading for toys and industrial machinery.

Copyrights: The markets for imported computer software and, until recently, film videos, are nearly 100 percent pirated. Piracy of copyrighted textile designs is also a serious problem. Some counterfeit products made in Pakistan are exported to other markets. At least one local firm, however, is now distributing legitimate, copyrighted videotapes produced by U.S. film studios. As a result of strengthened law enforcement, some other pirate outlets are taking steps to offer legitimate products. Sustained stronger enforcement needs to be paired with action by the courts to prosecute and sentence violators.

New Technologies: The impact on U.S. exports of weak IPR protection in Pakistan is substantial, though difficult to quantify. In the area of copyright infringement alone, the International Intellectual Property Alliance estimated that piracy of films, sound recordings, computer programs, and books resulted in trade losses of $80 million in 1998.

8. Worker Rights

a. *Right of Association:* The Industrial Relations Ordinance of 1969 (IRO) gives industrial workers the right to form trade unions. A presidential ordinance in December 1998 banned all union activity in the Water and Power Development Authority (employing 130,000 workers) for two years. The Essential Services Maintenance Act of 1952 (ESMA) restricts union activity in sectors associated with state administration, meaning government services and state enterprises. The IRO prohibits anti-union discrimination by employers. Under the law, private employers are required to reinstate workers fired for union activities. However, workers usually do not pursue redress through the courts because they view the legal system as slow, prohibitively expensive, and corrupt.

b. *Right to Organize and Bargain Collectively:* The right of industrial workers to organize and to freely elect representatives to act as collective bargaining agents is established in law. Legally required conciliation proceedings and cooling-off periods constrain the right to strike, as does the government's authority to ban any strike that may cause "serious hardship to the community" or prejudice the national interest. The government also may ban a strike that has continued for 30 days. The government regards as illegal any strike conducted by workers who are not members of a legally registered union. Police do not hesitate to crack down on worker demonstrations. The law prohibits employers from seeking retribution against leaders of a legal strike and stipulates criminal penalties for offenders. The law does not protect leaders of illegal strikes.

c. *Prohibition of Forced or Compulsory Labor:* The Constitution and the law prohibit forced labor and slavery, including forced labor by children. The 1992 Bonded Labor System (Abolition) Act outlawed bonded labor, canceled all existing bonded debts, and forbade lawsuits for the recovery of existing debts. However, provincial governments, which are responsible for enforcing the law, have failed to establish enforcement mechanisms. The Government of Punjab, has now reportedly enhanced its activities, particularly in regard to bonded and child labor. Illegal bonded labor is widespread. It is common in the brick, glass, and fishing industries and is found among agricultural and construction workers in rural areas.

d. *Minimum Age of Employment of Children:* Child labor is common and there are insufficient resources and inconsistent commitment to stop it. The Constitution prohibits employing children aged 14 years and under in factories, mines, and hazardous occupations. The 1991 Employment of Children Act prohibits employing children under age 14 in certain occupations and regulates working conditions. Under this law, no child can work overtime or at night. According to a 1996 survey by the government and the ILO, 8.3 percent (over 3.6 million) of children between ages of 5 and 14 work. Few regard this survey as accurate, however, believing it understates the true dimensions of the problem.

e. *Acceptable Conditions of Work:* The federal minimum wage for unskilled workers is rupees 1,950 ($38) per month, but it applies only to industrial and commercial establishments employing 50 or more workers. Federal law provides for a maximum workweek of 48 hours (54 hours for seasonal factories) with rest periods during the workday and paid annual holidays. These regulations do not apply to agricultural workers, workers in factories with fewer than 10 employees, and contractors. In general, health and safety standards are poor. Provinces have been ineffective in enforcing labor regulations, because of limited resources, corruption, and inadequate regulatory structures.

f. *Rights in Sectors with U.S. Investment:* Significant investment by U.S. companies has occurred in the power, petroleum, food, and chemicals sectors. U.S. investors in industrial sectors are all large enough to be subject to the full provisions of Pakistani law for worker protection and entitlements. In general, multinational employers do better than most employers in fulfilling their legal obligations, providing good benefits and conditions, and dealing responsibly with unions. The only significant area of U.S. investment in which worker rights are legally restricted is the petroleum sector, where the oil and gas industry is subject to the Essential Services Maintenance Act. That Act bans strikes and collective bargaining, limits a worker's right to change employment, and affords little recourse to a fired worker.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1998

[Millions of U.S. Dollars]

Category	Amount	
Petroleum		50
Total Manufacturing		(1)
Food & Kindred Products	22	
Chemicals & Allied Products	(1)	
Primary & Fabricated Metals	2	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		31
Banking		143
Finance/Insurance/Real Estate		107
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		416

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

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

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